

# Staff Report



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To	<b>Committee of the Whole</b>
Service Area	Infrastructure, Development and Enterprise Services
Date	Tuesday, March 7, 2023
Subject	<b>Implementation Strategy Report: South End Community Centre</b>

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## Recommendation

1. That the construction of the South End Community Centre be approved for a project cost of \$115.5 million, with the project scope as approved under the October 7, 2020 report [IDE 2020-141 South End Community Centre Project Update](#).
2. That additional budget of \$35.5 million be approved for project RF0092 South End Community Centre Construction, funded \$33,725,000 from Parks and Recreation Development Charge Reserve Fund (#319) and \$1,775,000 from tax supported debt funded from the Infrastructure Renewal Reserve Fund (#150).

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## Executive Summary

### Purpose of Report

To provide an update and recommend a path forward for the construction of the South End Community Centre.

### Key Findings

The South End Community Centre (SECC) was originally approved under report [IDE 2020-141 South End Community Centre Project Update](#) in October 2020 with a budget of \$80 million and included a twin pad arena, aquatics centre with lap and teaching pools, double gymnasium, walking track, warm up area and multi-purpose rooms. In March 2022, the tender for the construction of the SECC closed at a final construction bid price of \$121.1 million, excluding soft costs and contingencies, which when added comes to a total project cost of \$129 million.

Inflation continues to impact this project, and since the March 2022 tender which came in higher than expected due to both inflation and market volatility, inflationary pressures have continued to increase the cost of the SECC at a rate of almost \$1 million per month.

Due to these current market conditions and inflation, the City has changed the project delivery methodology to construction management and brought a construction manager onboard in Q3 2022 to help review the design and find cost reductions for the project. After considering inflation over the previous three years, the project team, with the help of the construction manager, was able to reduce costs by almost \$24 million, bringing the budget in line with the inflation adjusted budget from 2020. These cost savings will not affect programming, or the sustainability goals, as previously approved by Council.

The original October 2020 budget for this project was \$80 million. At the time of the March 2022 tender, the inflation adjusted budget would have been \$92 million, compared with the cost of \$129 million tender result for the project (including contingency and soft costs). The significant variance between the inflation adjusted budget and the tendered cost prompted staff to undertake mitigation measures to bring the costs in line with the inflation adjusted budget. The revised project cost totals \$115.5 million after mitigation measures, which converges more closely with the inflation adjusted October 2022 budget, which would have been \$108 million at the end of 2022.

## **Strategic Plan Alignment**

The SECC is an asset that is strongly aligned with the “Building our Future” strategic pillar: this project supports the growth of the city, especially in the south end, and supports the health and wellness of a vibrant community. The building also supports the “Sustaining our Future” pillar by designing to the net zero carbon standard with the goal of mitigating climate change and aligning with the Race To Zero initiative.

## **Financial Implications**

The SECC is necessitated by growth and is justified based on previous master planning documents and facility needs assessments. With the high inflation globally over the past three years, the cost of the SECC has now risen to a total project price of \$115.5 million, with 95 per cent of the project being funded from the Parks and Recreation Development Charge Reserve Fund.

In 2021, \$80 million was approved as part of the capital budget for the construction of the SECC. An additional \$35.5 million is required to facilitate the construction of the SECC now in 2023 to meet the scope of the SECC as previously approved in report [IDE 2020-141 South End Community Centre Project Update](#).

## **Report**

The South End Community Centre (SECC) was originally approved at the October 7, 2020, special Council meeting, as presented in report [IDE 2020-141 South End Community Centre Project Update](#). At that time the project was approved with a construction budget of \$80 million, which was included in the 2021 capital budget, and the facility included the following program elements and sustainability goals:

- Twin pad arena and accessible change rooms
- Aquatics centre consisting of a 25-meter eight lane lap pool and teaching pool, with viewing area and universal change room
- Full double gymnasium with seating and storage
- Indoor walking track and warm up area
- Multi-purpose rooms
- Designed to the Canadian Green Building Council Zero Carbon Building

## **Inflationary Impacts on the SECC**

Since project approval in October 2020, the consultant MacLennan Jaunkalns Miller Architects (MJMA) completed the design of the facility through 2021 with the project being released for tender at the end of 2021. During this period, and leading up to the tender closing in March 2022, construction costs and overall pricing volatility had increased significantly due to the following:

- COVID-19 – restrictions adopted during the pandemic have placed added strain on the ability of companies to supply and install goods and services. This includes limited bid validity periods due to fluctuating product costs, unknown supply chain timing, and labour shortages.
- Inflationary pressures – since the October 2020 Council report, there have been periods of high inflation that continue to affect projects to this day. The cost of materials (e.g., steel, concrete) and energy (e.g., gasoline, diesel fuel), both having a major effect on building construction costs, have increased substantially. As a reference, the Statistics Canada Non-Residential Building Construction Index has increased 30 per cent from Q1 2020 to Q3 2022.
- Geopolitical issues – civil unrest in other parts of the world have exacerbated the resulting inflation and supply chain problems.

In late 2021/early 2022, the project was tendered as a lump sum contract type. In this type of contract, the contractor takes on more risk and the City tenders at a single all in price from the contractor. The original tender amount from March 2022 of \$121.1 million represents the cost of construction only, with contingency and soft costs to be added onto this amount. The required additional consultant fees for services during construction, permitting and construction contingencies would have made for a total project cost of \$129 million. When adjusted for inflation, would give a total project cost in current dollars as \$139.5 million.

The impacts of inflation versus the cost of the project are summarized in Figure 1 below. The original project budget approved by Council in October 2020 was \$80.0 million. At the time of the March 2022 tender, the inflation adjusted budget according to the Statistics Canada non-residential construction price index would have been \$92 million, compared with the cost of \$129 million for the project as tendered (including contingency and soft costs). The significant variance between the inflation adjusted budget and the tendered cost prompted staff to undertake mitigation measures to bring the costs in line with the inflation adjusted budget. The 2023 current bar in Figure 1 shows the revised project cost totaling \$115.5 million after mitigation measures, which converges more closely with the inflation adjusted budget which would have been \$108 million at the end of 2022.

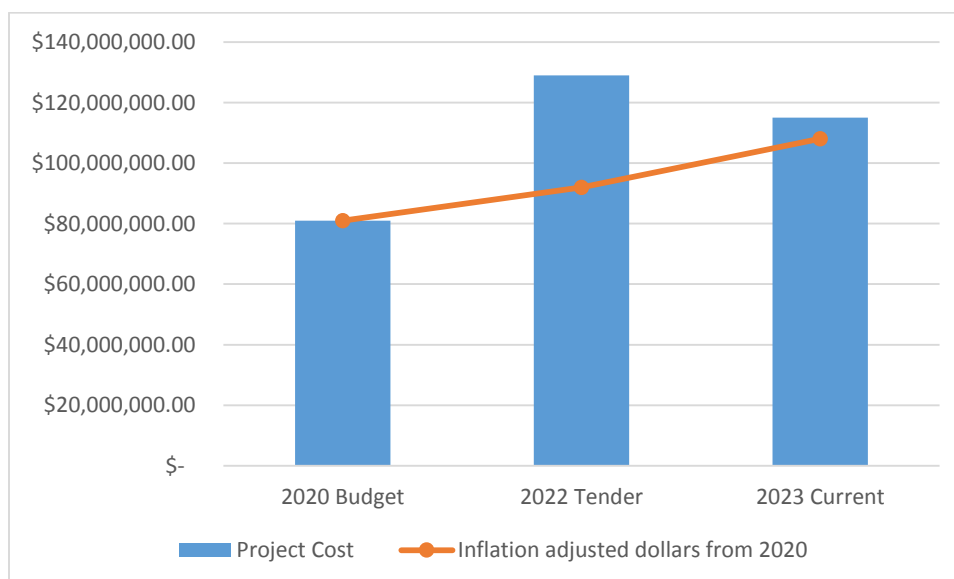


Figure 1 SECC Project Cost vs Inflation

Notes: Inflation adjusted dollars based on Statistics Canada non-residential price index: Statistics Canada. [Table 18-10-0135-02 Building construction price indexes, percentage change, quarterly](#)

### **Mitigation Measures for Project Costs**

Since the closing of the tender in March 2022, staff decided to take a different approach to the construction contract and retained the services of Aquicon Construction Ltd. (Aquicon) to act as a construction manager. Aquicon has provided pre-construction services for the review of the SECC design in conjunction with the project team and the consultants, to identify cost reduction options and strategies.

The project team, consultants and construction manager have identified \$24 million in cost reductions while not impacting the programming or Canada Green Building Council (CaGBC) Zero Carbon design requirements. Examples of areas where costs were able to be reduced include the following:

- Removal of the rear courtyard for the building and associated design features.
- Redesign of the building to remove 450 square meters of hallway space within the building.
- Simplifying the design of the exterior building façade while maintaining the overall architectural aesthetic of the building.
- With the update of CaGBC Net Zero Carbon design standard in 2022, the project team has been able to simplify the design of the heating, ventilation and air conditioning system.
- Specifying a number of alternative materials within the various interior spaces represent superficial changes while maintaining a highly aesthetic appeal.
- Opening up the contract to additional alternative suppliers. This strategy, proposed by the construction manager, whose experience and understanding of the current construction market conditions, will result in a highly competitive environment during tendering.
- A pause on commissioning and installation of public art, unless contingency remains at the end of the project. This project will, at a minimum, rough-in utility requirements for a future installation.

With the above noted design modifications, the project is now better aligned to the original 2020 Council approved budget when inflation is taken into account for a total project cost of \$115.5 million.

### **Implementation Strategy for the SECC**

Should Council approve the construction of the SECC, as set out in this report, minor redesign efforts for the project are required, along with minor site plan and building permit updates. The expected construction start date on site would be in Fall 2023; and completion of the project would be expected to be in 2026.

The City is committed to keeping the Larry Pearson ball diamonds open during the baseball season while the SECC is being built. During the construction of the SECC, it will be necessary to have short temporary closures and changes to the access of the South End Community Park that may affect some amenities. The exact impacts will be finalized during the redesign process with the consultant and construction manager. Communication plans will be shared regularly with key stakeholders and users of the park.

Staff continue to work closely with the Wellington Catholic District School Board to provide and communicate the temporary parking plans through construction of SECC.

The City's change of project delivery to a construction management model will allow for more insight into the overall construction budget through the construction manager and allow the City to make more informed decisions as the project undergoes re-design.

The City will also be able to see alternative pricing from sub-trade tenders and evaluate cost saving alternatives as construction progresses. This model allows this flexibility by not having one all-in lump sum cost upfront for the construction management contract. Instead, the City and construction manager are aligned to review the sub-trade tenders and provisional items to help with the overall budget, which the City bears more responsibility for managing.

Moving forward with the SECC at a total budget price of \$115.5 million is recommended as the best value option meeting both recreation programming requirements as well as the City's energy policy. Delaying this project will result in pricing increases for the project in the future, as seen over the past year with inflation increasing the price at a rate of approximately \$1 million per month.

Without the construction of the SECC, recreation services are currently unable to meet the service levels required for the projected growth within the community, especially in the south end of Guelph. The current needs for space within the existing recreation facilities are not able to be met, and the facilities are already fully booked during peak and prime times. The SECC, with two arenas, aquatic centre and double gymnasium, will provide flexibility for not only future population growth, but opportunities for recreation services to offer innovative and flexible programming and offer opportunities to adapt to with any upcoming sports and recreation.

## **Financial Implications**

The SECC is necessitated by growth and is justified based on previous master planning documents and facility needs assessments. With high inflation across the globe over the past three years, Council delegated authority to staff in April 2022 to prioritize capital projects within the approved budget up to the end of 2023. The results of this prioritization exercise for 2023 were reported to Council through the 2023 Budget Confirmation, however, it was noted that the South End Community Centre project had not been adjusted through this mechanism and would be addressed through a separate recommendation to Council due to the large budget and market volatility. As described in the report, the cost of the SECC has risen to \$115.5 million, with 95 per cent of the project being funded by the Parks and Recreation Development Charge Reserve Fund.

The impact of Bill 23 on Development Charge (DC) collections does not have a direct impact on a singular project such as the SECC and it is expected that the project will continue to be eligible for the 95 per cent funding level as previously planned. The impact of Bill 23 will be on the collection of DCs from developers, resulting in taxpayers having to make up any collection exemptions unless the provincial or federal government provide a new funding source. The specific shortfall in collections for the SECC is unknown since collections have been ongoing

for many years and will continue for 20 plus years towards this project and the rate of growth and timing of new studies will impact the rate of collection.

Debt was issued in early 2021 for a portion of the Development Charges funded debt associated with this project in the amount of \$37.6 million. This enabled the City to lock in a historically low interest rate of 1.92 per cent on this debt. The increase in the budget from \$80 million to \$115.5 million will necessitate further debt issuances of \$15 million to \$20 million in Development Charge Funded debt along with \$5.7 million in tax supported debt. The exact amount and timing of these additional debt issuances will be updated through the current DC Background Study and as part of the upcoming multi-year budget cycle.

The net operating impacts, which were previously estimated as part of [IDE 2020-141 South End Community Centre Project Update](#), are being phased in over several years. The operating impacts will need to be revisited based on the adjusted design and operating inflationary impacts; revised operating impact estimates will be included as part of the upcoming multi-year budget process.

## **Attachments**

Attachment-1 2023 South End Community Centre Implementation Strategy Presentation

## **Departmental Approval**

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