

Municipality of Chatham-Kent

Community Development

To: Mayor and Members of Council

From: Bruce McAllister, Project Team Lead
General Manager, Community Development

Ian Clark, Assistant Project Team Lead
Engineering Technologist, Infrastructure & Engineering Services

Date: July 26, 2022

Subject: Update on Imagine Chatham-Kent Consultation and Due Diligence

Recommendation(s)

It is recommended that:

1. Imagine Chatham-Kent be designated as a priority project due to its alignment with Council's strategic term priorities and various previously approved plans, policies and strategies outlined in this report.
2. Further due diligence be undertaken to inform next steps on the Imagine Chatham-Kent proposal, including the following:
 - a. A certified appraisal and engineering report, where relevant, for the portions of the Downtown Chatham Centre property proposed to be transferred to the Municipality be obtained;
 - b. A qualified and independent firm be retained through a Request for Proposal to lead further public consultation, feasibility and business case assessment, and the engineering and financial review outlined in this report with recommendations on final scope, value, and next steps reported to Council;
 - c. The cost weighting in the Council-approved matrix for consultants be reduced from 30% to 10% in the above Request for Proposal in order to prioritize technical expertise and project schedule.
 - d. External legal counsel be retained to initiate the legal negotiation of the terms of a development agreement and related legal matters with the Community Partners and that the terms of an agreement be subject to final approval by Council.

3. Up to \$2,000,000 for further due diligence and professional services including external legal counsel be funded from the Building Lifecycle Reserve.
4. The CAO be authorized to execute any operational agreements related to the due diligence process, subject to financial approval limits and satisfactory to the Director, Legal Services for the purposes of implementing the above recommendations.

Background

On June 13, 2022 Council directed administration to conduct public consultation regarding the Imagine Chatham-Kent proposal (“the Proposal”) to redevelop the Downtown Chatham Centre (“DCC”) site for the purposes of co-locating municipal facilities and hosting an Entertainment Complex, with results reported on August 8, 2022. Council also approved up to \$50,000 be allocated for initial due diligence on the Imagine Chatham-Kent proposal with a status update reported to Council on August 8, 2022.

Comments

Public Consultation

Between June 14 and July 17, 2022 administration invited public comment on the Imagine Chatham-Kent proposal as presented to Council on June 13, 2022. The primary forum for public comment was www.letstalkchatham-kent.ca with hard copy comment sheets also available at municipal centres and libraries.

108 submissions were received by members of the public and reviewed by administration. Online comments and hard copy sheets required registration or personal identification however information presented on the Let’s Talk page was openly accessible. This page was visited 2,260 times. Submissions in their entirety are available in Appendix A. Submissions were descriptive in nature with many individuals qualifying statements of support or opposition with specific concerns, further ideas, or outstanding questions.

Identified themes of support are as follows:

- Desire for downtown revitalization / revitalization of DCC property
- Desire for modern facilities comparable with other municipalities
- Desire for greater family activity options to attract and retain residents

Identified themes of concern/outstanding questions are as follows:

- Transparency in overall costs to taxpayers
- Adequate downtown parking or other transportation options

- Potential loss of current buildings including Cultural Centre, Library, or Memorial Arena
- Uncertain impacts to museum storage, local theatre programming, and current sports groups

Identified themes of opposition are as follows:

- Preference for an arena solution involving a twin pad
- Perceived lack of stakeholder engagement and expedited timeframe
- Prioritization of other municipal issues
- Concerns of any ongoing “rental” / financial arrangement with the Community Partners and value received by the Municipality

Some questions posed by the public were addressed in the Frequently Asked Questions page (Appendix B), while others are either addressed in this report or remain to be addressed through further due diligence directed by Council. Submissions from the public have informed this report’s recommendations.

Initial Due Diligence – Municipal Assets

Building Value

As part of the due diligence process administration obtained certified professional appraisals for the three municipal buildings in which operations may be accommodated with the Proposal’s Phase I infrastructure development:

Building	Age (years)	Item	Estimate
Civic Centre*	48	Certified Appraisal	\$6,600,000
Chatham Library	55	Certified Appraisal	\$1,656,000
Cultural Centre	37 – 98	Certified Appraisal	\$1,550,000
		Total	\$9,806,000

Table 1: Valuation of Municipal Buildings, Phase I Considerations
*Building and estimate exclude Chatham-Kent Fire Station #1

Council would be under no obligation to divest these buildings. Recommendations on their future are not included in this report and should be informed through further stakeholder engagement and analysis. Within the terms of the Proposal the Community Partners have offered a “floor bid” for each building in order to mitigate risk to the Municipality. If Council chooses to divest these properties in the future, they may also be placed for sale on an open market to attract the best and highest bids.

Building Capital, Operating, and Lifecycle Expenses

Updated estimates for renovations, upcoming lifecycle requirements, and ongoing operating costs have been calculated for the same three municipal buildings potentially impacted by Phase I. For the purposes of this report, it is assumed capital costs would be avoided with building divestment. Capital projects listed have not been approved by

Council and are subject to further deferral, service level changes, re-purposing, or re-prioritization among other building projects.

Building	Item	Previous Estimate	New Estimate
Civic Centre	Major systems renovation ¹	\$18,100,000	\$25,000,000
Civic Centre	Lifecycle requirements (2-3 yrs) ²		\$800,000
Cultural Centre	Lifecycle requirements (2-3 yrs) ³		\$250,000
Cultural Centre	Kiwanis Theatre seating ⁴	\$177,000	\$450,000
Chatham Library	Lifecycle requirements (2-3 yrs) ⁵		\$400,000
Chatham Library	Master Plan expansion ⁶		\$5,500,000
		Total	\$32,400,000

Table 2: Capital Cost Avoidance Opportunities, Phase I Considerations

¹ The necessity for Civic Centre renovations was last outlined to Council in January 2020 and primarily concerned the end of life of the HVAC system and its replacement implications on major structural, electrical, lighting, flooring, and plumbing infrastructure. The previous estimate (2019 dollars) was calculated in conjunction with structural, mechanical, and electrical consultants. This new estimate is net of the approximately \$400K office window replacement project completed in 2021 and has been calculated based on known escalations in related building projects managed by administration. Current cost escalations estimate this project may reach \$30M (considering current market conditions and inflation rates) if not initiated within 2-4 years.

Civic Centre renovations were also expected to address identified deficiencies related to public and employee security, accessibility and age friendliness, energy efficiency, floor space utilization, and public accommodation. An option to build a new Civic Centre at an estimated cost of \$56M was presented but not approved.

² Council's direction on Civic Centre lifecycle is to address requirements on an as-needed basis. Windows within the atrium are overdue for replacement. It is also anticipated exterior requirements such as painting, addressing through-wall water penetration issues, and HVAC repairs will be required over the next 2-3 years. These costs are excluded from the major systems renovation estimate.

³ Upcoming lifecycle requirements within the Cultural Centre include exterior walls and flashing, new roof top units, lobby windows, and museum lighting. Exterior stairs have been repaired in recent years however a total replacement is now required. This estimate should be considered as less certain with a greater risk of increase as the heritage designation on this building has made exterior stair replacement to their original condition difficult to ascertain in addition to market conditions and inflation rates.

⁴ In February 2020 Council approved a \$177K budget to improve seating at the Kiwanis Theatre. Responses to a subsequent Request for Proposal issued in 2021 came in at a low bid of \$450K. Arts & Culture staff are currently investigating alternative approaches to managing this project.

⁵ Upcoming lifecycle requirements within the Chatham Branch of the Library includes interior painting, window replacement, and replacement of HVAC controls. Excluded from this estimate are accessibility concerns reported by management regarding the

exterior ramp. The ramp is currently in acceptable condition meeting previous accessibility code. However, a complete replacement will be required to meet current code should conditions deteriorate or Council chooses to address those concerns.

⁶The Library Master Plan (2008) recommended an expansion of the Chatham Branch to 35,000 sq. ft. in order to address accessibility, industry standards, community usage, and new service opportunities. No commitments have been made by Council to facilitate this expansion at the current location. The estimate provided is a standard estimate for a 10,000 sq. ft. addition however it does not factor into the complex challenges of the current location which may warrant property acquisition or the construction of an additional floor.

Building	Item	Budget
Civic Centre	Operating Cost	\$422,270
Chatham Library	Operating Cost	\$159,165
Cultural Centre	Operating Cost	\$47,670
	Total	\$629,105

Table 3: Operating Costs of Municipal Buildings, Phase I Considerations

Operating costs include utilities, security systems, janitorial services, grass cutting, snow removal, elevator maintenance, and general upkeep. Museum and art gallery-specific maintenance are excluded. No direct comparison with operating costs of Phase I Proposal infrastructure is currently possible without finalization of scope, as further elaborated in this report.

Building	Item	Estimated Requirement	Est. Budget
Civic Centre	Lifecycle Allocation	\$280,000	\$140,000
Chatham Library	Lifecycle Allocation	\$150,000	\$75,000
Cultural Centre	Lifecycle Allocation	\$140,000	\$70,000
	Total	\$570,000	\$285,000

Table 4: Lifecycle Requirements and Budgets of Municipal Buildings, Phase I Considerations

It is important to note only 50% of lifecycle requirements for all municipal buildings are funded in the base budget. Each municipal building does not have a fixed lifecycle budget allocation. Approximately \$3.5M is available for 115 buildings (\$3/sq. ft./yr) and allocated on a priority basis. Due to this funding gap a reduction in overall lifecycle funding would not be recommended should these buildings be divested. However existing allocations could be prioritized towards other aging facilities. Phase I lifecycle allocation may also be impacted by the potential acquisition of the parking garage pending receipt of the engineering report under further due diligence.

Municipal Arenas

Phase II of the Proposal has the potential to impact existing arenas within Chatham. However, the scope of use of this second phase was less defined in the preliminary design concept and Council has only previously endorsed the development of twin pad arena facilities as a means of divesting or re-purposing either or both of Chatham Memorial Arena and William K. Erickson Arena. As a result, the development of a larger

single pad entertainment complex should be preceded by a feasibility study to determine the extent in which this new facility could host new tenants and events justifying the larger capacity as well as the potential to accommodate current user groups should divestment or repurposing be directed.

Administration is recommending potential impacts on both municipal arenas be informed through the results of a feasibility and business case assessment on Phase II as further outlined in this report. The below list of required capital and lifecycle requirements has been updated from previous reports and compiled for the information of Council.

Arena	Item	Previous Estimate	New Estimate
Chatham Memorial	Renovation strategy ¹	\$16,000,000	\$26,500,000
Chatham Memorial	Status quo lifecycle (4-5 yrs) ²		\$2,287,400
WK Erickson	Status quo lifecycle (4-5 yrs) ³		\$1,200,200

Table 5: Capital & Lifecycle Project Estimates, Municipal Arenas, Phase II Considerations

¹ The renovation strategy option for Chatham Memorial Arena was last reported to Council in May 2019 with estimations from 2018. Several upgrades were outlined to meet current user needs such as exterior site improvements, exterior building additions – dressing rooms, washrooms, lobby expansion etc. – floor replacement, interior renovations, seat replacement, roof replacement, parking lot reconstruction, and accessibility requirements. The previous estimate excluded architectural and contract administration fees.

² Council's direction on both Memorial and Erickson Arena lifecycle is to address requirements on an as-needed basis. Required upcoming lifecycle projects for Memorial Arena include replacements for the compressor, brine pump, condenser, chiller, floor and headers, dehumidifiers, and lights.

³ Required upcoming lifecycle projects for Erickson Arena include replacements for the chiller, HVAC, boards/glass, roof, dehumidifiers, and lights.

Initial Due Diligence – Proposal Review

Strategic Alignment

Following this initial due diligence process, administration is recommending Council designate Imagine Chatham-Kent as a priority project due to its strategic alignment, including:

- Official Plan Policy Objective: Promote ongoing viability and revitalization of the downtowns as the focus of pedestrian-oriented retail, civic, cultural, entertainment, and government uses.
- 2018-2022 Council Priorities: Expand infrastructure for growth to support local economic development; Expand infrastructure related to recreational facilities; Rationalize current inventory of bridges, roads, parks and buildings in support of new infrastructure investment.

- Core Services Base Budget Efficiency Review: Balance the financial costs of operating facilities and improving services by repurposing and consolidating facilities with specific action to move towards a “one-stop-shop” model of community hubs and multi-purpose facilities that offer residents access to multiple services at the same location.
- CK Cultural Plan Implementation Project: Partnerships and synergies continue to be explored with organizations, private citizens, businesses and municipal departments for the enhancement of culture in Chatham-Kent. A recommendation was identified to address museum storage issues through an addition to the current facility or use of an additional building.
- Library Master Plan: CKPL be expanded as feasible to correct library space limitations for programming, reading and working areas.
- Parks and Recreation Master Plan: Continue to utilize, and undertake wherever possible, the development of multi-use approaches in the renewal of existing and development of new services, facilities and parks.
- Tourism Destination Management Plan: Potential development of a hotel to support meeting & conventional business attraction strategy;
- Age-Friendly Chatham-Kent Community Action Plan: Outdoor spaces and buildings not only comply with existing local accessibility standards, but they are welcoming and safe and leave a person with a sense of confidence that he or she can use them easily despite any personal limitations.

This designation is intended to transparently identify the project as warranting further resources necessary to determine, in a responsible and timely manner, its overall value for taxpayer dollars, business validity, and to ensure final decisions regarding scope reflect the current and future needs of the community. The recommended approach on resource expenditure is discussed in the last section of this report.

For clarification, despite this designation, no final decision on project approval is being requested of Council at this time. Rather, the project will be prioritized to proceed with further due diligence. Additional reports will be brought to Council when the project is at a stage where approval decisions can be considered.

Project Cost

The Municipality would be responsible for all costs associated with the development, acquisition, and ongoing operation of all facilities and structures proposed to fall under municipal ownership at the conclusion of the project.

The Proposal breaks down the development of DCC property into three phases of sequential development.

Phase I includes the re-development of the former Sears portion of the DCC into a facility capable of hosting current operations from the Civic Centre, Chatham Library, and the Museum and Art Gallery portions of the Cultural Centre. This phase will also

include construction of the adjacent promenade and transfer of a repaired parking garage to the Municipality.

Phase II includes construction of the entertainment complex along with a privately retained commercial segment along King Street.

Phase III will be privately retained for future development, including possible housing or a hotel.

All infrastructure and land not privately retained by the Community Partners will be owned by the Municipality.

Administration currently estimates project costs under municipal responsibility, based on current market conditions, inflation rates and in the absence of schematic drawings required for more refined estimate, as follows:

Imagine Chatham-Kent	Estimate
Phase I	\$53M
Phase II	\$60M - \$70M
Phase III	\$0
Due Diligence	\$2M
Total	\$115M - \$125M

Table 6: Imagine Chatham-Kent Project Estimates

The Community Partners provided an estimate of approximately \$35M excluding HST for the general construction of Phase I. A detailed cost breakdown compiled by a third-party construction management firm has been received. The Municipality's project estimate includes taxes less rebate, land purchase, architectural and engineering consultation, contract administration, 15% contingency, and 15% material and labour escalation factoring inflation. This estimate is subject to scope finalization and negotiation.

A range is provided for the Phase II estimate due to the uncertain scope of the entertainment complex. Direction from Council on its final size and intended usage is required to reduce this variability. It is recommended Council's decision be informed by the further due diligence process outlined in this report. The low-end estimate has been compiled based on an initial \$49M (excluding HST) estimate received from the Community Partners and compiled by a third-party consultant. This addresses a 3,800-seat (+200 standing room) single bowl complex. The Municipality's estimate includes taxes less rebate, architectural and engineering consultation, contract administration, and contingency. Land acquisition costs for Phase II are expected to be minimal under initial terms presented by the Community Partners.

Pending direction from Council on further due diligence, funding source recommendations will be outlined in the future. However, it is anticipated Phase II will be recommended to be conditional on the securement of other sources of funding to cover a portion of the cost.

Other Operating, Service, and Cost Considerations

As reflected in the public consultation process there are questions regarding how the Proposal will maintain existing services and operations at comparable levels. Pending direction from Council, administration intends to address these questions as the due diligence process proceeds to the next stage. Items include but are not limited to:

- Risks and mitigation measures to the decrease in quantity and size of dedicated work stations for Civic Centre staff in favour of a flex/hybrid work-from-home strategy for specific positions;
- Risks and mitigation measures to local theatre programming and studio-based arts programming should the Cultural Centre be divested;
- Risks and mitigation measures to arena user groups should divestment or re-purposing of a Chatham-based arena be directed;
- Impacts on existing museum storage issues;
- Recommended space allocations between library, art gallery, and museum necessary to maintain programming, achieve strategic objectives, and permit optimal use and future growth;
- Tenant and event attraction strategy to minimize entertainment complex subsidy without impacting other facilities;
- Impacts to existing downtown infrastructure and businesses;
- Overall value for taxpayer dollars and quality assurance of the project;
- Potential impact of downtown revitalization.

Council should be also aware of other cost considerations with the Proposal not reflected in the project estimates, subject to scope finalization, and risks and mitigation measures determined above, including but not limited to:

- Increased operating costs of an entertainment complex compared to a current municipal arena;
- Operating costs to maintain the parking garage;
- One-time moving expenses of Civic Centre equipment and assets from the museum, art gallery, and library;
- Upgrades to traffic, parking, and transit services which may be required to accommodate an entertainment complex;
- Alterations to existing plans for underground infrastructure upgrades in the downtown core potentially required;
- Inflation impacts caused by project delays or debt financing.

Recommended Further Due Diligence

Administration recommends up to \$2M be allocated for further due diligence on the Proposal and funded from the Building Lifecycle Reserve. This funding is required for

professional services for validation of municipal value received from the Proposal, retaining outside legal counsel to initiate legal negotiation of the terms of a development agreement with the Community Partners, additional public consultation, business case assessment, advancing the project scope to refine estimates, and overall project management.

Based on the scale of the Proposal, its outstanding questions, risks, and public demand for further input, administration has determined there is insufficient internal capacity for the significant due diligence required to advance this project in the responsible and timely manner expected by all parties. It is recommended a Request for Proposal be issued for the purpose of acquiring a qualified and independent firm to oversee several aspects of the next stage of due diligence. This firm will be tasked with the following, but not limited to:

- Conduct public consultation with impacted user groups, committees, municipal departments, and the general public to determine the recommended final scope of new municipal facilities, as well as its risks and recommended mitigation measures to outstanding items outlined in this report;
- Conduct a feasibility and business case assessment of Phase I and Phase II to further understand operating and financial impact to the Municipality along with recommended mitigation measures. This includes impacts to downtown infrastructure, traffic, parking, transit, and business activity;
- Work with the Community Partners and designated consultants to advance designs to a stage necessary to inform subsequent project decisions and financial commitment, based on recommendations resulting from the above;
- Provide third-party assessment and validation of best value with regards to financial and engineering scope.

It is anticipated the recommendations from this firm will assist administration and Council with final project decisions. Results of the RFP will be reported to Council in September for approval. Due to the technical complexity of this project, multiple areas of expertise, and expectation for expediency, it is further recommended the Council-approved score for costs in a consultant RFP be reduced from 30% to 10%. This has been a strategy previously used by Council for projects requiring technical expertise or capacity seldom procured, including the 2019 twin pad development project.

Legal Due Diligence

The Proposal represents a unique method through which a significant municipal infrastructure would be constructed. Due to the private ownership of the property and terms in which the Community Partners would be responsible for the renovation work, typical municipal procurement processes are not being used. There are opportunities under the Municipal Procurement Bylaw for Council to consider alternative purchasing relationships. However, it is important that Council have a full understanding of the details of the proposed transaction before making a decision. To this end, negotiation of

the terms of the contractual relationship between the Municipality and the Community Partners is needed. Negotiation of these terms will include significant additional information regarding costs, risk allocation, ownership and processes for decision making and approvals.

In order to provide this information to Council, administration intends to retain specialized external legal counsel with expertise in this area of law. Administration would work with that legal counsel and the Community Partners to negotiate the key terms of the contracts that would facilitate the Proposal. With this information, and the other due diligence recommended in this report, Council would be in a better position to assess the Proposal and make a decision on whether to proceed. Retaining this legal counsel would be paid out of the due diligence funding requested under the recommendations of this report.

Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support the following areas of strategic focus:

- Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth
- People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendations in this report support the following critical success factors:

- Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

Consultation

108 submissions from the public received between June 14 to July 17, 2022 informed the recommendations in this report. All members of Executive Management Team and the Director, Legal Services were consulted and agree to the recommendations.

Financial Implications

It is recommended that up to \$2,000,000 for further due diligence and professional services, including external legal counsel, be funded from the Building Lifecycle Reserve. Unused funds could be allocated to future due diligence phases pending Council direction.

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Reviewed by: Tony Haddad, Acting CAO

Consulted and confirmed the content of the consultation section of the report by:

Executive Management Team

Attachments:

Appendix A – Public Comments

Appendix B – Frequently Asked Questions