



COUNCIL REPORT

Report Date: August 28, 2023
Contact: Sandra Singh
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RTS No.: 15918
VanRIMS No.: 08-2000-20
Meeting Date: September 12, 2023
[Submit comments to Council](#)

TO: Vancouver City Council

FROM: General Manager of Arts, Culture and Community Services

SUBJECT: 3575 Kaslo Street - Approval for an Increased Capital Grant Due to Cost Escalation for a 74-Space Childcare Facility

Recommendations

- A. THAT Council approve an additional one-time capital grant of up to \$2,130,000 to the Provincial Health Services Authority (“PHSA”) as a contribution to the escalation of construction costs of a 74-space licensed childcare facility at 3575 Kaslo Street, legally described as PID: 006-798-128 Lot 2 Block F Section 44 Town of Hastings Suburban Lands Plan 11660 (the “Lands”), which Lands are owned by British Columbia’s Children’s Hospital Foundation (“BCCHF”) and which childcare facility will be owned by PHSA.
- B. THAT subject to approval of recommendation A, Council approve an increase to the Multi-Year Capital Project Budget of the childcare facility at 3575 Kaslo Street project by \$2,130,000 from \$8,900,000 to \$11,030,000. The funding source will be the City-wide Childcare Development Cost Levies (DCLs).

Recommendation A authorizes a grant which requires two-thirds affirmative votes of all Council members per section 206 (1) of the *Vancouver Charter*.

Purpose and Executive Summary

This report seeks Council approval of an additional one-time capital grant of up to \$2,130,000 to Provincial Health Services Authority (PHSA), as part of the City’s contribution towards 50% of the estimated cost escalation for the 74-space childcare facility located at 3575 Kaslo Street. The recommended funding source for the additional grant is City-wide Development Cost Levies (DCLs) for childcare.

Council Authority/Previous Decisions

- In January 2023, Council approved the CD-1 Rezoning (RTS 15414) application for 3575-3655 Kaslo Street, 3580-3644 Slocan Street and 2755 East 21st Avenue (RTS 15414) from RS-1 (Residential) District to CD-1 (Comprehensive Development) District.
- In June 2022, Council approved [Making Strides: Vancouver's Childcare Strategy \(RTS 14540\)](#) to support implementation of a senior government-led universal childcare system.
- In December 2021, Council approved a capital grant of up to \$8,900,000 to PHSA (RTS 14592) as a contribution towards the construction costs of a 74-space childcare facility at 3575 Kaslo Street.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

While the mandate for childcare provision rests with senior governments, the City recognizes the importance of affordable, accessible and quality childcare to the social and economic sustainability of Vancouver's families and neighbourhoods.

PHSA approved the conversion of the former site of the Sunny Hill Health Centre (3575 Kaslo Street) into an innovative new centre for children and youth with complex health-care needs. PHSA's original plans on the site at 3575 Kaslo Street included a 37-space standalone childcare on the north-western portion of the parcel. Through discussions between PHSA and the City of Vancouver, and due to the significant childcare need in the area, the City agreed to fund an additional 37 spaces on the Lands. Pending approval of funding from the City of Vancouver, PHSA committed to expanding to a 74-space licensed childcare facility, doubling the size. The 74-space facility will consist of 24 spaces for children under 3, and 50 spaces for children aged 30 months to school age. In 2021, the total project cost for a 74-space facility was estimated at \$17,800,000, with a 50% contribution from the City of Vancouver.

In December 2021, Council approved a capital grant (RTS 14592) of up to \$8,900,000 to the Provincial Health Services Authority (PHSA) as a contribution towards 50% of the construction costs of a 74-space licensed childcare facility.

Due to significant construction cost escalation, estimates for the childcare project have increased by \$4,260,000.

Discussion

In addition to the one-time capital grant in the amount of up to \$8,900,000, Council also approved authorization to enter into legal agreement with PHSA to secure the childcare use on the site and set parameters around the City's financial contribution. Council approved childcare

as an allowable secondary use on site. A copy of the signed Memorandum of Understanding, is attached as *Appendix A*.

At the Ministry of Health’s request, PHSA completed a Class C cost estimate in July 2023. The estimated cost of the childcare facility increased from \$17.818M to \$22.078M, which represents an increase of about \$4.26M, due exclusively to construction cost escalation. In general, cost escalation is impacting capital projects in all communities and across all levels of government. High inflation and interest rates, labour shortages, supply chain disruptions stemming from the pandemic, war in Ukraine, regional flooding events, and a host of other factors have contributed to escalation. PHSA did the cost exercise at the Ministry of Health’s request to give them a preliminary idea of the cost pressures.

Based on the previously agreed funding formula, 50% of the cost escalation (\$2.13M) is to be covered by the City.

Financial Implications

If the recommendations on this report are approved, the multi-year capital project budget for this project will increase by \$2,130,000. Expenditures for 2023 will be managed within the current overall annual capital expenditure budget. The funds for this adjustment will come from the current uncommitted balance of the City-wide Childcare DCL reserve.

Any additional cost escalation with this project is expected to be managed within the approved budget.

Funding source:	Original Capital Grant (Nov. 2021)	Recommended additional Capital Grant (Sept. 2023)	Total Capital Grant
City-wide DCLs for childcare	\$6,230,000	\$2,130,000	\$8,360,000
Provincial childcare contribution to City	\$2,670,000	-	\$2,670,000
Total:	\$8,900,000	\$2,130,000	\$11,030,000

CONCLUSION

Despite the increased costs as a result of escalation, the childcare project located at 3575 Kaslo Street remains a unique and important opportunity to bring a significant childcare facility to an underserved area of the City. The equal cost-sharing arrangement is also an innovative approach to delivering a public benefit, without the City taking on any additional long term asset management responsibilities.

APPENDIX A MEMORANDUM OF UNDERSTANDING

MEMORANDUM OF UNDERSTANDING REGARDING CITY CONTRIBUTION TO CONSTRUCTION OF A NEW LICENSED CHILDCARE FACILITY AT 3575 KASLO STREET

(this “MOU”) dated for reference December 8, 2021 (the “Effective Date”),

BETWEEN: **CITY OF VANCOUVER**
453 West 12th Avenue, Vancouver, British Columbia, V5Y 1V4
(the “City”)

AND: **PROVINCIAL HEALTH SERVICES AUTHORITY**
200 – 1333 West Broadway, Vancouver, British Columbia, V6H 4C1
(“PHSA”)

WHEREAS British Columbia’s Children’s Hospital Foundation (“BCCHF”) is the registered owner of 3575 Kaslo Street, legally described as PID: 006-798-128 Lot 2 Block F Section 44 Town of Hastings Suburban Lands Plan 11660 (the “Development Site”) and PHSA leases or will lease the Development Site from BCCHF pursuant to a long-term ground lease for the purpose of constructing a new stand-alone 37-space licensed childcare facility thereon;

AND WHEREAS the City wishes PHSA to deliver a larger 74-space licensed childcare facility on the Development Site (the “New Licensed Childcare Facility”) and has agreed to provide funding to enable the New Licensed Childcare Facility to be built;

AND WHEREAS, the City intends to request its elected Council to make a money grant pursuant to Section 206 of the *Vancouver Charter*, and authorize staff to execute this MOU and negotiate and enter into a Grant Agreement with PHSA and such other legal agreements as may be required (including, without limitation, a Section 219 Covenant) to seek funding contribution for an incremental additional 37 childcare spaces;

AND WHEREAS PHSA is required to prepare and submit a Business Plan (the “Business Plan”) to the Treasury Board of the Province of British Columbia (the “Treasury Board”), outlining the anticipated development costs of the New Licensed Childcare Facility, in addition to any funding or contribution agreements from sources other than the Province of British Columbia, in order to secure funding to proceed with the design and development of the New Licensed Childcare Facility;

AND WHEREAS PHSA, as the lessee of the Development Site, anticipates procurement of the construction contractor to follow a Design Build process, whereby multiple Design Build proponents will be invited to bid on the project, each of which will be responsible for the selection of a consultant team, management of the design, and if selected as the preferred proponent, enter into a Design Build Agreement for the construction of the New Licensed Childcare Facility;

AND WHEREAS PHSA, in support of the Design Build procurement and construction process, will be responsible for the selection of a full consultant and contractor team that will serve a compliance function for the design and construction of the New Licensed Childcare Facility, including the preparation of design requirements and other technical specifications that the Design Build proponents must achieve through the procurement process (collectively, the “Design Activities”);

NOW THEREFORE while this MOU does not create legally binding rights or obligations (other than as specifically set out herein which the parties agree they have exchanged good and valuable consideration), the parties wish to confirm their mutual intentions as follows:

1. Term – The term of this MOU (the “Term”) shall start on the Effective Date and continue until the later of:

- (a) confirmation of the funding contribution towards the New Licensed Childcare Facility by City Council, or
- (b) finalization and execution of the Grant Agreement, or
- (c) confirmation of the funding requested by PHSA from the Treasury Board, or
- (d) December 31, 2022, unless the parties otherwise agree in writing.

2. Section 219 Covenant – PHSA will provide or cause to be provided full-time licensed childcare services within the New Licensed Childcare Facility which meet the City’s requirements, for 60 years or the life of the New Licensed Childcare Facility, whichever is longer. Such commitment will be evidenced by a Section 219 Covenant in favour of the City which will be registered against PHSA’s leasehold interest in the Development Site or portion thereof containing the New Licensed Childcare Facility.

3. Lease of New Licensed Childcare Facility – PHSA will lease the New Licensed Childcare Facility to a preferred child daycare operator which will be determined by way of an RFP. The form of lease will be generally consistent with the City’s form of non-profit childcare lease, which the City will provide to PHSA. Such lease will be subject to such amendments as are required by PHSA, the Ministry of Health and/or the Health Care Protection Program.

4. Option to Purchase – Prior to issuance of a development permit for the New Licensed Childcare Facility, the parties will collaborate with BCCHF to amend the Option to Purchase registered on title to the Development Site under No. 241788M (as modified) to expand the allowable uses so as to permit the Development Site to be used for childcare purposes.

5. Design – The design of the New Licensed Childcare Facility will adhere to the City Childcare Design Guidelines and the City Childcare Technical Guidelines dated January 2019 (together, the “Guidelines”).

6. PHSA Business Plan Budget Development – PHSA is required to prepare a comprehensive capital budget as part of the Business Plan that is submitted to the Treasury Board. The capital construction costs are based on a Class C cost estimate prepared by a qualified quantity surveyor, which are required to include construction cost escalation reflective of the construction schedule developed as part of the Business Plan. Additional costs, including contingencies and management reserves are also included in the project budget, so as to maximize the chances that the budget, if approved by the Treasury Board, is sufficient to complete the project. All budget items are validated with the Ministry of Health prior to submission to the Treasury Board.

7. City Funding Commitment – The City will provide a maximum upset contribution by way of a grant in support of the New Licensed Childcare Facility. The final maximum grant allocation will consider the Business Plan budget, as outlined in Section 6.

8. Design Costs – During the Term and prior to the finalization and execution of the Grant Agreement, PHSA will carry out the Design Activities and pay when due all out-of-pocket costs associated with Design Activities (“**Design Costs**”). PHSA will keep accurate records of all Design Costs incurred.

9. City Payment of Design Costs – *This provision is specifically binding on the parties hereto.* Providing City Council has approved the grant contemplated herein towards the New Licensed Childcare Facility and PHSA has received approval of the Business Plan, the City agrees to reimburse PHSA for the City’s share of Design Costs incurred by PHSA during the Term upon receipt of an invoice from PHSA following the first to occur of: (i) the execution of the Grant Agreement; or (ii) the end of the Term. PHSA will promptly provide to the City copies of such backup documentation as the City may reasonably request. This provision shall survive any termination or expiry of this MOU.

10. Grant Agreement – Prior to the execution of a construction contract between PHSA and the preferred contractor, the parties shall use good faith efforts to finalize and execute a Grant Agreement, which will include the following provisions:

- (a) Cost Sharing – The cost-sharing formula for all costs of the New Licensed Childcare Facility (including the Design Costs) will be finalized in the Grant Agreement; however, the following guiding principles apply:
 - (i) All costs will be shared equally between the parties except as follows:
 - (A) utility upgrades required for connection to the New Licensed Childcare Facility will be borne by the PHSA (assuming a 37-space facility) and incremental cost increases based on the 74-space New Licensed Childcare Facility will be borne by the City; and
 - (B) the City will be responsible for any incremental costs associated with modifications to the building design from that prepared in the Business Plan (attached to this MOU for reference) in order to accommodate existing mature trees.
 - (ii) The processes for determining the incremental costs noted above include:
 - (A) Utility costs: Requesting from the design build proponents an outline of the utility requirements for a 37 space licensed childcare and a 74 space licensed childcare, and associated cost for both options.
 - (B) Tree retention costs: both parties will work with a qualified quantity surveyor to prepare a cost estimate based on the design prepared during the Business Plan process (the “**Business Plan Option**”) relative to the final design prepared through the design build procurement process (the “**DB Option**”). This cost estimate will only factor in construction related costs, and will not consider soft costs, furniture or equipment, as these are assumed to be equivalent irrespective of the final design. This cost will be prepared independently from the design build procurement process, but will establish a cost ratio of the Business Plan Option cost relative to the DB Option cost. Design assumptions (i.e. systems, materials, etc.) will be consistent between the two options. This ratio will then be applied to the design build contract cost to determine any cost premium (or discount) based on a tree retention design.
 - (iii) Notwithstanding the foregoing and subject to Section 15 below, the City’s maximum contribution will be up to \$8,900,000 and will be disbursed on actual project costs.

- (iv) If the cost of construction of the New Licensed Childcare Facility exceeds its total budget of \$17.8M as prepared by PHSA and reviewed by City staff, and the project team is not able to find sufficient savings after a value analysis of the project is completed as outlined in Section 12 herein, the City will consider sharing such costs unless the cost over-run is a result of the delay due to project management by PHSA related to the design and construction of the New Licensed Childcare Facility. Any additional City contribution will constitute an additional grant requiring prior Council approval.

11. Accounting – If there are material budgetary reasons why the City wishes to either bring forward or delay City contribution payments relative to when invoices are received by PHSA, the parties will review the schedule outlined in the Business Plan for the design and construction of the New Licensed Childcare Facility so as to determine the preferred timeframe for the City contribution payments, providing that PHSA is able to accommodate such requests and agrees to do so, as evidenced in the Grant Agreement or in writing.

12. Scope Ladder – In case the New Licensed Childcare Facility budget is challenged, the parties will use good faith efforts to develop a mutually agreed to scope ladder that may contemplate the requirements set out in the Guidelines, the number of childcare spaces or other items that will have a material impact on reducing the construction costs, such scope ladder to be detailed in the Grant Agreement.

13. City Assistance - If deemed a requirement, the City will make commercially reasonable efforts to provide staff resources without cost to the PHSA or the project, for all aspects of the project directly related to the New Licensed Childcare Facility. The City will confirm which staff resources are available to the project team following Treasury Board approval of the Business Plan.

14. Effect of MOU – While this MOU does not create legally binding rights or obligations, the parties wish to confirm their mutual intention to facilitate the development of the New Licensed Childcare Facility. Except as provided in section 9 above the parties hereto agree that in no event does this MOU constitute a formal or binding agreement and that the provisions hereof are not binding on either party. The provisions of section 9 are intended to be and shall be legally binding upon the parties. The legal rights and obligations of the parties hereto shall be only those which are set forth in the Grant Agreement (and any other agreements contemplated thereby) when and if executed and delivered by both the parties hereto. Neither the expenditure of funds nor the undertaking of actions in furtherance of the transaction contemplated by this MOU shall be considered partial performance or constitute a binding agreement, nor shall it be the basis for any reliance upon the terms of this MOU by any party.

15. MOU Does Not Fetter Council Discretion - PHSA acknowledges that all covenants and obligations of the City are subject to approvals by Council and without limiting the foregoing, nothing herein shall fetter the discretion of Council, including in respect of its decision to support the amendment to the Option to Purchase, contribute towards the construction of the New Licensed Childcare Facility through the making of a money grant pursuant to Section 206 of the Vancouver Charter, or approve a zoning amendment permitting the New Licensed Childcare Facility as contemplated by PHSA. Notwithstanding the foregoing, the City shall be obligated to honor any legal commitments it has specifically made herein or that it will make in the Grant Agreement (or any other legally binding agreement).

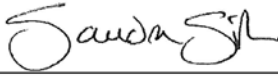
16. Counterparts – This MOU may be executed in counterparts, each of which shall constitute an original and all of which taken together shall constitute one and the same instrument. A party's transmission by facsimile or electronic mail transmission of a scanned copy of this MOU bearing that party's signature shall

constitute an effective execution and delivery of this MOU by that party to the party receiving the transmission.

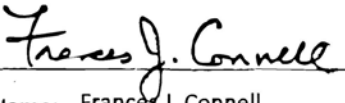
The parties have executed and delivered this MOU below on the dates set out below:

CITY OF VANCOUVER

by its authorized signatory(ies):



Name: Sandra Singh
General Manager,
Title: Arts, Culture & Community Services



Name: Frances J. Connell
Title: Director of Legal Services/City Solicitor

PROVINCIAL HEALTH SERVICES AUTHORITY by
its authorized signatory(ies):



Name: Susan Wannamaker
Title: EVP, Clinical Service Delivery,
PHSA



Name: Scott MacNair
Title: EVP, Business Operations,
PHSA