



REPORT

Council

Meeting Date: June 19, 2023

FROM: Community Services Commission
and Corporate Services Commission

DATE: June 6, 2023

SUBJECT: Sixteen Mile Development Project – Budget Update

LOCATION: Sixteen Mile Sports Complex, 3070 Neyagawa Blvd.

WARD: Ward 7

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RECOMMENDATION:

1. That the 2023 capital budget be amended to add \$16,500,000 for the construction of the Sixteen Mile Community Centre and Library, and that the additional funding be provided by parks and recreation development charges (\$397,000), parks and recreation development charges debt (\$12,560,000), library development charges (\$75,000), library development charges debt (\$2,440,000) and capital reserve (\$1,028,000).
2. That the 2023 capital budget be amended to add \$2,225,000 for the construction of the Sixteen Mile Park, and that the additional funding be provided by parks and recreation development charges.

KEY FACTS:

The following are key points for consideration with respect to this report:

- On June 20, 2022, Council approved the “North Park Development Update: Community Centre, Library and Park” report which requested additional funding to construct the community centre, library and park including expanded park amenities.
- The report identified several critical pressures that the construction market was facing including a shortage of skilled labour, an abundance of projects in both the public and private sectors, supply chain delay issues, and a continued upward pressure on the supply cost of materials.
- Construction costs and overall pricing volatility in the industry continued to increase significantly during the facility design phase. According to Statistics

Canada non-residential building construction costs increased by 16.2% in the Toronto market from the first quarter to the fourth quarter in 2022.

- The project team has been conducting ongoing value engineering since the start of the design phase. The June 20, 2022, report identified \$12,000,000 in cost avoidance. Cost saving efforts continues during this phase while ensuring that the integrity of the project and environmental sustainability goals are not compromised.
- Lifecycle cost analysis was used as part of the value engineering by considering both the current capital cost and what the future operating impacts would be over the lifespan.
- The construction budget portion of the approved community centre and library project, excluding the PV solar panels, is \$57,369,000 plus various contingencies.
- The community centre and library construction tender closed in March 2023. The lowest bid submitted was \$74,818,000 plus contingencies. As a result, the project shortfall is \$17,449,000 before value engineering savings (expected at approximately \$1 million). After adjusting for these anticipated savings, the request for additional funding is \$16,500,000 for the community centre and library construction.
- The additional funding that is required would be funded by parks/recreation and library development charges (94%) and capital reserve (6%). Development charge reserve funds for parks and recreation services and library services are already in a negative position. Development charge supported debt will be required due to the significant cost increase, along with the development charge collection pressures related to recent legislative changes.
- The town has available debt capacity to support the recommendations in this report. Development charge supported debt charges are projected to reach 10% of forecast development charge collections, keeping the town in line with our debt policy requirements.
- As reported to Budget Committee on February 21, the revenue loss from Bill 23, the *More Homes Built Faster Act, 2022* changes to the *Development Charges Act, 1997* will put pressure on development charge reserve funds and require re-prioritization of future projects in the absence of other sources of funding. Additional funding for this project will further limit the ability to fund other growth projects.
- The project schedule has been adjusted to reflect the additional value engineering time.
- The community centre and library are scheduled to be substantially completed in Q2 2025.
- The two sports fields and cricket pitch are scheduled to be completed by the end of 2023. The remaining park amenities including skateboard park, bike pump track, splash pad, playground and fitness station is planned to be completed in late 2024.

- Phase three of the park including four tennis courts, seven pickleball courts, three basketball courts, and four beach volleyball courts are scheduled to be completed in 2025, subject to Council approval of the 2024 capital budget.
- Stormwater deficiencies have been identified for the park development project. The increased cost for this is estimated at \$2,225,000.

BACKGROUND:

Construction Market Conditions

Since the start of the COVID-19 pandemic, the construction industry has experienced rapidly accelerating cost escalations at unprecedented rates. Building material prices have quadrupled in some markets and are now up by 35.6% overall.

According to Statistics Canada non-residential building construction costs increased by 16.2% from quarter one (Q1) to quarter four (Q4) in 2022 in the Toronto market. This was the highest annual increase since the beginning of the Non-Residential Building Construction Price Index in 1981. The wood, plastics/composites, structural steel framing, and metal fabrications divisions led the increase in costs for these buildings.

The original construction budget for this project was set in late 2021 as part of the 2022 budget process. The estimates were then updated in the first quarter of 2022 to inform the June 2022 report to Council. Using the cost estimates prepared by Turner and Townsend (cost consulting firm), excluding the PV solar panels, the budget was updated to \$57,369,000 plus various contingencies.

There are many factors for the cost increase including market instability, labour shortages, resourcing issues, supply chain issues, and historically high inflation rates. The impact of this instability has resulted in construction projects, particularly high-dollar construction projects, being quoted at grossly higher amounts. Project staff have been monitoring similar scoped projects in the Southern Ontario construction market to understand the impacts of the rapid price increase. For Council's reference the following municipalities recently closed tenders on similar scoped projects:

- The South End Community Centre in Guelph is planned at 165,000 square feet, with an original construction budget of \$80,000,000. The lowest bid from the tender was \$121,000,000 which represents a 51% increase.
- The Carmen Corbasson Community Centre in Mississauga is planned at 62,625 square feet, with an original construction budget of \$34,500,000. The lowest bid from the tender was \$47,000,000 which represents a 36% increase.

Both community centres projects closed far more than the budgeted amounts. Recognizing that a substantial funding discrepancy has the potential to be project-altering, it is important to understand the financial impacts on Sixteen Mile Community Centre and Library project in the current market. Global conditions have further affected construction prices which has had an impact on the availability of construction materials. Within the Province we are experiencing significant price increases for structural steel specifically related to the supply of pig iron steel. Traditionally, recreation buildings are built with steel frame structures to facilitate long spans and open spaces for programming activities.

Additionally, a labor shortage in the construction industry has further increased prices. To meet this increasing need, some estimates have stated that the North American industry will have to bring in 590,000 new workers in addition to regular hiring to fulfill demand in 2023. Contractors have had to offer higher pay and more benefits to attract workers, further raising prices and lowering margins. A combination of higher hourly rates, increased premiums, incentives, and overtime payments means that overall labor costs have doubled since pre-pandemic levels.

Procurement

A concerning trend affecting the construction market is the availability of contractors. Construction projects are receiving fewer bid submissions than in pre-pandemic times. In a typical market, the size of the Sixteen Mile project would have received at least 10 to 15 bid submissions. This project received only five bids and only two met the established technical threshold. Receiving fewer bids often leads to a less competitive process as you must select from the limited number of submissions rather than a larger competition pool. Studies conducted by Procore (Construction Management Firm) have shown projects that receive many bids can yield as much as 11.6% differential between bids. It is believed that the number of large infrastructure projects in the GTA is reducing the number of contractors willing or able to bid.

Construction costs were determined based on multiple cost estimates prepared by Turner and Townsend using the information provided by Diamond Schmidt (architect). Construction costs were calculated based on percentage of design complete at key milestones in the design process. This process incorporates market conditions, escalation, and historic information.

The initial Class D (square foot cost) estimate was prepared in August 2021. Design and final scope work had not yet commenced, and this budget was based on very high-level costs: \$28,990,600.

The Class C (schematic design) estimate was completed in March 2022 at which time the detailed design was 45 to 55% complete: \$54,691,000.

The Class B (90% design development) estimate was completed in November 2022: \$62,950,000.

The Altus Group outlines construction costs for 2023 which note a range of \$650 to \$1,125 per square foot for multi-use recreational centres. The project budget was validated by extensive cost estimating which recommended approximately \$720 per square foot whereas the lowest bid submission came in at \$903 per square foot.

COMMENT/OPTIONS:

Community Centre & Library Procurement Process for a General Contractor:

A negotiated RFP was issued on December 8, 2022, giving the town the ability to negotiate with the lowest prequalified bidder should the price come in over budget and/or if the town would like to make any changes to the project scope. The RFP was structured as a two-phase process. The first phase was a prequalification that evaluated proponents based on technical specifications and projects of similar size and scope. A threshold of 75% was required to move to the second phase. The second phase was evaluated based solely on price with the low bidder moving on to negotiations with the town.

Community Centre & Library Construction Costs:

The construction tender closed in March 2023. After evaluations and scoring it was determined that only two bidders passed threshold and moved on to the pricing phase. The low bid submission was \$74,818,000 plus contingencies. The next lowest bid submission meeting the threshold was more than 10% higher. The approved construction budget for this project, excluding PV solar panels, is \$57,369,000 plus various contingencies.

The project budget was validated by extensive cost estimating from Chartered Cost Consultants including obtaining Class D (square foot cost), followed by a Class C (schematic design) and Class B (90% design development). The estimated budget included escalation contingencies and accounted for unpredictable market fluctuations. Staff are currently negotiating with the low bidder and conducting further value engineering exercises which are expected to reduce construction costs by approximately \$1 million, without compromising the project. Construction was originally planned to start in May, but construction award issuance is now targeted for end of June (pending Council approval of the additional funds required), followed by construction in July/August.

Park Development Costs:

The town is making a significant investment in the development of quality sports fields which will include specialized root-zone mixes, sub-drainage and irrigation systems.

To implement this plan successfully, staff have adjusted the schedule to ensure the Class 'A' sports fields are protected, fully operational and in excellent condition for first play in the spring of 2024. This includes the cricket ground, field hockey, soccer and lacrosse fields.

Through the town's site plan approval process, deficiencies in off-site stormwater management were discovered when compared to the 'North Park Environmental Implementation Report/Functional Servicing Study' developed in 2009 (EIR/FSS). The study recommended a comprehensive plan for site grading, stormwater management and storm servicing for the North Park Phase 1 and 2 sites including the North Operations yard, Sixteen Mile Sports Park, a stormwater management pond, and the existing Sixteen Mile Sports Complex with the expansion to include a community centre and library.

Parks has been working with the Region of Halton, Conservation Halton and Town engineering staff to develop a comprehensive engineered design approach with a suite of mitigation measures required to resolve these deficiencies. These measures include the installation of two large below-grade chambers to treat water quality and provide attenuation for peak flow volumes. The chambers will protect the park and adjacent lands from flooding following major storm events and mitigates the impact down-stream. The proposed park improvements will also properly align the grading and drainage of the park and surrounding area with EIR/FSS grading and stormwater management strategy.

The increased cost to the park development component of the Sixteen Mile Sports Complex is \$2,230,000.

Financial Background

The Sixteen Mile Community Centre, Library (SMSCL), and Park Development project funding was originally approved as part of the 2022 Capital Budget and updated under the report "North Park Development Update: Community Centre, Library and Park" on June 20, 2022, with a budget of \$106.1 million (\$88.9 million for the Community Centre/Library and \$17.2 million for the park development). The 2023 budget increased the total project budget for the Community Centre/Library from \$88.9 million to \$91.6 million. As discussed in the previous report, \$2.12 million for the rough-in of the geo-exchange system for SMSC was put forward as part of the 2023 budget, and the library collections budget increased by \$850,000 to reflect anticipating pricing. The budget for the park development increased by \$1.3 million through additional budget requests in 2022 and the 2023 budget.

In March 2023, the tender for the construction of the SMSCL closed at a final construction bid price of \$74,818,000 plus contingencies. It is important to note that this price does not include the photovoltaic (PV) panels that are in the approved scope for this project budget. The PV panels are estimated to cost \$1,300,000 and are planned to be purchased separately through a strategic partnership with OEC. This partnership proved very beneficial during the PV panel installation at Oakville Trafalgar Community Centre as it introduced grant funding opportunities. Staff are hopeful that grant funding may be available again when the time comes to purchase the PV panels for SMCCCL.

The approved construction budget for this project, excluding the PV solar panels, is \$57,369,000 plus various contingencies. The remaining funds are allocated for land cost, soft costs and furniture, fixtures, and equipment.

Value Engineering

The construction tender came in higher than expected due to both inflation and market volatility. Inflationary pressures have continued to increase the cost of the SMCCCL over the 2022 calendar year. Due to these current market conditions and inflation, the town is in the process of negotiating with the low bidder to complete value engineering exercises to look for cost reductions. Lifecycle cost analysis was used as part of the value engineering by considering both the current capital cost and what the future operating impacts would be over the lifespan. The project team did not want to remove an item now for project savings, only to have the maintenance or quality jeopardized in the future and incur greater operating costs. It is estimated that an additional \$1,000,000 in savings can be found and the project team will continue to examine all opportunities for further reductions. However, it is important to note, as the June 20, 2022, report highlighted, the project team had already completed extensive cost mitigation during the design stage to minimize market cost pressures. By working collaboratively to determine specific technical requirements for building systems, to explore different programming options and to utilize existing infrastructure within SMSC (rather than building new) the team was able to avoid costs to the project of over \$12,000,000. As a result, there are not many opportunities for further savings of significance without compromising program amenities or the project's environmental sustainability goals.

The project team worked collaboratively with the low bid contractor to identify savings opportunities. Given the extensive work already completed in 2022, the team had to consider eliminating features that were desired but not entirely necessary to ensure a functional complex. An example of this is the exterior entrance snow melting system. The existing SMSC facility has this feature at all public entrances, and they work well to prevent snow and ice accumulation. However, this service can also be maintained by staff shoveling and applying

salt/sand. The team chose to remove this feature from the project scope to save \$170,520. The project team also considered, but decided against, other items like substituting the wood roof deck and wood columns for steel. While this option would have provided for project savings, it would have caused a four-to-six-month delay in the project schedule, added additional maintenance costs in the future and reduced our LEED credit potential by removing the sustainable wood feature.

Project Schedule

a) Community Centre and Library

The project team is negotiating with the low bid contractor. Construction award issuance is currently targeted end of June (pending Council approval), followed by construction in July/August. The estimated construction period for this project is 20 months from mobilization to substantial completion. The original schedule included in the construction tender planned for ground-breaking to occur in May 2023 and substantial completion in December 2024. When the tender closed and the team learned the cost projections were over budget, the team paused to conduct proper due diligence with the low bid contractor to exhaust every mitigation option short of removing amenities that had been identified through public consultation. If Council approves the increased funding request, the contractor anticipates being able to mobilize and start construction in July/August which would result in the revised substantial completion date being in quarter two (Q2) 2025.

b) Park Development

The construction of sports fields and fieldhouse are underway at Sixteen Mile Sports Park with two multi-purpose sports fields and a cricket ground planned to be completed before the end of this year. It should be noted that the town is on track to complete the cricket pitch before December 31, 2023, to meet the grant deadline established through the Canada Communities Revitalization Fund, awarded by the Federal Economic Development Agency for Southern Ontario.

The remaining park amenities including skateboard park, bike pump track, splash pad, playground, fitness station is planned to be completed in late 2024.

Financial Request

The following chart shows the current budget and the recommended budget for the Community Centre, Library and Sports Park based on the revised estimates:

Sixteen Mile Complex Approved Budget & Forecast	Life to Date Approved Budget	2024 Forecast	TOTAL
<i>Land (Community Centre & Library)</i>	15,043,000		\$ 15,043,000
<i>Community Centre</i>	54,508,800	502,000	\$ 55,010,800
<i>Sixteen Mile Geoexchange</i>	2,117,000		\$ 2,117,000
<i>Library</i>	18,225,200	83,000	\$ 18,308,200
<i>Library Collections</i>	3,266,300		\$ 3,266,300
<i>Sports Park</i>	15,606,000	2,923,300	\$ 18,529,300
	108,766,300	3,508,300	\$ 112,274,600

Sixteen Mile Complex Updated Budget & Forecast	Total Current Required Budget	2024 Forecast	TOTAL
<i>Land (Community Centre & Library)</i>	15,043,000		\$ 15,043,000
<i>Community Centre</i>	67,465,800	502,000	\$ 67,967,800
<i>Sixteen Mile Geoexchange</i>	2,117,000		\$ 2,117,000
<i>Library</i>	21,768,200	83,000	\$ 21,851,200
<i>Library Collections</i>	3,266,300		\$ 3,266,300
<i>Sports Park</i>	17,831,000	2,923,300	\$ 20,754,300
	127,491,300	3,508,300	\$ 130,999,600

Budget Increase	18,725,000	-	\$ 18,725,000
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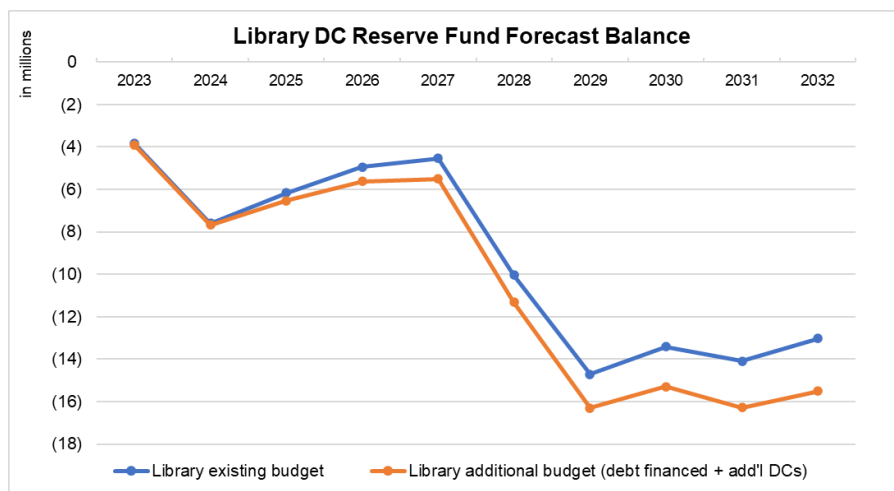
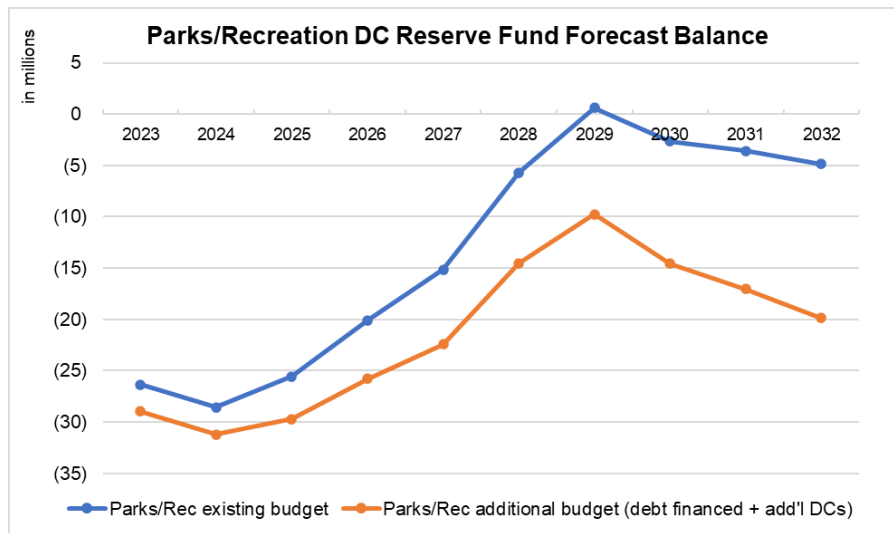
As growth-related projects, most of the funding for the community centre, library and park comes from development charges (DCs). The existing funding for the total budgeted and forecasted amount includes:

- \$65.9 million in DCs,
- \$36 million in DC supported debt,
- \$9.7 million in capital reserve funding; and
- \$0.7 million in federal grant funding.

The following chart outlines the additional budget request.

Additional Budget and Financing	Budget Request	Financing		
		Development Charges	Development Charge Debt	Capital Reserve
2023 Budget Request				
<i>Community Centre</i>	12,957,000	397,000	12,560,000	
<i>Library</i>	3,543,000	75,000	2,440,000	1,028,000
<i>Sports Park - Part 2</i>	2,225,000	2,225,000		
Total	18,725,000	2,697,000	15,000,000	1,028,000

Based on the approved budget funding for this project, DC reserve funds for parks and recreation services and library services are already in a negative position. With the additional funding recommended in this report, the reserve funds are forecast to remain in a negative position, subject to future growth levels and infrastructure needs. The below charts show the projected DC reserve fund balances for parks and recreation services and library services, based on the current approved project budget and the project budget with the additional funding included in the recommendations in this report.



As was discussed in the February 2023 report to Budget Committee titled “2023 Operating and Capital Budget Deliberations”, Appendix D Growth projects and DC funds, the completion of the Sixteen Mile Complex project will require re-prioritization of projects in the capital forecast due to the impacts of Bill 23. The

increase in costs identified in this report will create additional financial pressure and the need to re-prioritize projects.

There is a combination of pressures on these DC reserve funds. DC rates are indexed annually with the goal of keeping up with inflation; however, significant cost increases beyond this indexing can result in declining balances. Further, growth driven projects are typically very large in scale and complex in nature, adding significant additional capacity to accommodate growth. The Sixteen Mile Complex project was advanced to provide additional capacity in North Oakville to service new residents. Debt financing has been used for the approved project budget, which will be funded by DC collections over the coming years.

Legislative changes to DCs are resulting in lower-than-expected revenue, creating cash flow pressures. Bill 108 included a “rate freeze”, whereby developments have their DC rate frozen at the time of planning application. This protects the development from annual indexing and DC by-law updates which previously allowed collections to keep pace with construction costs. The town can collect DC interest; however, high construction costs and low interest rates have resulted in shortfalls. Bill 23 introduced a new DC by-law phase-in requirement, leading to a 20% discount of DC rates during the first year of the by-law. This phase-in will continue over the coming years (15% discount in year two, 10% in year three, 5% in year four), resulting in lower DC collections.

The province has stated that municipalities will be kept whole as it relates to Bill 23 revenue losses. Should this happen, it would mitigate some of the impacts on DC collections and increase reserve fund balances. The town could also realize increased DC collections due to the new 2031 growth target; however, the new Parks, Recreation and Library Facilities Master Plan that is underway will be taking this higher growth target into consideration and identifying the infrastructure needed to support that growth, which would require DC funding.

As a result of these pressures on DC reserve funds, it is recommended that most of the additional funds required that are growth related be debt financed. This allows the town’s overall DC reserve fund balances for all services to remain adequate and infrastructure required for other services to be delivered. The town has been prudent with its use of debt financing, and Town policy is that DC supported debt charges must not exceed 25% of a five-year average of forecasted DC collections. This policy is in place so that in the event of an economic downturn resulting in lower than expected DC collections, debt obligations can still be met and planned projects to accommodate growth can continue as required. With the recommendations in this report, DC supported debt charges are projected to reach 10% of forecasted DC collections subject to interest rates and actual collections, which keeps the town in a healthy position regarding debt capacity.

Additional Considerations

If Council were not in favour of adding funds to the project budget, staff could be directed to pursue the options below:

- 1) Remove a full amenity or multiple amenities from the project scope and re-design the Community Centre and Library to bring the cost in line with the current budget. This option will have a significant impact on the overall construction schedule and would also have cost implications as architectural and mechanical re-designs would need to occur. Additional community communication would need to be undertaken to inform the community of changes to planned amenities.
- 2) Since this bid was a negotiated RFP format, it provides the town of the option of cancelling the bid and issuing a new bid to the market later if desired. This option would also have a significant impact on the overall schedule and may not achieve any savings given the volatile construction market.

CONSIDERATIONS:

(A) PUBLIC

Public consultation regarding the Sixteen Mile Development Project has been conducted and the community will continue to be engaged. Residents have been provided with the opportunity to provide input and commentary through public meetings, social media, and stakeholder groups.

(B) FINANCIAL

As growth-related projects, most of the funding for the community centre, library and park comes from development charges. Development charge reserve funds for parks and recreation services and library services are in a negative position, and development charge supported debt financing will be required for the additional budget.

(C) IMPACT ON OTHER DEPARTMENTS & USERS

The project team includes Finance, Planning, Recreation and Culture, Parks and Open Space, Oakville Public Library, Facility Services, Transportation and Construction Management and Communications staff.

(D) CORPORATE STRATEGIC GOALS

This report addresses the corporate strategic goal(s) to:

- Improve the livability of North Oakville and engage the broader community in supporting healthy lifestyles.

(E) CLIMATE CHANGE/ACTION

The detail design of all the indoor and outdoor amenities have incorporated environmentally sensitive best practices including energy efficiency.

Prepared by:

Brent Copeland, Senior Manager Operations

Nick Valerio, Manager, Capital Projects

Frank Loconte, Landscape Architect

Matt Day, Manager of Development Financing and Investments

Recommended by:

Kendall Wayow, Director, Facility Services

Chris Mark, Director, Parks and Open Space

Julie Mitchell, Director, Recreation and Culture

Jonathan van der Heiden, Deputy Treasurer and Director of Finance

Submitted by:

Colleen Bell, Commissioner, Community Services

Nancy Sully, Commissioner, Corporate Services and Treasurer