

**Greek Community of Toronto
Hellenic Cultural Centre: Historical Report on Costs-To-Date**

This report was produced by a sub-committee of the Advisory Committee, the HCC Committee, and members of the current Board of Directors of the Greek Community of Toronto (GCT). The sub-committee consists of the following members:

Sub-Committee Chair	Mr. John Dagonas, Advisory Committee Member
Vice-Chair	Mr. Andonis Artemakis, Advisory Committee and GCT Director
Ex-officio member	Mr. Nikona Georgakopoulos, President, GCT
Ex-officio member	Mr. Yannis Kakagiannis, Vice President, GCT
Ex-officio member	Dr. George N. Nikopoulos, Vice President & Treasurer GCT

The primary author of this report is Mr. John Dagonas, with support from Dr. George N. Nikopoulos and Mr. Nikona Georgakopoulos.

Sourcing:

Information was obtained from interviewing the original building committee and management of the community, the architect, the project manager, the present management of the community and the information data obtained by reviewing various documents provided by all the above parties.

Disclosures:

Immediately and for the record, John Dagonas declares that one of his companies, which at the time he was involved with, performed some of the concrete finishing work in the referred structure for approximately \$70,000. The work was done for cost and, in addition, a donation was given to the Greek Community. Financial reports indicate that there was a loss to this company for this project.

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Part 1 – Historical Account of Land Purchase Details

Purchase of Land

There were two parcels "A" & "B" of land purchased by the GCT. The first parcel "A", was purchased from Daleridge Developments Inc., and the second parcel "B", was purchased from Canadian Mill Supply Co. Ltd.

Parcel "A"

On June 21, 1993 by court vesting order, a parcel of land was sold to Coffee Time for \$ 1,200,000. A mortgage was obtained by Coffee Time for \$ 900,000 from AETNA Trust at 8% interest; payments for the land by Coffee Time were \$ 6,686.00 per month.

In January 1994, an offer was made to Coffee Time for parts 1, 2, 3, and 4 in the amount of \$ 1,880,000 by DevCom Developments on behalf of Mobius Developments, but the deal did not proceed.

On November 20, 1997, part 1 was transferred to the City of Scarborough for \$ 625,0000

On November 8, 2000, Daleridge Developments Inc., purchased parts 2, 3, and 4, approximately 2.049 acres for \$ 1,025,000

On May 18, 2001, approximately six months later, Daleridge Developments Inc., sold the 2.049 parcel of land to the Greek Community of Metropolitan Toronto Inc., for \$ 1,500,000

A first mortgage for \$ 1,035,000 was obtained from DUCA Credit Union, and secured with some of the Community properties as collateral.

Parcel "B"

On July 4, 2001, the Community purchased an additional 2.000 acres of land from Canadian Mill Supply Co. Ltd.

Summary of Land Purchase*#

Parcel "A"	2.049 acres	\$ 1,500,000	Purchased on May 18, 2001
Parcel "B"	<u>2.000 acres</u>	<u>\$ 1.100,000</u>	Purchased on July 4, 2001
	4.049 acres	\$ 2,600,000	Total

The parcel of land that was purchased from Daleridge Developments Inc., for \$ 1,500,000 was sold by Coffee Time for \$ 1,025,000 less than six months prior.

**Records for the above transactions were provided for by Coffee Time's solicitor and from the Greek Community of Toronto's archives.*

Part 2 – Project Budgets, Project Costs-to-Date, Variances to Budget

Section A. Selection of Architect, Project Design, and Project Estimate

This section of the report attempts to elucidate the various reasons that resulted in excessive cost overruns that ultimately resulted in the stoppage of all construction. The information will be presented on a point by point basis, with clarified explanations in order to present an understandable conclusion of how decisions were made and why.

Although no documentation was available, we do believe that there was a review process in selecting the architect, HCA, and the subsequent signing of their contract.

Summary of Contract

<u>Contract</u>		<u>Actual to Date</u>	
Set Fee	\$ 800,000 (Approximately 10% of total cost)	Fee	\$ 784,000
Redesign	\$ 65,000	Redesign	\$ 157,000
Phasing	\$ 30,000	Misc. Others	\$ 32,538
Total	\$ 895,000	Total	\$ 972,538

Note: These costs will definitely increase since the building is not finished and HCA cannot abandon or be dismissed from the project, as HCA must certify, along with all the other HCA associated design consultants, the work done to date.

Upon the selection of the architect, various preliminary drawings were presented for approval by the HCC building committee. Once a design was agreed upon, schematic drawings were created along with accompanying project estimates by Helyar & Associates for a \$14,000,000 construction cost. The GCT's building committee considered the cost and relative size of the project to be prohibitive for the Greek Community of Toronto's needs and financial ability. HCA was asked by the building committee to modify the design, by removing a floor, roof garden, and patios, in an attempt to reduce the cost to approximately \$10 million.

On May 26, 2005, the changes were presented to the GCT building committee in the form of new schematics and a second round of estimates by Helyar & Associates for a total construction cost of \$13,500,000. This iteration of the schematic diagrams resulted in a 82,700 sq. ft. building, and the cost translated into a building that would cost \$163 per sq. ft to build. A suggestion was made by some members of the GCT's building committee to reduce the size, and concomitantly, the construction costs to a target of \$10 million. This target was the same target set after the initial estimate from Helyar & Associates.

The project's viability, and the GCT's financial ability to fund/finance a building with a total cost of \$14 million, was questioned and discussed by the GCT's building committee. The GCT's management team decided to proceed with the project as presented, however to split the project into two Phases (Phase I and Phase II). Suggestions from some members of the GCT building committee for a redesign were ignored and a decision was made to proceed with only half of the building (i.e. Phase I). Ultimately, Phase I represented 60% of the total area envisioned by this most recent redesign. The records show

that a structure of approximately 56,000 sq. ft. at a budgeted price of \$8.6 million was decided to proceed with (area of the HCC Phase I is confirmed to be 55,197 sq. ft.). Actual costs-to-complete are currently forecasting the HCC total project cost to reach a total of \$15 to \$16 million.

Section B. Construction Contract Options

In considering the construction of a building, the investor, or corporation involved in the undertaking has two primary options for Construction contracts, either: a fixed priced contract or a construction management contract.

Summary of a Fixed Price Contract

In a fixed price contract, the architect and owner invite construction companies to participate in the tendering of the project, providing one price to do all the work as specified in the drawings, management and supervision on a predetermined schedule. Other than justifiable change orders there are no changes made to the final fixed price. A key requirement of a fixed price contract is that the investor, or corporation, must have secured financing for the entire project (e.g. \$14 million for this project) before construction can begin.

Summary of a Construction Management Contract

In a construction management contract, work is based on a predetermined budget but the risk of the “upside liability” (unlimited ceiling for costs) is born by the investor or corporation that commissioned the project, not the contractor (in contrast to the Fixed Price Contract scenario). The construction manager is responsible for supervision, calls for various tenders for trades, and administers the accounting and budgeting process. The possibility of price fluctuations (i.e. risk) is high, since the construction manager is not financially incented to manage costs. Furthermore, multiple rounds of tendering, occurring at different points of constructions, can subject the construction project to inflationary pressure that directly impact the investor or corporation that commissioned the project. Note that fixed price contracts are also susceptible to inflationary pressures, however, the risk of the increased costs of raw materials and labour are borne by the general contractor, not the investor, or corporation that commissioned the project.

This decision to select a construction management contracts over a fixed price contract, is primarily driven by the reality that the project’s architectural drawings were incomplete or that the funds were not available. The lack of a complete set of architectural drawings, as well as a fully financed/funded project, impacted on the GCT’s management decision to proceed on the project using a construction management contract. Delays for weather, soil conditions, permits, incomplete drawings or problems with the various trades impact the schedule and the costs since the overhead costs need to be paid (it is very open-ended). The estimated budget for the project at this point was adjusted to \$10.1 Million. It should be noted that the “Glynn Group Budget Review Report, September 2007” stated the following in regards to the HCC construction budget:

“We note that the Budget does not include for any Tenant Improvements / Fit out Works. We note that the Budget does not include for specialty items such as Theatre Equipment or Audio/Visual Equipment. We understand that the Borrower will fund any costs for any such specialty items separately.”

Section C. Construction Management Contract Details

Steelcase Construction was selected as the construction manager. The contract between the GCT and Steelcase Construction was signed on July 6th, 2006, as follows:

Pre-construction Fee	\$6,500.00
Construction Fee	\$175,000.00
Total Fee:	\$181,500.00
Plus Post-Construction Fee	To-Be-Determined
Plus Reimbursable Expenses as follows:	
Steelcase management	\$95.00/hr
Project Manager	\$75.00/hr
Site Supervisor	\$75.00/hr
Project Co-ordinator	\$60.00/hr
Project Secretary	\$35.00/hr
Estimator	\$65.00/hr
Accounting	\$45.00/hr
Reception	\$30.00/hr

Relative to market prices and industry trends at the time, this was considered a good price. The reimbursable expenses are given in the list below; the rates charged for the reimbursable expenses are as given above.

1. Site Superintendent
2. Site Trailer, Fax, Furniture
3. Phones
4. Winter Heat
5. Surveying
6. Permit Fees
7. Water
8. Snow removal
9. Security
10. Testing
11. Labour
12. Legals, etc.

At the end, it was decided for the construction management to buy the concrete so that the GCT could benefit from the rebates offered by the concrete supply company.

Project was to start November 2005 and finish March 2007. The original schedule was for 62 weeks construction period. Since the project schedule was extended, the reimbursable costs of the construction manager also increased in the same proportion.

Summary of Fees Paid to SteelCase Construction

Concrete	\$410,000.00
Fees	\$357,000.00
Reimbursable Expenses	<u>\$815,000.00</u>
Total	\$1,582,000.00

Section D. Contaminated Soil Remediation Cost

Cost to remediate contaminated soil was \$377,000

During excavation, it was discovered that some of the soil was contaminated and needed to be removed from the site. The necessary testing was done and the process of removing and disposing all of the contaminated material was done. Above costs were for the removal and disposal of the contaminated material. Additional costs did occur for delays that this issue caused (analysis, testing, reporting, removal, etc.).

It should be noted that the solicitors of the GCT advised GCT management to conduct an environmental assessment before final closing on the purchase of the land.

Section E. Project Drawings

As discussed above, the total project budget was initially estimated by Helyar & Associates using schematic diagrams. The project proceeded without a complete set of architectural drawings, which impacted upon estimates for cost-to-complete in that there was no clear understanding on the cost-to-complete. Currently, there are no architectural drawings for the interior of HCC, beyond basic occupancy and life-safety requirements. A final, and accurate, cost-to-complete can only be estimated after the final architectural drawings for the finished interior of the HCC are completed. When combined with the already present risk of high exposure to inflationary pressures to the GCT, due to the use of a construction management contract, the result was an escalating budget that was a moving target as the final cost-to-complete and over project budget.

Section F. Budgeting Errors

Approximate cost \$1 million

Although this is not an exact and precise comparison, some of the budgeted figures were not accurate. An inaccurate final figure was used as a basis for a budgeted cost-to-complete of the building. For example, the masonry budget was underestimated by \$275,000, the mechanical was underestimated by \$300,000, the electrical was underestimated by \$160,000, etc. totalling approximately \$1 million. If the proper estimating based on proper drawings was completed accurately, the total budgeted cost would have been adjusted accordingly for all to know and make the proper decision.

At a meeting with the principal of Steelcase Construction it was stated that the budgeting errors were the direct result of engaging in construction activity for almost two years without a complete set of architectural drawings.

Section G. Design/Structural Deficiency**Approximate Cost to Remediate \$250,000 - \$320,000**

In December 2008, due to admitted design errors on the part of the structural engineer brought in as a consultant to the HCC building project, construction was halted in order to check the structural design of the building. Another two structural engineers were employed to verify what the issues were and to develop a remediation plan. The first structural engineer was hired by HCA, which completed a complete structural review of the HCC plans; the second engineer was hired by the insurance company of the structural engineer. A settlement was finally agreed to in July 2010 and funds totalling \$250,000 were paid to the GCT in January 2011. No remediation work has taken place. It should be noted that the settlement paid by the insurance agency, on behalf of the original structural engineer for the HCC, had a maximum errors and omissions liability coverage of \$250,000.00. The total errors and omissions liability coverage was only 0.025% of the total projected HCC construction budget.

A review of GCT minutes, and discussion with previous GCT Directors, suggests that apparently there was no full-disclosure of the design and structural deficiency at the HCC to the full GCT Board of Directors, prior to 2010.

Section H. Failures in Financing and Fundraising Campaign

Weak results from a poorly organized and run fundraising campaign resulted in borrowing funds instead of taking measures to properly structure an effort that will at least bring 3 million dollars to the community. This fundraising effort should have started from 2003 or even earlier so the strength of the community could be evaluated and determined to not enter into a contract without at least 50% of the funds available.

Section I. Labour and Material Cost Increases

Due to the schedule being extended from around 60 weeks to 88 weeks along with the two stoppages of 3 years, labour and material costs averaged a 5% increase per year. Toronto Construction Association records indicate this to be the average increase.

Section I. Holding Costs

Since construction was halted in 2008, there have been on-going costs to maintain and finance the building, referred to as “Holding Costs”. A summary of the cumulative total holding costs between January 2009 to May 2011 are as follows:

Financing of HCC Construction Loan (2009, 2010, 2011)	\$791,380.00
Total Security Guard and Systems	\$120,000.00
Total Fencing Rental Costs	\$80,260.00
Total Onsite Washroom Rental	\$8,700.00
Total Onsite Telephone Costs	\$2,000.00
Total Support Structure Costs	\$22,765.00
Total Insurance Costs	<u>\$39,750.00</u>
Total	\$1,064,855.00

Part 3 – Outstanding issues/Considerations related to sale of the project

- ITEM 1** It was brought to the attention of this sub-committee during this review process that an invoice for \$380,000 from Steelcase Construction may exist and has not been paid. There is no record from the auditors for the FY 2008 and FY 2009, of any outstanding invoices from Steelcase relating to the HCC construction, and there was no evidence of this invoice in the archives of the GCT accounting offices. The invoice in question is dated December 29th, 2009 was apparently approved by the building committee representatives earlier in 2009. No explanation for the delay in submitting the invoice has been found nor given.
- ITEM 2** Facing stone material worth \$150,000 was purchased and paid-in-full. It is likely that this material has been damaged and will not be able to be used in construction.
- ITEM 3** Most of the steel doors have been purchased but they are stored at one of the subcontractor sites (estimated value \$20,000). The Purchase order for the doors was submitted in March 2009 after construction was halted in response to the identified structural deficiency.
- ITEM 4** Some of the subcontractors have not yet been paid (estimated accounts payable of \$250,000).
- ITEM 5** For the existing trades that commenced work but did not finish, there is an outstanding balance of \$800,000. Revised contractual agreements will need to be executed, and additional costs defined.
- ITEM 6** Damages from the design errors will need to be corrected and repaired (estimated rate of \$250,000 - \$320,000).
- ITEM 7** Monthly expenses for security, fencing, and shoring, etc., are ongoing.
- ITEM 8** Existing agreements with Ontario and Federal government suggest a potential repayment of \$1.8 million, should the building be sold. This needs to be clarified with the responsible ministries.
- ITEM 9** We need to find a way to get an agreement from all of the consultants to sign off for all of the work performed to date. This is the reason that all damages will need to be repaired.
- ITEM 10** Obtain warranties, guarantees, maintenance instructions, clearance certificates, etc.

ITEM 11 Summary of construction spend, cost-to-complete the building from its current state, equipment purchases require to fit-out the completed building to purpose, plus the cost of the working capital for the operating the start-up of the operation over the first five years of operation.

Item	Total Cost	Per Square Foot Cost[#]
Total Construction Cost-To-Date (as at Dec. 31, 2010)	\$9,442,628.00	\$171/sq. ft (to-date)
Cost-To-Complete Building*	\$7,500,000.00	\$136/sq. ft
Total Construction Costs	\$16,942,628.00	\$303/sq. ft
Cost of Land	\$2,600,000.00	
Total Construction and Land Costs	19,300,000.00	\$350/sq.ft
Plus: Post Construction Equipment Purchase-To-Fit*	\$1,600,000.00	
Plus: Maximum Working Capital Required To Fund Start-up of HCC Operations (over 5 years of operation)*	\$3,000,000.00 est.	
Total Final All-In Cost-To-Complete construction, Equip-To-Fit, Purchase Land, Fund start-up of Operation over first 5 years	\$23,900,000.00	

[#]Building size is projected to be 55,167 sq. ft

*As projected by the SECOR Group HCC Business Plan October, 2010

(Note: the HCC Business Plan developed by SECOR changed the scope and purposing of the building to fit the SECOR Group HCC Feasibility Plan of September, 2010)