

Region of Waterloo

Corporate Services

Treasury Services (Procurement)

To: Regional Council

Meeting Date: June 22, 2022

Report Title: T2022-137 - 420 Kingscourt - 6 Storey Residential Development
(Under PQ2021-23)

1. Recommendation:

That the Regional Municipality of Waterloo take the following actions with respect to T2022-137 – 420 Kingscourt – 6 Storey Residential Development (under PQ2021-23) as set out in report COR-TRY-22-73 dated June 22, 2022:

- a) Accept the tender of Norlon Builders in the amount of \$33,465,333.47 plus all applicable taxes;
- b) Increase the capital budget and amend the sources of financing for project 83170 – WRH Master Plan - Kingscourt Drive in the amount of \$2,851,000 as set out in Appendix A;
- c) Indicate Regional Council's intent to recover a portion of capital costs of project 83170 – WRH Master Plan - Kingscourt Drive from future regional development charges, subject to approval of a future Regional Development Charges By-law.

2. Purpose / Issue:

Purchasing by-law 16-032 Part IV section 10 (2) requires Council approval for tenders in excess of \$1,000,000.

3. Strategic Plan:

Award of this contract meets the 2019-2023 Corporate Strategic Plan objective to make affordable housing more available to individuals and families under:

- Focus Area 3 Environment and Climate Change. The report addresses Strategic Objectives 3.1 to reduce greenhouse gas emissions, and Objective 3.5 to promote the efficient use of urban land.

- Focus Area 4: Healthy, Safe, and Inclusive Communities. The report addresses Strategic Objectives 4.2, to make affordable housing more available to individuals and families, and Objective 4.3 to promote and enhance equity in policies, planning, services and decision making in order to positively impact wellbeing.

Key Considerations:

- Tenders were called for T2022-137 - 420 Kingscourt - 6 Storey Residential Development (Under PQ2021-23) and were advertised in the Record, on the Ontario Public Buyers Association website and on the Region's website.
- The following tenders were received:

Norlon Builders	London, Ontario	33,465,333.47
Melloul-Blamey Construction Inc.	Waterloo, Ontario	34,190,000.00
Collaborative Structures Limited	Cambridge, Ontario	35,360,000.00
JR Certus Construction Co. Ltd.	Vaughan, Ontario	37,765,000.00

- The work of this project includes: the construction of a new 6 storey residential building to provide 73 affordable family housing units (1 – 5 bedroom units) under the Waterloo Region Housing (WRH) portfolio, as well as a space for Regional services and programming to provide further benefits to the local community. The new building will be addressed 420 Kingscourt Drive, Waterloo.
- Since the Waterloo Region Housing Master Plan was approved in 2019, the cost of land, construction, and housing have escalated, resulting in an estimated 20-30% increase in project costs. This includes project delays from global supply chain disruptions. The cost of developing new affordable housing is anticipated to continue to increase as supply and labour constraints persist and sustainable building methodologies are incorporated. These increased capital pressures place greater emphasis on prioritizing net zero ready buildings, which will offer operational offsets and enhanced climate change action. In May 2022, project costs for 416 Kingscourt Drive were estimated at \$37,470,000 as per report CSD-HOU-22-11.
- As set out in the recommendations from the Ad hoc Community Benefits Procurement Committee in March 2022 (COR-TRY-22-28/CSD-EIS-22-01), the bid prices include a \$100,000 cash allowance as an incentive for the successful bidder to effectively collaborate in the Community Benefits Procurement Pilot

program which will use the Region's buying power to recruit, engage and retain a diverse labour force including under-represented groups. These groups include women, Indigenous people, persons with disabilities, newcomers/new immigrants, 2SLGBTQ+ people, veterans, racialized people, people in receipt of assistance pursuant to the Ontario Works Act, 1997 and other groups who have been historically underrepresented and/or face systematic barriers. This Workforce Development strategy is often referred to as Social Procurement, and this program represents the Region's first-ever implementation of such a program.

- f) The Region intends to assess the viability of introducing a development charge for Waterloo Region Housing to recover a portion of the growth-related capital costs set out in the Waterloo Region Housing Master Plan. The extent of the recovery will be determined through the Region's next Development Charge Background Study and By-law to be presented for Council's consideration in early 2024.
- g) The final date of acceptance for this tender is September 6, 2022.

4. **Background:**

On November 5, 2019, Regional Council approved the Waterloo Region Housing (WRH) Master Plan (2020-2040), a framework for the operations and management of the WRH housing stock. The plan maps out a 20-year timeline to create at least 600 new WRH units over approximately the next 10 years. The Master Plan also establishes that the Region will expand density on five properties, and establishes unit potential on the approved development sites which supports the financial model for capital budgeting.

These projects are focused on reducing energy consumption, utilizing a lower carbon footprint, and aiming for Net Zero Carbon design as part of the Transform WR Action Strategy. Recent comparisons have been made with similar developments in Waterloo Region, and it has been noted that based on construction cost estimates, the WRHMP projects underway are in-line on a cost per square metre basis.

The building will achieve LEED Silver Certification, and is designed to be net-zero carbon per the Region of Waterloo Climate Action and Energy Transition Progress Report (PDL-CPL-22-16) and the Region's Strategic Objective 3.1: Reduce Greenhouse Gas Emissions. The building incorporates an open-loop geothermal system to reduce mechanical heating and cooling loads, electrically operated mechanical equipment to eliminate fossil fuel consumption, a rooftop solar panel array to offset electricity costs, and a robust building envelope to reduce heat loss/gain throughout the year. All of these components lead to a building that will

be efficient, comfortable, and is not reliant on fossil fuels.

The building includes an underground parking structure to meet the parking needs of the existing and future tenants of the site, and a parking ratio reduction was granted by the Committee of Adjustments to reduce vehicular traffic, encourage public transportation usage, and optimize space on the site. The site is located adjacent to Conestoga Mall, and is approximately a 10 minute walk to the Conestoga ION Station.

The Region's cost consultant has indicated that constructing a net-zero carbon building represents an approximately 10% cost premium over conventional construction; however, investing in carbon reduction at the time of construction results in a better-designed building and represents unquestionable savings over retrofitting a building for comparable carbon reduction in the future.

Market prices for materials and labour have been fluctuating significantly since 2020 due to supply chain disruptions, inflation, and worker shortages. The project budget has been adjusted to account for these challenges; however, market conditions in the construction industry have been difficult to predict. Statistics Canada data indicates that Residential Apartment escalation is far outpacing many other sectors within the construction industry, with a year-on-year increase from 121.7 to 150.5 basis points between Q1-2021 and Q1-2022.

5. Area Municipality Communication and Public/Stakeholder Engagement:

Meetings were held with the tenants of the existing building on January 11, 2022 and January 14, 2022, and a neighbourhood consultation was held on January 18, 2022.

Per the Planning Act, this project was reviewed by a Committee of Adjustments for minor variances February 15, 2022. Decision on the minor variances was deferred to a Committee of Adjustments meeting on March 15, 2022 where application was approved.

A non-mandatory pre-bid meeting was held on May 13, 2022.

6. Financial Implications:

Additional budget approval and funding is required to complete the work. Detailed Financial Implications tables are included in Appendix A.

7. Conclusion / Next Steps:

Subject to Council approval, the work of this contract will begin July 4, 2022, with completion expected by April 19, 2024.

8. Attachments / Links:

[Appendix A](#): Detailed Financial Implications.

Prepared By: Tuna Yaylaci, Procurement Specialist

Reviewed By: Lisa Evans, Manager, Procurement/Chief Purchasing Officer

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Appendix A: Detailed Financial Implications

Region of Waterloo – Waterloo Region Housing (WRH) Master Plan for 420 Kingscourt

T2022-137 (includes construction contingency \$1,500,000)	\$33,465,300
Consulting Services, Permits and Approvals	1,954,800
Regional Engineering and Internal Fees	626,000
Project Contingency	<u>1,832,900</u>
Sub-total	\$37,879,000
Plus: Applicable Net HST of 1.76%	<u>590,000</u>
Total	<u>\$38,469,000</u>

Note: All figures are rounded to the nearest \$100.

The Region's approved 2022-2031 Waterloo Region Housing (WRH) Master Plan capital program includes \$35,618,000 over 2022-2024 for the Kingscourt Drive project. The overall project budget for the Kingscourt project is now estimated to be \$38,469,000, which exceeds the approved capital program by \$2,851,000. To date, \$920,000 has been spent. The following table outlines the recommended adjustments to both the project budget and financing sources:

Waterloo Region Housing Master Plan in \$000s	Approved 2022-2031	Revised Project Summary	Increase (Decrease)
83170 – 420 Kingscourt Project Costs	\$ 35,618	\$ 38,469	\$ 2,851
Financing:			
Housing Capital Reserve	\$ -	\$ 5,000	\$ 5,000
Grants:			
Canada Mortgage Housing Corp.(CMHC)	3,630	7,814	4,184
National Housing Strategy			
Green Municipal Fund (FCM)	2,850	3,865	1,015
Subtotal	6,480	11,679	5,199
Regional Debentures and Green Municipal Fund loan (term not to exceed 20 years)	29,138	21,790	(7,348)
Total Financing	\$ 35,618	\$ 38,469	\$ 2,851

CMHC's National Housing Strategy (NHS) has been recently enhanced to provide increased grant funding to municipalities. The recommended financing incorporates this increase based on these changes and the Region's application submitted for the Kingscourt Drive project. The debenture financing includes Regional debt and an anticipated FCM Green Fund loan amount of \$3.8M. In light of the increased project costs and recent cost of borrowing increases, staff recommend applying \$5.0 million in funding from the Housing Capital Reserve to this project.

Capital program amendments required by year are outlined as follows:

\$thousands	2022	2023	2024	Total
Expenditure amendments				
Approved budget - Kingscourt	\$7,849	\$24,769	\$3,000	\$35,618
Required 2023-2032 capital program expenditure - Kingscourt	7,849	27,280	3,340	38,469
Expenditure amendments required	\$0	\$2,511	\$340	\$2,851
Funding amendments required				
Housing General Reserve	\$904	\$3,646	\$450	\$5,000
CMHC Grant	738	3,067	379	4,184
Green Municipal Fund (FCM) Grant	207	720	88	1,015
Green Municipal Fund (FCM) Loan	207	720	88	1,015
Regional Debentures	(2,056)	(5,642)	(665)	(8,363)
Subtotal Funding amendments required	\$0	\$2,511	\$340	\$2,851

Based on the recommended financing plan presented above, the net operating budget impact inclusive of debt servicing costs is estimated at \$743,000 for 2024 (eight months) and annualized at \$1,271,000. Below is a table illustrating the estimated revenues and expenses for 420 Kingscourt, Waterloo:

Operating Impact in 2024 \$ In \$000s	(May-Dec) 8 months	Annual
Revenues	\$ 566	\$ 971
Operating costs*	292	499
Debt servicing costs	<u>1,017</u>	<u>1,743</u>
Subtotal	1,309	2,242
Net Levy	<u>\$ 743</u>	<u>\$ 1,271</u>

* Estimates include costs for service contracts, maintenance materials, utilities/municipal taxes, insurance and lifecycle reserve.

A portion of debt servicing costs could be eligible for funding from regional development charges, subject to the outcome of the next Regional Development Charge Background Study and approval of a Regional Development Charges By-law by Regional Council.