

COMMON COUNCIL REPORT

M&C No.	2021-177
Report Date	June 09, 2021
Meeting Date	June 14, 2021
Service Area	Utilities and Infrastructure Services

Her Worship Mayor Donna Noade Reardon and Members of Common Council

SUBJECT: Fundy Quay - Project Launch

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager
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RECOMMENDATION

It is recommended that this report be received and filed.

EXECUTIVE SUMMARY

In 2019, the City of Saint John entered into an agreement with Fundy Quay Developments Inc. for the development of the former coast guard site. Since this time, \$15 Million in infrastructure funding has been secured and efforts to implement this work are well underway. The purpose of this report is to provide a detailed update of the progress made on both the City’s infrastructure construction projects and the private sector development.

PREVIOUS RESOLUTION

In December of 2019, Common Council approved an option agreement for the lease and purchase of the Fundy Quay property to Fundy Quay Developments Inc.

At its February 22, 2021 meeting, Common Council awarded a contract for Architectural Services for the revitalization of Loyalist Plaza and Extension of Harbour Passage along the Fundy Quay to the Glenn Group.

At its March 8, 2021 meeting, Common Council awarded a contract for Engineering Services for the Fundy Quay Site Works to Dillon Consulting Inc.

At its March 29, 2021 meeting, Common Council approved the City accepting funding offers from the Regional Development Corporation for two projects, “Fundy Quay – Infill” and “City of Saint John – Infrastructure”.

At its March 29, 2021 meeting, Common Council approved the City entering into Agreement with the Regional Development Corporation for funding under the Canada – New Brunswick Integrated Bilateral Agreement for Investing in Canada Infrastructure Program for two projects, “Harbour Passage (Phase 1) - Loyalist Plaza and Pedway Connection” and “Fundy Quay – Harbour Passage Phase 2”.

REPORT

The Fundy Quay property represents one of the highest profile development opportunities on the Atlantic Coast and the single greatest opportunity to realize the transformation of Saint John's urban waterfront. A re-imagined Fundy Quay will serve to enhance the Saint John urban experience through a mix of uses such as retail and commercial space and services, specialty shops and boutiques, residential condominiums and apartments, hospitality, entertainment, cultural uses, green spaces, cafes, and active transportation linkages that will truly make the site a vibrant catalyst for future waterfront activity.

As one of Saint John's three catalytic projects, Envision Saint John: The Regional Growth Agency is providing project leadership and management support for the Fundy Quay project, a transformational waterfront development project for the City of Saint John and the greater region.

Fundy Quay Site History

Coast Guard Property

The Fundy Quay site was an historic series of tidal slips forming a section of Saint John's historic Harbour. In the 1950's, the Federal Government infilled a number of the slips to create an approximately 6-acre property to house the Coast Guard operations. The Coast Guard operated on this site from the 1950's until 2019, when they relocated their remaining operation to a new facility in the City's industrial parks.

As the intensity and scale of Coast Guard operations at the Fundy Quay declined, the City of Saint John identified the property as a strategic site for a transformational waterfront development. The City began negotiations with the Federal Government and through the Saint John Development Corporation issued a call for proposals for development in 2005. The Hardman Group were selected as the successful proponent.

Hardman Group

In 2006, the Hardman Group and the Saint John Development Corporation entered into a preliminary memorandum of understanding (MOU) to explore the opportunity for development of the Fundy Quay. The MOU contained both a due diligence phase and a land development phase. The due diligence phase consisted of the two parties cost sharing in geotechnical and environmental engineering evaluation of the site. Through this process, several challenging attributes of the site were identified including complications associated with the fill material used to create the property, soil contamination from historical coast guard operations and the physical condition of the seawall. The two parties continued to work towards the site's development, however, unforeseen challenges including the global recession of 2008 and the cancellation of several large industrial projects proposed for Saint John led to the cancellation of the project in 2011.

Second Developer

In 2012, the Saint John Waterfront Development Partnership released a new call for proposals for development of the site, however, no proposals were received at that time. Following the RFP, Cushman Wakefield were retained to support the identification of a potential developer for the site. A Halifax based developer was identified and

negotiations were held, but an agreement for the sale of the property was never executed. Negotiations with this developer ceased in 2017.

New Brunswick Museum

In late 2017, the Fundy Quay was identified by the Province of New Brunswick as a potential location for the New Brunswick Museum. In 2018, the City subdivided and sold a roughly 70,000 square foot parcel of land to the Province. Schematic design and public engagement were completed by the Province in 2018, however, the project was cancelled later that year due to budget challenges.

The Fundy Quay Project (2019 to Present)

Developer Selection

In response to the cancellation of the museum project, in April 2019, Develop Saint John (a predecessor organization of Envision Saint John) issued a call for expressions of interest for the development of the Fundy Quay. This process solicited two formal responses from capable developers interested in the project. An evaluation committee was established by Develop Saint John and included the City and DevelopSJ staff, DevelopSJ board members, and other strategic community members. Following a rigorous proposal review process, the Elias Management Group was recommended as the successful proponent for the development of the Fundy Quay and subsequently approved by the board of Develop Saint John in June of 2019.

Agreement with Fundy Quay Developments Inc.

As negotiations moved forward with EMG, it was determined that the best approach for the site was the signing of an option agreement. In previous efforts to develop the Fundy Quay, no formal agreements of this nature were signed, resulting in drawn out and undefined processes for negotiation and due diligence. The proposed option agreement covers the period of 2020 and 2021 and is structured to encourage the developer to move the project forward, while establishing clear milestones where Fundy Quay Developments Inc. increasingly commits to the project. At the conclusion of 2021, with the site infrastructure ready for delivery, Fundy Quay Developments Inc. are required to exercise the option to retain control of the site.

Upon EMG exercising the option agreement, they will enter a ground lease (to-own) agreement with the City of Saint John. The ground lease will last for a maximum of up to 25 years, with EMG required to purchase the site by the conclusion of the 25th year or at an earlier date.

The ground lease model provides several advantages which support the viability for the development of the Fundy Quay. Primarily, it offsets challenges in financing large land acquisitions, which typically require substantial down payments and have high interest rates. With the site challenges that already exist on the Fundy Quay, this approach helped to improve project viability and best positioned the development for early success.

Project Infrastructure Funding & Business Case

In February of 2021, \$15.15 Million in Federal and Provincial infrastructure funding was announced in support of the Fundy Quay project. This was in addition to \$3.27 Million already approved by the Federal Government for the seawall project.

The funding package represented a significant improvement in the overall value for the City's investment in the Fundy Quay, resulting in the improvement of several existing assets (that are near the end of their asset life) and future cost avoidance associated with the construction of several new priority assets, for which there will be public pressure to invest in future years. These include:

- ***The Repair and Raising of the Seawall.*** The seawall containing the Fundy Quay property has been in a state of disrepair for nearly two decades. Allowing further deterioration of the seawall could have significant financial repercussions for the City in the future. The scope of this project includes the repair of the seawall and the raising of the wall to address the long-term impacts of sea level rise.
- ***The regrading of the Fundy Quay site.*** With the seawall being raised roughly 1.5m – 2m in height, the City has the opportunity to maximize value on its agreement with Fundy Quay Developments Inc. by providing a development ready site. This includes the regrading of the Fundy Quay property to the new height of the wall.
- ***Soil Remediation and Management.*** In addition to site regrading, to meet the requirements of the agreement with Fundy Quay Developments Inc. in providing a development ready site, the City is also pursuing the remediation and management of contaminated soils. With the addition of up to 2 m of fill material, every opportunity will be explored to provide appropriate cap and cover and to manage contaminated materials on site.
- ***The refurbishment of Loyalist Plaza.*** Loyalist Plaza is approximately 40 years old. The physical infrastructure is near the end of its asset life, and the space is not designed to have a frontage on new development at the Fundy Quay. Interest in re-investing in this space has emerged in several instances in recent years, including in the Central Peninsula Neighbourhood Plan.
- ***Market Square Pedway Connection.*** A pedway connection from Market Square will be constructed linking the new development at the Fundy Quay into the broader indoor connection that the Saint John pedway system offers. This will support the economic health of municipal assets such as Market Square, the Trade and Convention Centre and will support an expedited build-out of the Fundy Quay project.
- ***The Extension of Harbour Passage.*** With the relocation of the Canadian Coast Guard operations to the industrial park, there are growing public expectations to extend waterfront access along the perimeter of the Fundy Quay property. The Harbour Passage extension will nearly double the length of urban waterfront access in the Uptown and further support alternative routes for active transportation and cycling.

Overall, the approved project scope and funding secure substantial public benefits and a strong return-on-investment for the City of Saint John and its federal and provincial partners. A summary of the funding breakdown is provided below.

Fundy Quay Tri-Lateral Funding Breakdown				
	Total Cost	Total Federal	Provincial	Municipal
Soil Remediation	\$4,121,000	\$0	\$0	\$4,121,000
Infill	\$2,500,000	\$0	\$625,000	\$1,875,000
Harbour Passage Phase 1, Loyalist Plaza, and Pedway	\$9,995,000	\$7,996,000	\$0	\$1,999,000
Harbour Passage Extension, Phase 2	\$2,675,000	\$1,070,000	\$1,382,750	\$222,250
Seawall Repair	\$8,175,000	\$3,270,000	\$3,240,000	\$1,665,000
Offsetting Community Development Fund Contribution to SJ Capital Budget	\$0	\$0	\$825,000	(\$825,000)
Total	\$27,466,000	\$12,336,000	\$6,072,750	\$9,057,250

A key benefit of this investment for the City will be revenue generated from two sources, the ground lease/sale of the land to the developer and the tax revenue generated from a high-density development. These are revenues that would be unlikely to be attained without the improvements proposed as part of this project. The agreement with the Developer establishes a value of \$6.45 Million for the improved property. This represents roughly 1.55 times the incremental investment in infrastructure proposed, meaning the City is positioned to recover its incremental costs through the land agreement. While the City is positioned to recover costs through the land agreement with the developer, the majority of municipal revenues will be generated through the development of the property. Preliminary estimates are that the development will generate between \$2 Million and \$3 Million in municipal property tax revenues annually at full build out.

Developer Option Agreement Requirements

The option agreement for the Fundy Quay ground lease sets out several developer requirements to be addressed within the first year of option. While there were some delays because of the timeline for infrastructure funding approvals, all the requirements were met by early 2021. This includes:

- The payment of a non-refundable \$250,000 option fee, which will be credited as the first lease payment;
- The acquisition of the portion of the Fundy Quay property owned by the Province of New Brunswick;
- Assembling a project team with the experience necessary to complete the development;
- The preparation of a concept plan and public engagement in coordination with the City of Saint John;
- To complete business and project plans demonstrating project viability and proposed phases for the development.

Infrastructure Design & Construction

Public Infrastructure

Since the formal launch of the project in late February 2021 significant progress has been made in moving forward the public infrastructure components of the Fundy Quay project. Progress on the major components is summarized below:

Seawall: As the first component of the project to receive infrastructure funding, design work for the seawall repairs is completed, the project was tendered, and the contractor was mobilized on site in April of 2021. The construction to repair and raise the seawall is broken into two phases. The first phase focuses on the southern portion of the seawall and is scheduled for completion by late September of 2021. The second phase of construction is along the northern portion of the seawall and is anticipated to be completed by the Fall of 2021. Currently, seawall construction is on schedule.

Site Works: The site works project includes both the soil remediation and management and the site regrading. Design and engineering services were retained in March of 2021 and this work has moved forward at an expedited pace. Currently concept design work has been completed and the consultant is moving forward with the preparation of detailed design drawings and the tender package. A tender release is planned for over the summer with construction beginning in late September or early October. This component of the project is phased in alignment with the seawall schedule, as the site regrading will follow the completion of each seawall phase. In fall of 2021, soil remediation and regrading work will be isolated to the southern portion of the site, with work beginning on the northern portion in fall of 2022.

Public Space: The public space includes both the redesign and construction of loyalist plaza in addition to extension of Harbour Passage along the perimeter of the Fundy Quay property. Architectural services were retained in February of 2021 and design work is proceeding quickly. To date, the first major phase of stakeholder and public engagement was completed, which included a digital public open house in April of this year. This formative engagement supported the project team in identifying solutions to foundational items which require consideration as part of the concept design, which included items such as the location of the stage, the location and design of the pedway connection, and options for the boardwalk and patio area. With this formative direction, the consultants are well into concept design. The concept design will be used to support the next phase of community engagement.

Construction of the public space component of the project will be phased and coordinated with the numerous municipal infrastructure projects occurring in the area. The first phase of construction is planned for this fall and will focus primarily on demolition, material salvage, infrastructure, and site regrading at loyalist plaza. New construction of loyalist plaza is planned for spring of 2022 and is anticipated to span the majority of the construction season. Harbour Passage will be phased to follow the completion of the siteworks project, with the majority of construction occurring in 2022 and 2023. The pedway connection is expected to be predominantly constructed offsite and could be in place in either late 2022 or 2023, subject to finalizing the design.

Current Status of the Private Sector Development

Fundy Quay Developments Inc. has continued to ramp activities towards the development of the interior of the Fundy Quay property. Design and engineering work in support of the project continues to progress and the development team has expressed intentions of undergoing the development approvals process this year. The current objective of the developer is to begin their first building in 2022, once the City completes the site regrading for the southern portion of the Fundy Quay property.

Important Project Considerations

Infrastructure Canada Timelines: At the last update to Common Council, a significant project risk was identified with regards to unachievable funding timelines for the public space component of the project. At this time, it was noted the Covid-19 resilience stream that the project was funded through required all work to be completed by December 31st, 2021. Since this update, the City has received an extension on the funding, providing an additional 2 years to complete the work and eliminating this project risk.

Managing Impacts on the Boardwalk Businesses: Construction activities at loyalist plaza and along the boardwalk pose a serious challenge to the businesses operating patios in this area, particularly given the impacts of Covid-19 on the financial health of all service industry establishments. Every effort is being made to identify opportunities to minimize and mitigate these impacts on the boardwalk businesses and communications with the North Market Wharf Cultural Association occurs on a weekly basis. Strategies to mitigate these impacts will be built into any tender documents released.

Harbour Passage as an Active Transportation Network: Harbour Passage offers an opportunity for Saint John residents to enjoy the waterfront and to travel within the City using active modes of transportation. The design of this segment of Harbour Passage will continue this active transportation linkage offering another alternative to Saint John residents.

STRATEGIC ALIGNMENT

The development of the Fundy Quay is aligned with Council's priorities of Fiscal Responsibility, Growth and Prosperity, and Vibrant Safe City and it is one of Saint John's three catalytic projects. It is also a strategic Growth Concept identified in the City's Central Peninsula Neighbourhood Plan.

SERVICE AND FINANCIAL OUTCOMES

The Fundy Quay public space improvements are part of a broader project to transform Saint John's urban waterfront, with an agreement for private sector development on the Fundy Quay site, creating a strong business case for the project. The Ground Lease with Fundy is based on a maximum value of \$6.45M and will generate initial lease payments of \$250,000 annually until purchased. The development of the site is anticipated to generate \$2M - \$3M in annual property tax revenue at full build out and securing the development has been instrumental

in the approval of an additional \$15M in federal and provincial infrastructure investments.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

N/A

ATTACHMENTS

N/A