



City of
Peterborough

To: **Members of the General Committee**

From: **Patricia Lester**
Commissioner of Corporate and Legislative Services

Meeting Date: **June 25, 2018**

Subject: **Report CLSFS18-033**
Brock Street Mission Redevelopment - Capital Budget Increase

Purpose

A report to recommend increasing the capital budget for the Brock Street Mission redevelopment project, entering into additional Investment in Affordable Housing 2014 Extension program funding agreements and having the City provide bridge financing to Peterborough Housing Corporation during the construction period.

Recommendations

That Council approve the recommendations outlined in Report CLSF18-033 dated June 25, 2018, of the Commissioner of Corporate and Legislative Services, as follows:

- a) That Council reconfirm its support of the Peterborough Housing Corporation redevelopment of the Brock Street Mission project at a revised project cost of \$10,783,000;
- b) That the Brock Street Mission – Revitalization and Support project budget (2018 Capital Budget Ref # 6-10.01) be increased by \$3,236,000 and that the increase be funded as follows:
 - i) \$500,000 – Investment in Affordable Housing funding
 - ii) \$500,000 - Social Housing – DOOR Funding Reserve
 - iii) \$250,000 - Peterborough Housing Corporation Capital Reserve
 - iv) \$1,986,000 - Social Services General Reserve

- c) That the project be approved for \$500,000 in additional Investment in Affordable Housing 2014 Extension program capital funding for the affordable rental housing units of the Brock Street Mission Project;
- d) That a by-law be passed to authorize the Mayor and Clerk to sign agreements and other documents to provide funding under the Investment in Affordable Housing 2014 Extension program;
- e) That the City of Peterborough provide up to \$3.8 million bridge financing required during the construction period for the Peterborough Housing Corporation - Brock Street Mission Project; and
- f) That a promissory note be prepared and signed for each advance payment made to PHC which will bear a flexible interest rate of prime less 0.5%, compounded monthly, and which will become due and payable to the City of Peterborough, together with accumulated interest when construction is complete and the take out mortgage can be secured.

Budget and Financial Implications

The total project cost of the new shelter and 15 affordable rental units has increased by \$3.3 million from \$7.5 million as reported in PLHD17-003, dated July 24, 2017 to an estimated \$10,783,000 and includes temporary relocation of the shelter, abatement and demolition of the old building, and design, tender, construction and contract administration of a new building, as described in Chart 1. The project cost will be funded as described in Chart 2.

Chart 1
Project Budget for PHC – Brock Mission Project

Ref	Description of Work	Budget
1	Feasibility Study and Temporary Relocation	\$161,000
2	Architect (design, tendering and contract	\$1,200,000
3	Abatement and Demolition	\$370,000
4	Construction Tender	\$8,402,000
5	Other Costs	\$400,000
6	Project Contingency	\$250,000
7	Total Cost	\$10,783,000

Chart 2
Proposed Funding for PHC – Brock Mission Redevelopment Project

Ref	Description	Original Funding	Additional Funding Required	Revised Funding	Recommendation Reference
1	Social Services Capital Budget – Brock Street Mission Revitalization - Sustainability Project (2018 Capital Budget Ref # 6-10.01)	\$1,250,000	-	\$1,250,000	
2	Municipal Incentives (\$453,000 in-kind)	-	-	-	
3	Investment in Affordable Housing 2014 Extension and Social Infrastructure Fund – Investment in Affordable Housing (IAH-E/SIF Capital (Housing Portion only)	\$1,500,000	\$500,000	\$2,000,000	Rec (b)(i); Rec (c); Rec (d)
4	Brock Mission Fundraising	\$1,000,000	-	\$1,000,000	
5	Debt Financing	\$3,797,000	-	\$3,797,000	Rec (e); Rec (f)
6	Social Housing – DOOR Funding Reserve	-	\$500,000	\$500,000	Rec (b)(ii)
7	PHC – Capital Reserve	-	\$250,000	\$250,000	Rec (b)(iii)
8	Social Services – General Reserve	-	\$1,986,000	\$1,986,000	Rec (b)(iv)
9	Total Funding	\$7,547,000	\$3,236,000	\$10,783,000	

Through Report PLHD16-004, Council approved Investment in Affordable Housing – 2014 Extension (IAH-E) for the project of up to a maximum of \$2,250,000 if necessary, should costs of construction, site remediation, and accessibility modifications exceed current estimates. Report PLHD16-007 recommended only \$1,500,000 in IAH-E funding to be committed at that time. The costs have increased substantially to warrant increasing the contribution by \$500,000 to \$2,000,000, which is within the maximum approved amount. The additional \$500,000 is recommended to be provided to Peterborough Housing Corporation (PHC) to increase funding for the Brock Mission's 15 semi-independent living units. This change will not impact any allocations under the Program Delivery and Fiscal Plan for IAH-E funding recommended in Report PLHD15-002.

Funding is available to the City only after funding agreements are secured with proponents; the City and PHC will enter into an additional Municipal Housing Facilities Agreement for the additional funding.

The uncommitted balance in the Social Housing – DOOR Funding Reserve after the recommended transfer of \$500,000 is \$206,450.

The uncommitted balance in the PHC Capital Reserve after the recommended transfer of \$250,000 is nil.

The uncommitted balance in the Social Services – Reserve after the recommended transfer of \$1,986,000 is \$1,563,914.

The original project budget as presented in Report PLHD17-003 was \$8,000,000 but included Municipal Incentives of \$453,000 which have been removed from Chart 2 as they have no cash value to fund the capital costs presented in Chart 1.

PHC requested the City bridge finance the construction of the Brock Mission project to provide necessary cash flow to complete the construction until take out financing can be secured. Consistent with all investments of surplus cash, the bridge financing provided to PHC will be credited to the City's investment account. The dollar impact on the City of this proposal will ultimately depend on the actual rate of return the City will make on its investments on the open market during the term of the loans and how that rate compares to the rate paid by PHC (Infrastructure Ontario (IO) bridge financing rate). On June 6, 2018, the Bank of Canada prime rate was 3.45%. The City's average year to date investment rate is 2.10% for a rate differential of 1.35 % from Prime.

PHC will save approximately \$7,906 in interest costs by borrowing the \$3.8 million from the City at prime less 0.50% than it would if the funds were borrowed from IO. PHC would also save any legal and administrative fees related to construction financing through the Bank or IO.

Background

Through Report PLHD18-003 Council approved the purchase of the Brock Street Mission property at 217 Murray Street, Peterborough and on March 31, 2018 conveyed the property to PHC for the development of a new shelter and 15 affordable housing units for an estimated all in project cost of \$8 million. PHC will then maintain and manage the asset. Brock Mission will have a long term lease arrangement to occupy the building and provide programs at the site. The lease arrangement will be on the basis of cost recovery only, and serves to ensure that Brock can focus on providing high quality services to complex clients in a sustainable way.

Cost estimates have since been revised.

Project Budget Increase

Of the \$3,236,000 required budget increase, \$453,000 is related to Municipal Incentives which have been removed as a funding source as they have no cash value to fund the project costs. The remaining requirement is related to project cost increases of \$2,783,000 from the original project budget of \$8.0 million to \$10,783,000 and can be broken down as follows:

Description	Budget Increase
Construction Tender	\$2,080,000
Architect	\$505,000
Temporarily Relocation and Feasibility Study not included in the original budget	\$161,000
Miscellaneous	\$37,000
Subtotal – Project Cost Increase	\$2,783,000
Municipal Incentives (in-kind, not cash)	453,000
Total Budget Increase	\$3,236,000

Construction Tender Results

PHC issued a pre-qualification for interested General Contractors that closed on February 13, 2018. Of those submissions, ten were selected to proceed to the invitational Tender. The Tender closed on April 24, 2018 and nine submissions were received and evaluated. The low bid submission is \$2,080,000 over budget. The increased budget is attributed to the recent cost increases in building materials such as steel, gypsum products, concrete and lumber, combined with increases to labour costs. This result, in terms of increased tender results, is consistent with other project costings and the current construction market.

Upon Council's approval of the budget transfers, the PHC Tender Review Committee will move forward with an award to the low bid proponent.

Architect Cost Increase

Architect fees are based on a percentage of overall project cost. With the tender coming in over budget, the architect costs are also increasing by approximately \$505,000.

Investigating Cost Saving Opportunities

Based on the results of the tender, PHC critically reviewed the project design to determine if there were potential cost savings due to overdesign or unnecessary inclusions. PHC determined that:

- It is a functional design, compliant with Provincial Guidelines for space requirements with respect to affordable housing apartments and shelter spaces;

- The building was designed to be resilient, and for longevity and control of ongoing repair costs;
- It will be a modern functional shelter that is safe to operate; and
- There are no high-cost features or finishes included that could be removed or replaced with lower cost components without impacting the durability and functionality of the project.

This project has been analyzed comprehensively from a design perspective as well as by the project team.

PHC along with City staff have met with the proposed Contractor to explore opportunities for further cost savings. Those conversations are ongoing. The bid prices are reflective of the market place, which has seen significant changes over the past 18-24 months. The Contractor has committed to work with PHC and Brock Mission staff to explore other opportunities for design changes that would be handled as a Change Order once the contract is awarded.

Importance of the Facility and Maintaining its Intended Use

The Brock Project is the foundation of emerging local homelessness strategies; it shifts the homelessness response system away from a dependence on expensive emergency services to integrated longer term solutions focused on ending chronic homelessness. The commitment to develop a coordinated system response that moves individuals as quickly as possible from homelessness to housing is supported at both the National and Provincial levels.

Commitments in the City's 10 year Housing and Homelessness Plan include:

- enhancing Brock Mission facility and services
- implementing a local Housing First strategy that provides people experiencing homelessness with immediate access to housing with appropriate supports and without conditions. Housing First is an international best practice to end chronic homelessness

The Brock Project is a Housing First model for Peterborough that moves the most vulnerable adult males with the highest levels of need in the community from homelessness to housing with supports. The project goal was to align Investment in Affordable Housing (IAH) capital funding with 15 supportive housing units for 15 of the most vulnerable males in the community. Supportive housing is a combination of housing assistance and supports that enable people to live as independently as possible in their community. It includes housing in addition to supports that are flexible and vary based on individual needs (e.g. counselling, case management, personal support, life skills and/or employment—related training, assistance with medication, or peer support.)

Combined with the build, the City was approved to receive ongoing operational funding through the Province's Home for Good Supportive Housing Program. This program brought an additional almost \$1million annually to build supportive housing programs. The funding, which included intensive case management, housing support workers, trustee services, RN outreach, and rent supplements, was partially allocated based on the 15 units at Brock Mission.

The Brock Project will house 30 shelter beds, 15 single room occupancy units, plus office space for community partners. Community partners that will have regular presence at Brock Mission are:

- Four Counties Addiction Services (1 embedded clinical worker that works directly with anyone entering the shelter); Intensive Case Managers and Housing Support Workers (that are part of various supportive housing programs - Addiction Supportive Housing, Housing Now, Home for Good);
- 360 Degree Nurse Practitioner Lead Clinic - RN outreach, and
- Social Services - Case Manager outreach to provide support with securing housing, applications for assistance, and eligibility for benefits.

Direction from Peterborough Housing Corporation

On April 25, 2018, the Tender Review Committee recommended to the PHC Board that the bid be awarded to the low bidder. On May 16, 2018, the PHC Board recommended that the Tender Review Committee award the tender upon a further favourable review by the Finance and Development Committee of the new proforma statement.

Other Options

A \$3.2 million increase in this budget is difficult for PHC staff to recommend. The only other option, at this point in time, is to cancel the Request for Tenders, revisit the design and various elements of the proposed building and re-issue the Request for Tenders. PHC staff believe that will not result in significant savings. Even if it did, the change in timing may result in higher costs due to inflation and unless construction is delayed until spring, will result in higher costs due to winter weather.

Bridge Financing

Appendix A, attached to this report, sets out the advances required; interest amounts to be added and accumulated month-end balances outstanding based on the cash flow requirements. PHC will primarily utilize the other available funding sources before drawing on the debt financing.

The proposed investment meets the criteria as outlined in the City's Investment Policy and is similar in nature to the approach taken with PHC's Anson House and Woolen Mill projects.

Summary

All submissions received in response to the Request for Tenders have come in over budget requiring additional funds for the project. City Social Services and Housing Divisions are supportive of funding the budget shortfall, tapping into reserves and funding opportunities to move the City's homelessness strategy and specifically the Brock Project forward. The City will support PHC's cash flow requirements by providing bridge financing until such time as PHC can secure a mortgage.

Submitted by,

Prepared by,

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Attachment

Appendix A – Bridge Financing

Appendix A

Bridge Financing Loan to be Advanced to Peterborough Housing Corporation During Construction of Brock Street Mission

Bridge Financing Provided by City of Peterborough										Interest Cost using Alternate Financing		City Investment Premium	
Period	Advance Date	Total Bridge Financing Required	Days Covered	Average Interest rate to be charged during the Period P - 0.50% (Note 1)	Beginning Balance	Payment To PHC First of Month	Interest Added End of month	Payment End of Month	Ending Balance	Average Interest rate to be charged during the Period (Note 2)	Interest Added End of month	City Interest Rate Premium Earned Period (Note 2)	Interest Added End of month
C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13	C14
1	01-Jul-18		31	2.95%						3.30%		0.85%	
2	01-Aug-18		31	2.95%						3.30%		0.85%	
3	01-Sep-18		30	2.95%						3.30%		0.85%	
4	01-Oct-18		31	2.95%						3.30%		0.85%	
5	01-Nov-18		30	2.95%						3.30%		0.85%	
6	01-Dec-18		31	2.95%						3.30%		0.85%	
7	01-Jan-19	550,000	31	2.95%		550,000	1,378		551,378	3.30%	1,542	0.85%	397
8	01-Feb-19	700,000	28	2.95%	551,378	700,000	2,832		1,254,210	3.30%	3,168	0.85%	815
9	01-Mar-19	480,000	31	2.95%	1,254,210	480,000	4,345		1,738,555	3.30%	4,862	0.85%	1,250
10	01-Apr-19	470,000	30	2.95%	1,738,555	470,000	5,355		2,213,910	3.30%	5,993	0.85%	1,539
11	01-May-19	470,000	31	2.95%	2,213,910	470,000	6,724		2,690,634	3.30%	7,527	0.85%	1,930
12	01-Jun-19	475,000	30	2.95%	2,690,634	475,000	7,676		3,173,310	3.30%	8,593	0.85%	2,201
13	01-Jul-19	470,000	31	2.95%	3,173,310	470,000	9,128		3,652,438	3.30%	10,221	0.85%	2,276
14	01-Aug-19	182,000	31	2.95%	3,652,438	182,000	9,607		3,844,045	3.30%	10,759	0.85%	2,278
15	01-Sep-19		30	2.95%	3,844,045		9,320		3,853,365	3.30%	10,442	0.85%	2,206
16	01-Oct-19		31	2.95%	3,853,365		9,655	-3,863,020		3.30%	10,819	0.85%	2,281
17	01-Nov-19												
		3,797,000	488			3,797,000	66,020	-3,863,020			73,926		17,173

Notes

1 Interest rate for each month will equal average Bank of Canada Prime Rate less 0.50%.

2	Rate assumptions	City Financing	IO Bridge Financing
	Current Prime Rate (A)	3.45%	
	Differential	-0.50%	
	Interest Rate used in example above (B)	2.95%	3.30%
	Est. Avg Investment Rate of Return with Prime Rate @ 3.45%	(C)	2.10%
	Rate Differential	(A) - (C)	1.35%
	Investment Premium	(B) - (C)	0.85%

Summary:

Interest cost if bridge financing received from IO	\$	73,926
Interest cost if bridge financing provided by City	\$	66,020
Interest savings to PHC expressed as a \$ value	\$	7,906
Interest savings to PHC expressed as a %		0.35%
Interest premium rec'd by City over Avg Return on Invest	\$	17,173