

Facilities, Real Estate and Environment & Energy (FREEE) 2017 Capital Budget - Ward 38, 705 Progress Building Improvements Project Amendment

Date: June 8, 2017
To: Budget Committee
Executive Committee
From: Deputy City Manager & Chief Financial Officer
Wards: 38

SUMMARY

The purpose of this report is to provide an update on the Ward 38, 705 Progress Building Improvements capital project and to seek a Council decision on an increase in the project budget of up to \$370,000, funded by the Parkland Acquisition - Scarborough Reserve Fund (XR2007), for a revised total project budget of \$520,000 through an amendment to the Facilities, Real Estate, Environment & Energy (FREEE) 2017 Council Approved Capital Budget and 2018-2026 Capital Plan. This amendment, if approved, would require a \$370,000 gross expenditure increase, fully funded through the Parkland Acquisition - Scarborough Reserve Fund (XR2007), and no debt impact.

The amendment would be necessary to fund capital repairs and improvements for occupancy and program delivery of the Below Market Rent (BMR) tenant at 705 Progress Avenue, Unit 63. A significant portion of the \$520,000 is related to work that typically is the responsibility of the tenant. The City will ensure all normal landlord responsibilities related to building repairs are completed. Should Council decide not to amend the project cost, the BMR tenant would be required to fund any improvement costs over and above \$150,000. It is doubtful, however, that the tenant has the financial resources to fund these building capital costs and therefore would have to fund raise, adjust its programming in order to operate out of the space, or the proposed tenancy and project could be placed at risk.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council make a decision on amending the 2017 Capital Budget and Plan for Facilities, Real Estate, Environment and Energy in the amount of \$370,000 by increasing the capital sub-project known as "Ward 38, 705 Progress Building Improvements" to provide the necessary capital repairs and improvements that would allow for occupancy of Unit 63, funded through the Parkland Acquisition - Scarborough Reserve Fund (XR2007).

FINANCIAL IMPACT

Approval of this report would authorize an increase in the Council Approved Facilities, Real Estate, and Environment & Energy (FREEE) 2017 Capital Budget and Plan by \$370,000.

Included FREEE's current Council Approved 2017 capital budget is \$150,000 for building improvements at 705 Progress Avenue, unit 63. The additional capital requirements identified in this report would increase the project cost to \$520,000.

The original project cost, along with the considered increase, would be funded through the Parkland Acquisition - Scarborough Reserve Fund (XR2007). The purpose of the reserve is to provide funding for the acquisition of parkland or for other public recreational purposes, including the erection or repair of buildings and the acquisition of machinery for park or other recreational purposes. 705 Progress Avenue is jointly owned by the City and the Toronto District School Board (TDSB) and net revenues generated from leases at this property are split equally. The City's share of net revenues are placed into the Parkland Acquisition - Scarborough Reserve Fund (XR2007). So if approved by City Council, the proposed building improvements would be funded from lease revenues generated on the property. As such, there is zero gross and net debt impact from this project.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

City Council, at its meeting on May 24, 25, & 26, 2017, authorized a new Below-Market Rent lease with the South Asian Autism Awareness Centre for a five (5) year term at 705 Progress Avenue, Unit 63, based substantially on the terms and conditions outlined in the staff report.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM20.10>

City Council, at its meeting on May 24, 25, & 26, 2017 directed the Executive Director, Social Development, Finance and Administration and the Chief Corporate Officer to consult with stakeholders to determine the feasibility of establishing a community hub as part of the new City Park to be created in 2018/2019 at 705 Progress Avenue and report to the Community Development and Recreation Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.CD20.8>

City Council, at its meeting on February 15 & 16, 2017 amended the 2017 Capital Budget and Plan for Facilities, Real Estate, Environment and Energy by adding a new capital sub-project known as "Ward 38, 705 Progress Building Improvements" of up to \$150,000 to provide internal improvements that would allow for occupancy of Unit 63, for items such as AODA compliant washrooms, new interior walls, electrical work, and plumbing improvements with funds coming from revenues raised from the net revenues collected from 705 Progress, held in account XR2007.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2>

City Council, at its meeting on November 27, 28 and 29, 2012, adopted a report from the Executive Director, Social Development, Finance and Administration entitled "Update on the Policy for City-Owned Space Provided at Below-Market Rent".

(<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-51781.pdf>)

Through subsequent reports, City Council has refined the BMR policy framework and has authorized the extension of existing BMR lease agreements. The most recent report adopted by City Council was on November 19-20, 2007 titled "Providing City-Owned Space to Community Organizations at Below-Market Rent".

(<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-11-19-cc14-dd.pdf>)

At its meeting on October 1, 2, and 3, 2002, City Council adopted "A Policy for City-Owned Space Provided at Below-Market Rent" as the first step in rationalizing how City-owned space is provided to community and cultural organizations.

(<http://www.toronto.ca/legdocs/2002/agendas/council/cc021001/pof13rpt/cl001.pdf>)

In October 1996, the former City of Scarborough directed any net revenues from this site be credited to the Parkland Reserve Fund and to be separately identified as being derived from the "705 Progress Avenue project" (Item 7, Report 25 of the Administrative Committee, Adopted by Council on October 29, 1996).

In July 1996 the former City of Scarborough, in partnership with the Scarborough Board of Education, purchased the industrial complex at 705 Progress Avenue as a site for a future park / school (Item 35, Report 11 of the Administrative Committee, Adopted by Council on June 6, 1995).

ISSUE BACKGROUND

705 Progress Avenue is an industrial mall type property, comprised of six buildings, with an estimated 156,000 square feet. The property is jointly owned by the Toronto District School Board (TDSB) and the City of Toronto as tenants-in-common, in equal shares. All revenues from the facility are collected and divided equally between both parties. The City's share of lease revenue have been deposited in into the Scarborough Parkland Acquisition Reserve as opposed to simply taking the annual payments into general operating revenues. Council approved this arrangement in order to provide for a source of funds to finance future building and property improvements and future plans for the site.

At present, the property has units leased out to businesses at market rates as well as non-profit organizations pursuant to Below Market Rent leases. Unit 63 is the largest unit on the property, and has been vacant since 1999, with the City paying for maintenance. South Asian Autism Awareness Centre ("SAAAC") was selected to tenant the entire space on a 5 year lease. The 5 year lease term is consistent with the Below Market Rent Policy and was approved by City Council.

Through an in-year budget adjustment in 2017, City Council amended the 2017 Capital Budget and Plan for Facilities, Real Estate, Environment and Energy by adding a new capital sub-project known as "Ward 38, 705 Progress Building Improvements" of up to \$150,000 to provide internal improvements that would allow for occupancy of Unit 63, for items such as AODA compliant washrooms, new interior walls, electrical work, and plumbing improvements with funds coming from revenues raised from the net revenues collected from 705 Progress, held in Account XR2007.

Selection of the BMR tenant for unit 63 was based partially on establishing a community hub as part of the new City Park to be created in 2018/2019 at 705 Progress Avenue. Demographic data, service analysis and Councillor Community consultations indicate that the surrounding Scarborough community is under-represented in a number of important community services. In May 2017, Council directed City staff to determine the feasibility of establishing the community hub and report to the Community Development and Recreation Committee.

COMMENTS

Unit 63 is a stand-alone building at grade within the 705 Progress Ave Industrial Park that will be occupied by a single BMR tenant, South Asian Autistic Awareness Center (SAAAC). At the time the original capital project was approved by Council, the BMR tenant was planning to take the premises "as is" and would fit it out of the interior of the unit through volunteers and fundraising efforts. The \$150,000 was to fund certain renovations that the tenant did not have any expertise in completing itself. However, as the tenant finalized the design requirements in order to carry out their programming and services, it became clear that the BMR tenant did not have expertise to complete the work needed to have the space configured for their needs. The tenant subsequently

sought the expertise of the property management company to do the majority of the required tenant improvements and requested a quote as to all the work that would be required.

In May 2017, the Property management company of 705 Progress provided a quote for all tenant requirements to have the space ready for occupancy and tenant program delivery. The scope of work includes drywall, ceiling, flooring, HVAC, and electrical work, with a total cost of \$520,000, representing \$370,000 over the current approved budget. All costs are considered to be necessary for the BMR tenant to occupy the space and deliver their programming and services and were reviewed with City staff for reasonableness. Work of this nature is typically the responsibility of the tenant in any commercial lease, and as part of the BMR lease agreement it is expected the tenant will maintain and improve the value of the unit at its own expense. Of the \$520,000, approximately \$50,000 is related to work that is typically the responsibility of the landlord. The City has already agreed to provide up to \$150,000 for this work. However, it is unlikely that the South Asian Autistic Awareness Centre would be able to fund raise the additional project costs. If City Council were to approve funding the additional work, any costs that exceed \$520,000 would be the responsibility of the tenant.

CONTACT

Joe Casali, Director, Real Estate Services, Tel: (416) 392-7202
joe.casali@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer