TORONTO

REPORT FOR ACTION

Amendment to Purchase Order 6052242 with Century Group Inc. for the Construction of Fleet Maintenance Garage at 1050 Ellesmere Road

Date: December 22, 2021
To: General Government and Licensing Committee
From: Executive Director, Corporate Real Estate Management and Chief Procurement Officer
Wards: 21, Scarborough Centre

SUMMARY

This report is seeking authority for the Executive Director, Corporate Real Estate Management (C.R.E.M.) to amend Purchase Order Number 6052242 issued to Century Group Inc. for the construction of the new Fleet Maintenance Garage located at 1050 Ellesmere Road (the "Project").

As a result of the authorities that have jurisdiction for the Ontario Line and City Planning requirements, $2,500,000 net of all taxes ($2,544,000 net of H.S.T. recoveries) is needed to install a crash barrier between the property and the adjacent rail line. An additional $10,063,929 ($10,241,054 net of H.S.T. recoveries) is needed due to COVID-19 related supply chain issues and cost increases, including volatile increases in the price of metals, steel and other materials. To account for future expected increases in material costs, a $2,000,000 (2,035,200 net of H.S.T. recoveries) increase to the Project contingency budget is also being requested through this amendment.

The total value of the requested amendment is $14,563,929 net of all taxes ($14,820,254 net of H.S.T. recoveries), revising the current purchase order value from $34,643,115 net of all taxes ($35,252,834 net of H.S.T. recoveries) to $49,207,044 net of all taxes ($50,073,088 net of H.S.T. recoveries).

RECOMMENDATIONS

The Executive Director, Corporate Real Estate Management recommends that:

1. The General Government and Licensing Committee, in accordance with Section 71-11.1C of the City of Toronto Municipal Code Chapter 71 (Financial Control By-law), authorize the amendment of Purchase Order Number 6052242 issued to Century Group

Inc. for the construction of the new Fleet Maintenance Garage located at 1050 Ellesmere Road, in the amount of $14,563,929 net of all taxes ($14,820,254 net of H.S.T. recoveries), revising the current purchase order value from $34,643,115 net of all taxes ($35,252,834 net of H.S.T. recoveries) to $49,207,044 net of all taxes ($50,073,088 net of H.S.T recoveries), to account for additional scope requirements to install a crash barrier, and for COVID-19 related supply chain issues and volatile material cost increases.

FINANCIAL IMPACT

Funding for the requested amendment has been included in the 2022 Staff Recommended Capital Budget for Corporate Real Estate Management.

Purchase Order Number	WBS Element	Amendment Request
6052242	CCA251-06	$14,820,254 net of HST recoveries

The Chief Financial Officer and Treasurer has been provided the financial impacts associated with these programs for review as part of the 2022 budget process.

DECISION HISTORY

At its meeting on March 29, 2021, the General Government and Licensing Committee adopted item GL21.19, "Award of Tender Ariba Document Number 2616795118 for the Construction of the New Fleet Maintenance Garage at 1050 Ellesmere Road for Corporate Real Estate Management," authorizing the award of Tender Ariba Document Number 2616795118, for the construction of a Fleet Repair Maintenance Garage, in the amount of $34,643,115.15 net of all taxes ($35,252,833.98 net of H.S.T. recoveries) to Century Group Incorporated.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.GL21.19

COMMENTS

Initial Purchase Order Award
In September 2020, C.R.E.M. and the Purchasing and Materials Management Division (P.M.M.D.) issued a Request for Tender (R.F.T.) for the construction of the new Fleet Maintenance Garage at 1050 Ellesmere Road. The R.F.T. closed on December 3, 2020, with the bid pricing remaining in effect until March 3, 2021, ninety (90) days following the closing of the R.F.T. However, to ensure staff due diligence and to meet staff reporting timelines, the earliest staff could award the contract was March 29, 2021.

As the agreed bid pricing had expired by this time, and due to rising construction material costs, Century Group Inc. advised that they could not hold its tendered pricing and provided an estimate on affected Project costs should the tender continue to be awarded to them. Based on this information, and to avoid re-tendering the Project and risk further increases in commodity prices, staff decided to award the contract to Century Group Inc., and negotiate the price increases related to construction items separately, via the Project contingency budget. A Purchase Order was issued on June 9, 2021 to Century Group Inc. to construct the Fleet Maintenance Garage in the amount of $34,643,115, net of all taxes.

Request for Additional Building Scope
Following the award of the Purchase Order, C.R.E.M. staff were informed by the authorities that have jurisdiction for the Ontario Line and City Planning that a crash barrier between the property and the adjacent rail line would be required. The cost to install the crash barrier is estimated at $2,500,000 net of all taxes, and is included in the requested amendment amount.

Increase in Material Costs and Future Trends
In addition to the increase in building scope, supply chain issues have persisted and prices for steel and construction materials have continued to increase throughout 2021. The price of steel has doubled since the pandemic began, and data from the Building Construction Price Indexes from Statistics Canada predicts that the prices of construction materials in Toronto for both residential and non-residential buildings are expected to escalate into the foreseeable future.[1] Since the third quarter of 2020, the building construction price index has risen by 13%, and 25% since 2017.

Other estimated increases in the market pricing of materials, which would impact Project costs include:[2]

Material	Increase in Market Pricing Since Q3 2021
Lumber	170-260%
Metal Siding	43-50%
Roofing	15-20%
Drywall	8-11%
Concrete	4%

This is a widespread issue impacting other capital Projects in C.R.E.M., as well as those in other City Divisions and CreateTO. A report provided by a third party construction consulting firm recommends that Project costs estimated prior to the third quarter of 2021, or those excluding COVID-19 cost impacts, should add 15% to 20% due to general COVID-19 restrictions, supply chain issues, and other factors.[3] Moreover, according to information provided by a global real estate company, the delivery of

1 Statistics Canada, Building Construction Price Indexes, by Type of Building, https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810013501

2 Statistics obtained from pricing research conducted by a third party construction consulting firm.

3 While it is difficult to predict the exact timing of when prices will stabilize from the pandemic, based on recent published articles and expert opinion from third party construction consultants, market prices may never return to the pre-pandemic market price.

materials to Projects sites have also been affected and can cause risk to construction schedules.

In addition to rising prices, the COVID-19 pandemic increased the demand for construction materials in the residential sector, as the number of home renovations surged during the summer of 2020. Common construction materials used for framing in walls, floors and ceilings have increased to over 350% of pre-pandemic costs. The increase in demand coupled with the slowdown in production of construction materials in 2020 contributed to the sudden increase in prices. While some materials have decreased in the last few months, they have yet to return to pre-pandemic levels. Market prices are expected to remain volatile for the foreseeable future.

Details of Amendment
Given the increase in building scope and price of construction materials, the following amounts are requested in the amendment to ensure continuity of the Project.

Description	Original Total ($)	New Total ($)	Amendment Amount ($)	Percentage Increase
Material Cost Increase				
Metals/Steel	2,763,000	8,073,399	5,310,399	192%
Thermal & Moisture Protection	1,613,585	3,850,000	2,236,415	139%
Openings/Doors	160,205	440,000	279,795	175%
Finishes/Drywall	701,535	1,760,000	1,058,465	151%
Specialties	65,264	165,000	99,736	153%
Equipment	790,881	1,870,000	1,079,119	136%
Jurisdictional Authorities Requirement				
Crash Barrier	N/A	N/A	2,500,000	
Total:			**12,563,929**	

Based on third party advice and to account for future expected increases in material costs, an additional $2,000,000 (2,035,200 net of H.S.T. recoveries) is also being requested as part of the owner's contingency for future cost escalations.[4]

Description	Original Total ($)	New Total ($)	Amendment Amount ($)	Percentage Increase
Recommended Owner's Contingency for Future Cost Escalations	4,500,000	6,500,000	**2,000,000**	44%

4 A contingency for future cost escalations, and is not associated with the current Purchase Order amendment request.

As a result, the total estimated project cost is $14,563,929 net of all taxes ($14,820,254 net of H.S.T. recoveries), revising the current purchase order value from $34,643,115 net of all taxes ($35,252,834 net of H.S.T. recoveries) to $49,207,044 net of all taxes ($50,073,088 net of H.S.T. recoveries).

Description	Original Total ($)	New Total ($)	Amendment Amount ($)	Percentage Increase
Total Estimated Project Cost	34,643,115	49,207,044	**14,563,929**	42%

Project Significance

Without the requested amendment, the Project is unable to proceed and will halt the Fleet Services modernization work, which includes reducing its environmental impacts, minimizing fuel and energy consumption, improving vehicle efficiency, reliability, and safety, while remaining economically and operationally viable, and climate resilient. The operational management of the Fleet Services division is dependent on the timely completion of the Garage. The new design improves working conditions and safety, and is compliant with current building codes and the Accessibility for Ontarians with Disabilities Act.

The Fleet Maintenance Garage also aligns with the broader centralization strategy to consolidate the fleet, maintenance and repair needs of the City's divisions, agencies and corporations, and fits with the work to modernize the entire 1050 Ellesmere Road site, which is part of CreateTO's industrial portfolio rationalization strategy. This amendment would ensure that this important work can progress and be completed in a timely manner.

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SIGNATURE

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