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BRIEFING NOTE

1900 Sheppard Avenue West: A Review of Property Utilization Options

Purpose:

This briefing note is in response to Councillor Augimeri's request for a financial review of relocating the Jane/Sheppard Neighbourhood Library to the City-owned vacant property at 1900 Sheppard Avenue West.

Lease vs. Ownership Policy:

In regards to leasing property from third parties, the City policy states that as long as the lease payments reflect market value, ownership is not preferred to leasing. If the lease amount is greater than market, the Agency, Board or Commission should attempt to relocate to another facility. Further analysis is required to determine if the amount being paid for the lease at the Jane\Sheppard Mall reflects market value for the area.

Property Background:

The property, 1900 Sheppard West, is a 35,597 sq. ft. parcel of land, utilized as a police station until 1999, at which time Police Services designated the property as surplus. Situated on the north side of Sheppard Avenue West, east of Jane Street, the property includes a single story brick building, approx. 9,500. sq. ft. The Acting Commissioner of Community and Neighbourhood Services has indicated that Shelter, Housing and Support is recommending that SCPI funding be used for the development of a transitional housing complex on the property, which will accommodate homeless youth from the Jane/Finch area.

Library Services, Project Options:

As the location of this property and its size make it a reasonable match for a new neighbourhood library, consideration is being given to using the property at 1900 Sheppard Avenue West to build a new branch library, replacing the Jane/Sheppard Neighbourhood Library presently located in the Jane/Sheppard Mall.

The Jane/Sheppard Neighbourhood Library was leased in 1988, at which time the former City of North York invested \$430,000 in leasehold improvements, converting the facility into a library. In 1998, the Library invested an additional \$21,650 in refurbishing the facility. The Library's lease expired in 1999, and the Library now rents the property on a month-to-month basis, at a cost of \$20 per sq. ft., or \$121,636 per year, including common area costs. City expenditures to-date total approximately \$1.87 million (or approximately \$2.1 million in 2001 dollars) for the combined Lease (\$1.42 million) and Leasehold improvements (\$.045 million) for this Library.

This analysis reviews the following three options:

- (1) **Status Quo:** Continue to provide service in the 3,500-sq.ft. Jane/Sheppard Mall.
- (2) **7,000 sq. ft Facility:** Relocate the Jane/Sheppard Neighbourhood Library from the Jane/Sheppard Mall and construct a new 7,000-sq. ft. facility at 1900 Sheppard Avenue West.
- (3) **4,500-sq. ft. Facility:** Relocate the Jane/Sheppard Neighbourhood Library from the Jane/Sheppard Mall and construct a new 4,500-sq. ft. facility at 1900 Sheppard Avenue West. This is equivalent to a 3,500 sq. ft. mall library, as the additional space would be used to accommodate washrooms, HVAC infrastructure, foyer, closets and washrooms.

Note: The TPL service delivery model limits the size of new neighbourhood libraries to be a minimum of 7,000 sq. ft. A deviation from this policy would require Board approval.

The following tables compares the operating and capital costs of the three options:

Operarting Costs	(1)	(2)	Variance from @ 7,000 sq. ft. to Status Quo	(3)	Variance from @ 4,500 sq. ft. to Status Quo
	Status Quo	New site development @ 7,000 sq. ft.		New site development @ 4,500 sq. ft.	
Average annual cost, 20 year review					
Salaries and Benefits	\$169,192	\$169,192	\$0	\$169,192	\$0
Materials and Supplies	6,029	12,058	6,029	6,029	(0)
Library Materials	71,217	71,217	0	71,217	(0)
Lease/Common Area Costs	121,636	0	(121,636)	0	(121,636)
Heat, Light and Power	5,283	10,566	5,283	6,792	1,509
Telephone	3,101	3,101	0	3,101	0
Other general maintenance services	5,511	35,339	29,827	25,942	20,431
Property tax income forgone by leasing		(5,000)	(5,000)	(5,000)	(5,000)
Total costs per year	<u>\$381,969</u>	<u>\$296,473</u>	<u>(\$85,497)</u>	<u>\$277,273</u>	<u>(\$104,696)</u>

Cost of Reconstruction	Reconstruction based on 7,000 sq ft (No Land costs)	Reconstruction based on 4,500 sq ft (No Land costs)
Construction Costs (\$180 per square foot)	\$1,260,000	\$810,000
Demolition	95,000	133,000
Architect/Design Fees (2)	134,820	86,670
Furniture, Fixtures and Shelving	321,000	240,750
Project management (3)	90,541	63,521
Moving Costs	12,500	12,500
Gst Rebate	<u>(71,543)</u>	<u>(50,332)</u>
Total Renovation/Construction Cost	\$1,842,318	\$1,296,109
Estimated Development Charge Funding (5)	<u>(370,000)</u>	<u>(260,000)</u>
Total Building Costs, w/o Land	<u>\$1,472,318</u>	<u>\$1,036,109</u>
<p>1. Construction cost is based on \$180 per square foot for renovation and new construction. However, historically, costs range from \$180 to \$230 per sq ft.</p> <p>2. Architect/Design fees based on 10.7% of construction costs.</p> <p>3. Project management cost is estimated at 5% of construction costs, demolition costs, architect fees and furniture and fixtures.</p> <p>4. Land value estimated to be \$550,000, not included in cost estimates.</p> <p>5. Development Charge Funding estimates are under review</p>		

Financial Review:

Payback is used to provide an analysis of investment options, allowing scenarios to be compared, and accepted or rejected on the basis of their comparative rankings; a quicker payback is preferred. Interest is not included in this analysis. A payback of five years will be required to access the Efficiency Innovation Fund.

Net-Cash Flow provides another indices used to evaluate a project. The project is reviewed based on the net savings generated after debenture costs. Project acceptance requires that the annual debenture costs would offset the projected savings, resulting in no annual net impact to the City from approving the project. The summary of this benchmark is reflected below:

Summary of Financial Review		
Payback, without land or interest	@ 7,000 square feet	@ 4,500 square feet
Capital Costs, w/o interest or land costs	\$1,472,318	\$1,036,109
<u>Payback</u>	<u>17 years</u>	<u>11 years</u>
 Net Cash-flow		
Annual Debenture Cost (10 yr Debenture)	\$220,000	\$155,000
Annual Operating Savings	<u>85,000</u>	<u>105,000</u>
Savings/ (Net Expenditures)	(\$135,000)	(\$50,000)

Conclusion:

Using financial analysis, this briefing note reviews the options for relocating the Jane/Sheppard Mall Library to the vacant property at 1900 Sheppard Avenue West. The Business Case does not support the criteria for a quick payback as required for the Efficiency Innovation Fund. However, the Business Case roughly supports the criteria of a payback equal to the debenture period of 10 years for the 4,500 square foot scenario. However, the presented payback could have easily been lengthen by using \$230 per sq. ft. instead of \$180 sq. ft. for construction costs and by including the value of the land from the analysis. Also, further review is required to determine if the project is eligible for development charge funding as presented.

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