

FINANCE COMMITTEE REPORT

Report Date	November 29, 2018
Meeting Date	December 06, 2018

Chairman David Merrithew and members of the Finance Committee

SUBJECT: Coast Guard Administration Building

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Finance Committee.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	Acting City Manager
<i>Craig Lavigne/Jeff Cyr</i>	<i>Kevin Fudge/Ian Fogan</i>	<i>Neil Jacobsen</i>

RECOMMENDATION

Recommend that Finance Committee;

- Recommend to Council to approve the transfer of \$500,000 of the projected 2018 General Operating Fund surplus to the General Operating Reserve Fund to partially fund demolition work in 2019;
- Recommend that Common Council allocate \$500,000 approved in the 2018 Capital Budget for Growth to fund demolition work in 2019;
- Refer to the Growth Committee to approve the use of the 2018 Growth Capital Budget envelope for Growth to fund demolition in 2019;
- Direct staff to negotiate a Memo of Understanding with the Saint John Parking Commission for the management and operation of the parking lot at the former Coast Guard Site;
- Direct staff to proceed with application to PAC to obtain a temporary parking lot and comply with conditions set out by PAC;
- Direct City pro-rata portion of proceeds from parking revenue be used to replenish the General Operating Reserve Fund used to pay for demolition;

EXECUTIVE SUMMARY

The Coast Guard Administration building is now vacant and the City must determine the best use for the property. The current plan for the Coast Guard site includes a new museum and the expectation is this investment will be the

catalyst for the complete redevelopment of the Coast Guard Site. DevelopSJ engaged Real Estate Consultants Turner Drake & Partners (Turner Drake) to evaluate the market value of the administration building and site and to provide a letter of opinion on use of the site. In addition to the Turner Drake letter, staff performed an analysis on other options for the building. The recommendation is to demolish the building and prepare the site for sale.

PREVIOUS RESOLUTION

None

STRATEGIC ALIGNMENT

Common Council has adopted an ambitious new direction to achieve new population, employment and tax base growth for the community, which are embedded in Council Priorities 2016-2020, the Roadmap for Smart Growth, the Population Growth Framework and soon to be completed Neighborhood Plan for the Central Peninsula. All these strategies are premised on the City's ability to enhance density in the City's primary development areas and to invite catalytic projects that will cause spin-off investment and growth.

REPORT

A letter of opinion was received from Turner Drake to understand the potential market value of the site which includes both land and the Coast Guard Administration building. The report values the property with a cleared site, building demolished, site remediation and seawall upgrades at \$3.5 million market value.

The report intentionally did not assign a market value for the existing building, as it was determined that a private redevelopment scenario was financially infeasible given that the redevelopment of the building could not absorb the costs of the required infrastructure improvements (seawall & soil remediation) and would not generate enough tax base to provide a return on investment for government to undertake the infrastructure improvements.

In addition to the information received from Turner Drake, City staff performed a scenario analysis on other potential options for the site. Two additional scenarios staff analyzed were to keep the building vacant until a seller could be found or reinvest capital into the building to be able to lease out space until a seller could be found.

Scenario: 1 Reinvestment in building and lease/sell site

Costs: Upfront Capital (does not include annual maintenance)

1- Building Envelop - Roof and windows:	\$600,000
2- Building Mechanical and HVAC Systems:	\$1,500,000
3- Building Electrical System:	\$500,000
4- Other such as plumbing and elevator:	\$300,000
Total:	\$2,900,000

The figures do not include potential aesthetic improvements that may be needed to be able to market the building to potential tenants.

It was quickly determined that this is not a feasible option for the City. The investment in the site is significant and without a known market or potential buyer/lessor of the site, the return on investment cannot be reasonably determined. There is no guarantee on attracting businesses to lease the space considering Saint John has a high commercial vacancy rate.

In addition, a refurbished building could potentially limit the market for potential developers of the site. Recovery of the investment costs into the building would be very difficult to obtain without a special purchaser which could take a significant amount of time to find.

Scenario: 2 Maintain Building in current condition and lease/sell site

Staff analyzed the feasibility of maintaining the building in its current state until a buyer can be identified. The annual costs for the building was estimated to be greater than \$150K per year and would include property taxes, snow plowing, heating, and security. Under this scenario the City could be paying the annual costs for an unlimited period as it is unknown how quickly the building could be sold.

These annual costs would be a sunk cost for the City and there is limited chance of recovery of this money through the sale of the property. Also, according to Turner and Drake, selling the building “as is” would not be economically feasible due to the significant infrastructure challenges facing the property.

Scenario 3: Demolition of the Coast Guard Building

Under the letter of opinion provided by Turner and Drake, the demolition of the Coast Guard Building could cost upward to approximately \$1.0 million but the potential market value is estimated to be \$3.5 million with seawall refurbishment, and site remediation. The demolition of the building will have a transformational impact on not only the former Coast Guard Site, but for the

entire Uptown and Waterfront area. The building is awkwardly positioned on the property, limiting its long term development potential. It is estimated that the full build-out of the site as a high density, mixed use project could generate up to \$150 Million in New tax base. The demolition of the current building is required to leverage this investment. When considering the potential parking revenue and cost avoidance to maintain the building, there is a positive business case for demolition. The cost of demolition is estimated to be approximately \$1.0 million and there would be a reduction of annual expenses of \$150K and annual new parking revenue of \$100K. This results in a payback period of 4 years to recover the demolition investment.

Recommendation

Staff is recommending the Coast Guard administration building be torn down at an approximate cost of \$1.0 million dollars. This scenario along with site remediation and seawall upgrades would make this site quite marketable to a regional or national investor according to Turner Drake.

The City through discussions with Saint John Parking Commission have determined that annual parking revenues based on the vacant building space could bring in an additional \$100K per year. The parking revenue assumption is conditional on PAC temporary approval to operate a parking lot and some beautification may be required as a temporary measure until site development.

The financial assumptions built in for tear down of the building, regardless of whether the Museum is developed or not, make this recommendation the best financial scenario with the least amount of risk for the City moving forward until a purchaser is found.

Staff is recommending that Finance Committee support the funding strategy of transferring \$500K of the projected 2018 General Operating Fund surplus into a Reserve to pay a portion of the demolition cost in 2019. Also, staff is recommending that the balance of the demolition be funded from the \$500K Neighborhood plan capital budget approved in the 2018 General Fund Capital budget after engagement with the neighborhood action committee.

Lastly it is recommended all City net revenue generated from parking at the entire Coast Guard site be directed back into a reserve to replenish funds used for demolition cost and future cost associated with the site.

SERVICE AND FINANCIAL OUTCOMES

The Central Peninsula Neighbourhood Plan focuses significant attention on the development potential of the Coast Guard site. Located at the doorstep of the City's Uptown, it is positioned for large scale, catalytic development which will propel the area into a stronger and increasingly exciting urban environment. The

siting of the New Brunswick Museum is the first step in the creation of a more dynamic and inviting public space along the City's waterfront. Concept plans for the area detail a mixed-use, pedestrian friendly gateway into the City's Uptown Waterfront with the Coast Guard site central to bridging the gap between the active Market Slip and the Port's Marco Polo Terminal. Preparing the site for redevelopment is strategic to leveraging private investment in an area considered to be vital to the success of the Neighbourhood Plan and, more importantly the growth of the City's centre.

The cost of demolition is estimated to be approximately \$1.0 million and there would be a reduction of annual expenses of \$150K and annual new parking revenue of \$100K.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

Input was received from Develop SJ, Saint John Parking Commission, Growth and Development, Finance and Administration services and all areas are in full support of the recommendation to demolish building.

ATTACHMENTS

List attachments related to report.