Agenda - Executive Policy Committee - July 18, 2007

Report - Standing Policy Committee on Property and Development - July 13, 2007

Item No. 6 Public-Private Partnership - East District Police Station - RFP Bid Evaluation
(St. Boniface Ward)
File GF-2

STANDING COMMITTEE RECOMMENDATION:

On July 13, 2007, the Standing Policy Committee concurred in the administrative recommendation and submits the following to Council:

1. That an award of a Public-Private Partnership (P3) contract be approved to Huntingdon Real Estate Investment Trust for the development and operation of the East District Police Station pursuant to RFP Bid Opportunity No. 673-2006 based on a 30-year lease term.

2. That the Chief Administrative Officer be delegated the authority to finalize the terms and conditions of the Project Development Agreement and Lease Agreement in order to achieve the intent of Council.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Agenda - Executive Policy Committee - July 18, 2007

Report - Standing Policy Committee on Property and Development - July 13, 2007

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On July 13, 2007, the Standing Policy Committee concurred in the administrative recommendation and submitted the matter to the Executive Policy Committee and Council.

RE: A Public - Private Partnership for East District Police Station Development and Operation: RFP Bid Opportunity 673-2006 Proposal Evaluation

FOR SUBMISSION TO: Standing Policy Committee on Property and Development

ORIGINAL REPORT SIGNED BY: Acting Director, Planning, Property and Development Department

REPORT DATE: July 9, 2007

RECOMMENDATION:

1. That Council approve an award of a Public - Private Partnership (P3) contract to **Huntingdon Real Estate Investment Trust** for the development and operation of the East District Police Station pursuant to RFP Bid Opportunity No. 673-2006 based on a 30 year lease term.

2. That Council delegate authority to the Chief Administrative Officer to finalize the terms and conditions of the Project Development Agreement and Lease Agreement in order to achieve the intent of Council.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report Summary

Key Issues:

- **There are three (3) decisions required to proceed with development of the new East District Police Station, namely:**
    1. **Which Proposal to select in response to RFP Bid Opportunity No. 673-2006 as the Preferred Proponent;**
    2. **Whether to proceed with development of the East District Police Station as a:**
        a. **P3 by exercising the Preferred Proponent's purchase option upon total completion pursuant to the RFP and Proponent Proposal, or**
        b. **City-tendered construction project; and**
    3. **If proceeding with a P3, whether to exercise the purchase option upon total completion or lease for 10, 20, or 30 years.**

  Each of these required decisions are analyzed in the report contained herein.

- **Should development of the new East District Police Station be further delayed, costs above and beyond those identified in this report will likely result. As well, additional costs and significant implementation delays for the PSB Cladding Replacement Project will also likely result.**
- **Based on the costs set out in the Preferred Proponent's Proposal, a decision to lease from the Preferred Proponent for a 30 year term and proceeding with project procurement and possible lease of the proposed new West and North District Police Stations is forecasted to not require any funding adjustment to the 2007 Capital Budget or 2008 to 2012 Five Year Forecast.**
- **Additional Capital Budget will be required from 2013 to the expiration of the lease for the East District Police Station and potential leases of the North and West District Police Stations to fund the related annual lease payments.**
- **Inclusion on the July 18, 2007, Council meeting agenda is required to avoid additional costs and significant implementation delays for both the East District Police Station and PSB Cladding Replacement Project. Further, the Proposal received from the Preferred Proponent remains open for acceptance by the City until September 15, 2007.**

Implications of the Recommendation(s):

General Implications

( ) None

( ) For the organization overall and/or for other departments

( ) For the community and/or organizations external to the City

(X) Involves a multi-year contract

Comment(s):
This report recommends leasing the new East District Police Station for a 30 year term.

Policy Implications

(X) No

( ) Yes

Comment(s):

Regulatory Implications

(X) None

( ) Eliminates or reduces regulatory impact

( ) Proposes regulatory impact

Comment(s):

Environmental Implications

(X) No

( ) Yes

Comment(s):

Human Resources Implications

(X) No

( ) Yes

Comment(s):

Financial Implications

(X) Within approved current and/or capital budget

( ) Current and/or capital budget adjustment required

Comment(s):

While no additional Capital Budget is required during the timeframe of the existing approved Capital Budget and adopt-in-principal Five Year Forecast, there will be a requirement for additional capital funding from 2013 to the expiration of the lease in 2037 to fund the annual lease payments for the East District Police Station.

Report

REASON FOR THE REPORT:

On February 21, 2006, Council approved the 2006 Capital Budget and the 2007 to 2011 Five-Year Forecast and recommended, along with the budget, that the Administration identify, investigate, and recommend Private - Public Partnerships for the Four District Model project.

The Standing Policy Committee on Property and Development has delegated authority to approve third party leases except where the term is in excess of 10 years or the net cost to the City is in excess of $1,000,000. Third party leases under those criteria shall be subject to review by Council.

HISTORY:

On March 15, 2006, Council approved that the WPS new East District Police Station be located on City-owned land within the St. Boniface Industrial Park.

On September 28, 2005, Council adopted the recommendation from the then Standing Policy Committee on Fiscal Issues relating to integration of the Public Safety Building Cladding Replacement project and Four District Model project, including increased project estimates.

On July 23, 2003, Council approved implementation of the WPS Four District Model. The current WPS six district service delivery model is based on a municipal structure which existed prior to 1971. Contemporary policing issues led the WPS to review this service delivery structure and recommend realignment from six to four districts.

DISCUSSION:

Executive Summary

The subject of this report and the associated RFP is the new East District Police Station to be located at 1750 Dugald Road within the St. Boniface Industrial Park. The RFP requested Proposal submissions for financing, construction, and lease of the proposed new East District Police Station.

Four (4) Proposals were received by the submission deadline with two (2) of the Proposals being determined to be non-responsive by the Manager of Materials and, therefore, not considered further. The Proposal received from Huntingdon REIT received the highest Total Proposal Score and is recommended as the Preferred Proponent.

Having identified the Preferred Proponent, two (2) further decisions are required prior to proceeding with development of the East District Police Station. First, whether to proceed with development as a P3 by exercising the Preferred Proponent's purchase option upon total completion or proceed with a City-tendered construction project, and second, if proceeding with a P3, whether to exercise the purchase option upon total completion or lease for 10, 20, or 30 years. Analysis of these two requirements resulted in the following:

1. Selecting to proceed with development as a P3 and exercise the Preferred Proponent's purchase option upon total completion would benefit the City an estimated $618,000 to $1,096,000 compared to proceeding with a City-tendered construction project.

2. If the City is planning to operate the East District Police Station for less than 20 years, selecting to exercise the Preferred Proponent's purchase option upon total completion would benefit the City an estimated $185,000 (10 year comparative lease/buy analysis) and $539,000 (20 year comparative lease/buy analysis) as opposed to leasing. However, if the City is planning to operate the East District Police Station for 30 years, it becomes more advantageous selecting to lease rather than purchase from the Preferred Proponent by an estimated $373,000 (30 year comparative lease/buy analysis).

As it is reasonable to anticipate that district policing operations and the requirement for associated regional stations is likely to remain in the medium to long-term, utilization of the East District Police Station is likely to extend beyond 30 years and it is recommended that the City enter into a Project Development Agreement with the Preferred Proponent and elect to lease for a 30 year term. Note the City would retain options to purchase the station in years 10, 20, and 30 of the lease term.

Based on the costs set out in the Preferred Proponent's Proposal, electing to lease from the Preferred Proponent for a 30 year term and proceeding with project procurement and potential lease of the new West and North District Police Stations is forecasted to not require any funding adjustment to the 2007 Capital Budget or 2008 to 2012 Five Year Forecast.

Project Description and Objectives

Contemporary policing issues led the WPS to recommend realignment from the current six district municipal police service delivery structure to a four district model.

Council approved the WPS “Four District Model” based on the business case identifying the Four District Model as the best option, both from a financial and operational perspective. In addition, Council subsequently approved the integration of the PSB Cladding Replacement and Four District Model projects to implement both these WPS accommodation initiatives (among others) at the least cost, highest investment in assets with future economic value, and minimization of expenditures for temporary accommodations i.e, “throw away” cost.

The realignment from six to four districts, as contained in the WPS Four District Model, requires the replacement of five existing police locations with three newly constructed district police stations. The subject of this report and the associated RFP (Bid Opportunity 673-2006) is the new East District Police Station to be located at 1750 Dugald Road within the St. Boniface Industrial Park. Such development will replace the existing District 4 and District 5 Police Stations which are presently located at 227 Provencher Boulevard and 730 Pandora Avenue, respectively. Construction Documents for the new East District Police Station at the project site had already been prepared by Number 10 Architectural Group.

The RFP was seeking Proposal submissions for financing, construction (inclusive of site work), and lease (inclusive of select operations and maintenance), of the proposed approximate 3,066 square metre (33,000 square foot) district police station at the existing City-owned site located at 1750 Dugald Road (title of which to be transferred to the Preferred Proponent upon the project’s substantial performance for nominal consideration of one Canadian Dollar) or at an alternate site as may be proposed and that was acceptable to the City. Upon completion of the newly developed East District Police Station, it may be leased to the City as tenant or purchased outright by the City. Specifically, the RFP requested that Proposals include lease rate(s) for a thirty (30) year term as well as provision for two ten (10) year renewal options (total potential term of 50 years). In addition, all Proponents were requested to specify leasehold improvement allowances to be provided in each of years seven (7), fourteen (14), and twenty-one (21) of the initial lease term. Finally, Proponents must have specified purchase (buyout) options exercisable at the discretion of the City at the end of construction (total performance), as well as at the end of years ten (10), twenty (20), and thirty (30) of the initial lease term (see Schedule A: *Summary Lease Terms and Conditions* and Schedule B: *Project Development Agreement*).

The objectives of this project are to:

A. provide a new East District Police Station that meets all the operational needs of the WPS;
B. obtain a competitively priced facility; and
C. utilize private sector innovation and expertise to achieve implementation in a timely manner.

It is anticipated that this Private-Public Partnership will create a linkage between the valued services required by the citizens of Winnipeg and an effective and efficient process for acquiring the assets necessary in the delivery of those services.

The objective of the RFP was to:

> Obtain accurate, complete, and comprehensive Proposals for the project that meets all requirements as contained in this RFP. Proposals should be clearly understandable and all uncertainties should be reasonably qualified and documented.

Proposal Submissions

Four (4) Proposals were received by the submission deadline (4:00 p.m., Friday, May 18, 2007). Two (2) of the Proposals were determined to be non-responsive by the Manager of Materials as both were received without the specified bid security. As such, both were not considered further or evaluated by the Evaluation Committee.

The Manager of Materials has advised that each responsive Proposal submission was accompanied by a Bid Bond and an Agreement to Bond, both of which have been certified by Legal Services. Planning, Property and Development is satisfied that the Proponents have the necessary resources and experience to complete development in accordance with the requirements of the RFP. The lapse date for the Proposals is September 15, 2007.

Proposal Evaluation

Evaluation Committee

The Evaluation Committee members assembled to assess and evaluate Proposals received from this RFP were selected based on their training and experience related to the evaluation process and associated criteria.

Evaluation Process

Evaluation Committee members assessed each Proposal received for compliance with the proposal requirements contained in the RFP. Proposals determined to be non-responsive were not considered further and respective Proponents were informed accordingly.

Responsive Proposals were evaluated based on the Evaluation Formula set out in the RFP. Specifically, the Evaluation Committee evaluated each Proposal by assigning, depending on the respective criterion, either (1) Pass or Fail or (2) the following rating system:

Rating	Description
5	Excellent
4	Above Average
3	Average
2	Below Average
1	Poor

to each of the following Evaluation Criteria:

Criterion	Weight	Evaluation Methodology
Mandatory Requirements	**Pass/ Fail**	Evaluation of Proposal completeness, existence of obscure or conditional terminology, existence of additions, deletions, alterations or other irregularities, etc.
Financial Capacity	**Pass/ Fail**	Evaluation of Proponent's financial ability to complete the project, equity contribution to the project, borrowing capacity, appropriate financial references, etc.
Proponent Experience	**2**	Evaluation of Proponent's experience in similar developments, facility operation.
Lease Rate(s)	**5**	Evaluation of lease rate(s) utilizing discounted cashflow (net present value). The Proposal which results in the lowest discounted cash outflow to the City will receive the highest rating for this criterion.
Purchase Options	**5**	Evaluation of purchase option prices utilizing discounted cashflow (net present value). The Proposal which results in the lowest discounted average purchase option price to the City will receive the highest rating for this criterion.
Tenant Improvement (TI) Allowances	**3**	Evaluation of tenant improvement utilizing discounted cashflow (net present value). The Proposal which results in the highest combined discounted tenant improvement allowance to the City will receive the highest rating for this criterion.

For each Proposal evaluated, excluding Pass/Fail evaluated criterions, the Evaluation Formula multiplies the Evaluation Committee's assigned rating (5-Excellent, 4-Above Average, etc.), to each criteria's (Project Experience, Purchase Options, etc.) associated weighting to create a Criteria Score. Criteria Scores are then combined into a Total Proposal Score.

Evaluation Results

A maximum Total Proposal Score of 75 was available to Proponent Proposals. Huntingdon REIT received a Total Proposal Score of 69 while the other evaluated Proponent Proposal received a Total Proposal Score of 43. As such, the Proposal received from Huntingdon REIT, which resulted in the highest Total Proposal Score, is recommended as the Preferred Proponent.

The organization structure for the Preferred Proponent would be as follows:

1. HREIT 55 Holdings Corporation is the bare trustee holding title to the project.

2. Huntingdon Real Estate Investment Trust will provide equity financing for the project and be beneficial owner.

3. Bird Construction would act as general contractor.

4. Shelter Canadian Properties Limited will act as developer and property manager for the term of the lease.

Decision Analysis and Recommendations

Having identified the Preferred Proponent, two (2) further decisions are required prior to proceeding with development of the East District Police Station. First, whether to proceed with development as a P3 by exercising the Preferred Proponent's purchase option upon total completion or proceed with a City tendered construction project, and second, if proceeding with a P3, whether to exercise the purchase option upon total completion or lease for 10, 20, or 30 years. Each of these required decisions are analyzed separately below.

P3 Exercise of Purchase Option vs. City Construction Tender

Traditionally, the City has acquired assets of this type by tendering their construction which includes the City providing the necessary financing, contract and project management, as well as operations and maintenance for the assets' intended purpose over its useful life. However, recent developments and experiences in other Canadian jurisdictions has prompted the City to consider alternate means for acquiring the assets necessary for providing the valued services required by the citizens of Winnipeg.

As such, the RFP requested Proposals provide the City with options and it therefore becomes necessary to evaluate and consider whether the City should exercise the Preferred Proponent purchase option upon total completion or tender construction of the new East District Police Station.

As shown on the following page, and employing Net Present Value (NPV) to analyze the two alternatives, selecting to exercise the Preferred Proponent's purchase option upon total completion would benefit the City an estimated $618,000 to $1,096,000 compared to proceeding with a City tendered construction project.

Bid Opp. 673-2006: East District Police Station
P3 Exercise of Purchase Option vs. City Construction Estimate for Tender
Comparative Financial Cost/Benefit Analysis Summary[1]
As at June 1, 2007

	City Construction Tender Estimate	P3 Purchase Option
Cost	$11,474,000 - $11,490,000	$12,500,000
Development Contingency[2, 4]	$1,080,000	$216,000
Cost Escalation[3]	$475,000 - $950,000	N/A
Total Cost	$13,029,000 - $13,520,000	$12,716,000
Present Value @ 5.25%	$12,700,000 - $13,178,000	$12,082,000
Purchase Option Net Benefit[5]		**$618,000 - $1,096,000**

Note 1: The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis.
Note 2: Development contingency is estimated based on pre-tender construction value (hard costs) prior to associated burdens (soft costs) and represents both design and construction risks hypothesized to be otherwise foregone utilizing P3 procurement. Note, given completion of a City pre-tender facility design prior to RFP, an element of design risk remains with the P3 Purchase Option.
Note 3: A cost estimate range has been utilized specifically to account for the growth and instability observed for inflation within local construction industry pricing and associated with a potential future City construction tender issue.
Note 4: Other risks presently not quantifiable associated with the City Construction Tender Estimate may exist. However, such risks cannot be reasonably estimated and, therefore, have not been included in this analysis.
Note 5: This analysis directly compares the options available to the City for the subject project as at the date of this report.

Recommendation: That the City proceed with P3 development of the East District Police Station pursuant to RFP Bid Opportunity No. 673-2006 and enter into a Project Development Agreement with the Preferred Proponent (Huntingdon REIT).

P3 Exercise of Purchase Option vs. P3 Lease

Having determined that the City should proceed with P3 development of the East District Police Station pursuant to RFP Bid Opportunity No. 673-2006 and enter into a Project Development Agreement with the Preferred Proponent (Huntingdon REIT), it then becomes necessary to evaluate and consider whether the City should exercise the Preferred Proponent purchase option or enter into a lease agreement.

In order to analyze this decision, again NPV is employed. NPV Cost/Benefit Analysis represents the estimated cost or benefit to the City presented in today's dollars resulting from implementation of either option under study. NPV cost/benefit is based on (i) a 10, 20, and 30 year period of study and (ii) the City's associated estimated incremental borrowing rate representing the discount factor.

In addition to implementation cost, NPV cost/benefit analysis includes reasonably estimated impacts resulting from implementation of an option under study on technical maintenance and operating costs or recoveries, remaining asset values or purchase option prices at the end of the study period, as well as a Public Sector Comparator (PSC) for both developmental and operational risks and any other identified factor(s) which meets the criteria for quantification i.e., is material and can be reasonably estimated.

Generally, the purpose for utilizing NPV methods in the analysis of project(s) is that, in an economy in which capital has value, a dollar today is worth more than a dollar to be received one year, two years, or 30 years from now. As such, a means for standardizing the differences in the timing of cash flows allows for the proper recognition/accounting of the time value of money. Calculating the present value of future cash flows permits the isolation of differences in value arising from differences in the timing of project cash flows.

As shown on the following page, if the City is planning to operate the East District Police Station for less than 20 years, selecting to exercise the Preferred Proponent's purchase option on total completion would benefit the City an estimated $185,000 (10 year comparative lease/buy analysis) and $539,000 (20 year comparative lease/buy analysis). However, if the City is planning to operate the East District Police Station for 30 years, it becomes more advantageous selecting to lease rather than purchase from the Preferred Proponent by an estimated $373,000 (30 year comparative lease/buy analysis).

Bid Opp. 673-2006: East District Police Station
P3 Exercise of Purchase Option vs. P3 Lease
Comparative Financial Cost/Benefit Analysis Summary[1]
As at June 1, 2007

Net Present Value @ 5.25%	P3 Purchase Option	P3 Lease[2]
10 Year Term		
Purchase Option/Lease Cost	$12,291,000	$7,312,000
Tenant Improvements (Year 7)	$592,000	$0
Replacement Cost (Year 20)	$0	$0
Facility Operating Cost	$1,402,000	$841,000
Technical Maintenance	$0	$0
Operating Contingency[3]	$420,000	$143,000
Purchase Option Buyout (Year 10)	$0	$6,594,000
Total Net Present Value Cost	**$14,705,000**	**$14,890,000**
Purchase Option Net Benefit	**$185,000**	
20 Year Term		
Purchase Option/Lease Cost	$12,291,000	$12,469,000
Tenant Improvements (Year 7 & 14)	$1,005,000	$0
Replacement Cost (Year 20)	$0	$0
Facility Operating Cost	$2,427,000	$1,456,000
Technical Maintenance	$168,000	$0
Operating Contingency[3]	$653,000	$283,000
Purchase Option Buyout (Year 20)	$0	$2,875,000
Total Net Present Value Cost	**$16,544,000**	**$17,083,000**
Purchase Option Net Benefit	**$539,000**	
30 Year Term		
Purchase Option/Lease Cost	$12,291,000	$16,077,000
Tenant Improvements (Year 7,14, & 21)	$1,294,000	$0
Replacement Cost (Year 21)	$843,000	$0
Facility Operating Cost	$3,176,000	$1,906,000
Technical Maintenance	$291,000	$0
Operating Contingency[3]	$880,000	$419,000
Purchase Option Buyout (Year 30)	$0	$1
Total Net Present Value Cost	**$18,775,000**	**$18,402,000**
Lease Option Net Benefit		**$373,000**

Note 1: The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis.
Note 2: The City is not required to exercise any purchase option at any time during the proposed 30 year lease term. However, the City will retain a financial obligation for the remaining 20 year and 10 year terms of the lease under both the 10 year and 20 year analyses, respectively, if the associated purchase option is not exercised.
Note 3: P3 Purchase Option operating contingency is represented by two factors (1) technical maintenance risk and (2) contractual risk. Technical maintenance risk is estimated based on an estimated annual required technical maintenance investment as a factor of total replacement cost. Contractual risk is estimated based on total annual operating costs (e.g., labour, materials, and utilities). P3 Lease operating contingency is represented solely by contractual risk and is estimated based on total annual operating costs.

The estimated variance of $373,000 which favors the lease option under the 30 year analysis is in part contingent on the assumption that 10% of all building systems will require replacement in year 21 in addition to required ongoing technical maintenance. In effect, it is estimated that the City will be required to make a capital re-investment in the facility of approximately $2,406,000 (present value of $843,000) in year 21. While such re-investment is currently not being made to facilities of a similar vintage, as of which the East District Police Station will be in 20 years, this amount has been estimated and included for analysis purposes as such re-investment is possible and its inclusion maintains conservatism in the analysis. It should be noted, however, that a lesser re-investment could make the purchase option more attractive than leasing for the City.

The analyses include developmental and operational contingencies which are estimated using assumptions that reflect planned courses of action given judgment as to the most probable set of economic conditions, together with one or more hypotheses which are assumptions that are consistent with the purpose of the analysis but are not necessarily the most probable. In addition, there are always risks under either the purchase or lease options which would result in contract over-expenditure. Further, given the length of the term and other factors inherent under study, the analysis is sensitive to even small adjustment in variables. Finally, given the uncertainties inherent in predicting future conditions and actions, readers are cautioned that actual results may vary from the information presented and the variation may be material in nature.

Note that, if the above analysis is performed utilizing the other responsive Proposal received, the recommendation under the 30 year analysis would be for the City to obtain ownership of the East District Police Station by way of a construction tender.

However, and as stated above, if the City is planning to operate the East District Police Station for 30 years, selecting to lease from the Preferred Proponent would benefit the City an estimated $373,000 (30 year comparative lease/buy analysis) compared to exercising the Purchase Option upon total completion. Further, note that if the City selected the City Construction Tender option, the 30 year lease option net benefit would increase to an estimated $991,000 to $1,469,000.

Alternatively, if a lesser time period for use is estimated, then selecting to exercise the Preferred Proponent's purchase option would benefit the City an estimated $185,000 (10 year comparative lease/buy analysis) or $539,000 (20 year comparative lease/buy analysis). Therefore, it now becomes necessary to evaluate and consider the time period the City anticipates requiring use of the facility.

The current WPS six district service delivery model is based on a municipal structure which existed prior to 1971. As contemporary policing issues led the WPS to review this service delivery structure and recommended realignment from six to four districts in 2003, it appears reorganization in district policing service delivery occurs approximately after 30 years.

While the current pace of change in society appears to be much quicker than in the 1970's, it is reasonable to anticipate that district policing operations and the requirement for associated regional stations is likely to remain in the medium to long-term.

Recommendation: That the City proceed with P3 development of the East District Police Station pursuant to RFP Bid Opportunity No. 673-2006 and enter into a Project Development Agreement and Lease Agreement with the Preferred Proponent (Huntingdon REIT) based on a 30 year lease term (see Schedules A and B).

Capital Budget Funding and Financial Impact

Total Equity in Capital Assets Fund (Cash-to-Capital) financing cash flow authorization for this project from current and prior year adopted Capital Budgets as well as forecasted in 2008–2012 is shown below. In addition, revised implementation cost cash flow estimates (based on the costs set out in the Preferred Proponent's Proposal) should the City elect to lease for a 30 year term and proceed with project procurement and potential lease of the proposed new West and North District Police Stations, are as shown below:

Four District Model Building Replacement ($000's)							
Cash Flow Authorization							
Previous Budgets	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total[1]**
$8,975	$3,500	$0	$992	$1,985	$1,985	$1,985	$19,422
Revised Cash Flow							
Total Available Budget	$12,475	$11,225	$8,420	$7,981	$7,883	$6,637	
Procurement	$1,250	$3,500	$1,500	$0	$0	$0	$6,250
Forecasted East Station Lease Payment[2, 3]	$0	$297	$924	$1,012	$1,089	$1,188	$4,510
Estimated West & North Station Lease Payment[3, 4]	$0	$0	$0	$1,071	$2,142	$2,142	$5,355
Total Remaining Budget	$11,255	$7,428	$5,996	$5,898	$4,652	$3,307	

Note 1: Additional Capital Budget funding will be required beyond 2012 for either (a) exercising a purchase option or (b) annual lease payments for the East District Police Station as well as the proposed new West and North District Police Stations should Council approve a future Proposal for their associated development as recommended in the WPS Four District Model.
Note 2: East District Police Station estimated lease commencement date of September 1, 2008.
Note 3: As noted in the 2007 Preliminary Capital Budget, estimated utility and select operating expenses are not included in this analysis.
Note 4: West and North District Police Station estimated lease commencement dates of January 1, 2010, and January 1, 2011, respectively.
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As shown above, electing to lease from the Preferred Proponent for a 30 year term and proceeding with project procurement and potential lease of the proposed West and North District Police Stations is forecasted to not require any funding adjustment to the 2007 Capital Budget or 2008 to 2012 Five Year Forecast. Alternatively, if the City selects to exercise the Purchase Option upon total completion, an additional Capital Budget appropriation of $4,775,000 in the 2008 Capital Budget would be required.

The Financial Impact Statement is contained on the following page.

Financial Impact Statement

Date: June 13, 2007

Project Name:

First Year of Program **2007**

A Public - Private Partnership for East District Police Station Development and Operation: Proposal Evaluation

	2007	2008	2009	2010	2011 & Beyond
Capital					
Capital Expenditures Required	$ 1,287,500	$ 297,000	$ 891,000	$ 891,000	$ 31,251,000
Less: Existing Budgeted Costs	1,287,500	297,000	891,000	891,000	31,251,000
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ 114,015	$ 154,110	$ 227,618	$ 1,098,075
Less: Incremental Revenue/Recovery	37,500	-	-	-	-
Net Cost/(Benefit)	$ (37,500)	$ 114,015	$ 154,110	$ 227,618	$ 1,098,075
Less: Existing Budget Amounts	(37,500)	114,015	154,110	227,618	1,098,075
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Capital expenditures of $1,287,500 in 2007 consist of procurement costs of $1.25 million for the East District Station + $37,500 in short-term financing costs, the latter of which is recovered in the current budget of the Corporate Finance Department. Capital expenditures in 2008 and beyond, totaling $33.33 million, represent lease payments for the East District Station, which are assumed to commence effective Sept. 1, 2008. Additional capital budget will be required from 2013 to 2037 to fund the lease payments for the East District Station. Direct costs beginning in 2008 represent debt & finance charges on the 2007 and subsequents years capital expenditures (i.e. procurement costs + lease payments).

"Original signed by"
Mike McGinn, CA
Manager of Finance

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

1. Winnipeg Police Service
2. Legal Services Division, Internal Services Department
3. Corporate Finance Department
4. P3 Review Committee

External Consultation With:

N/A

THIS REPORT SUBMITTED BY:

Department: Planning, Property and Development
Division: Civic Accommodations
Prepared by: Brad Erickson, Investment Strategies Coordinator
Rob Loudfoot, Acting Manager, Civic Accommodations Division
PPD File No. CAD 2007-0016

Schedule A: *Summary Lease Terms and Conditions*

The proposed terms and conditions of the lease are as follows:

Address:	1750 Dugald Road
Landlord:	HREIT Holdings 55 Corporation
Leased Area:	33,000 square feet (approx.)
Term:	Thirty (30) years, est. commencing September 1, 2008
Option to Renew:	Two (2) terms of ten (10) years each on the same terms and conditions, at an annual rental which shall be negotiated to the mutual satisfaction of the parties hereto but not to exceed prevailing market conditions at the time of renewal.
Purchase Option:	$12,500,000 to be exercised upon total performance; $11,000,000 to be exercised end of year 10 of the lease term; $8,000,000 to be exercised end of year 20 of the lease term; $1.00 to be exercised end of year 30 of the lease term.
Basic Net Rent:	Years 1-5: $27.00 per square foot/$891,000 per annum/$74,250 per month plus applicable GST; Years 6-10: $30.00 per square foot/$990,000 per annum/$82,500 per month plus applicable GST; Years 11-15: $32.00 per square foot/$1,056,000 per annum/$88,000 per month plus applicable GST; Years 16-20: $35.00 per square foot/$1,155,000 per annum/$96,250 per month plus applicable GST; Years 21-25: $38.00 per square foot/$1,254,000 per annum/$104,500 per month plus applicable GST; Years 26-30: $40.00 per square foot/$1,320,000 per annum/$110,000 per month plus applicable GST
Tenant Improvement Allowance:	$825,000 in each of years seven (7), fourteen (14), and twenty-one (21) of the lease term.
Space Description:	The building consists of an approximate 3,066 square metre (33,000 square foot), single storey structure to be operated on a 24 hour/7 day per week basis. The building includes an attached 3,800 square foot garage, office space, lunch room, locker rooms, as well as secured and specialized areas for police operations such as prisoner holding rooms, evidence processing and storage rooms, interview rooms, etc.

Lease Commencement:	In the event a Substantial Performance Certificate is provided to the City prior to September 1, 2008, Rent shall commence the first day of the month following the date of issue of the Substantial Performance Certificate and that date shall become the first month of the lease term.
Liquidated Damages:	In the event that a Total Performance Certificate is not provided to the City by November 1, 2008, the Rent is to be reduced by 10% on the first day of each and every month of the remaining lease term, until a Total Performance Certificate is provided to the City.
Chattels:	Chattels defined as an item of tangible movable property not otherwise connected or secured to the Demised Premises (e.g., furniture), and as required to be provided by the Landlord, will transfer in ownership to the City, and all responsibility for and related thereto, upon the earlier of (a) ten (10) years from commencement of the Agreement, or (b) expiry of such items manufacturers' warranty or warranties.
Tenant's Responsibility:	Rent; taxes; utilities; janitorial; security and monitoring; Tenant's Legal Liability insurance; Property and Boiler and Machinery insurance
Landlord's Responsibility:	Maintenance, repairs and replacements to all building systems and structures; maintenance of grounds and landscaped areas; ice and snow removal; Commercial General Liability Insurance; Automobile Liability Insurance; Contingent Gross Rental Income Insurance

Schedule B: *Project Development Agreement*

The Project Development Agreement, subject to approval by City Council or its delegate, is to include, but not be limited to, the following terms and conditions:

A. The terms and conditions as are set out in the General Conditions and Supplemental Conditions of the City of Winnipeg's Construction Bid Opportunity document(s) as provided in. *City of Winnipeg General Conditions for Construction* and *City of Winnipeg Supplemental Conditions*;

B. The Contractor agrees, at its own cost, to complete all required applications and obtain all necessary certificates, zoning and/or other approvals, and any other documentation required to complete the project as identified in the Proposal responding to this RFP for which they became Contractor;

C. The Contractor shall commence construction and thereafter continuously proceed with construction in a diligent manner so as to achieve consistency with this RFP and the Construction Documents as approved and contained therein;

D. The Contractor shall ensure that Substantial Performance of the project occurs on or before September 1, 2008. The date set out in this paragraph may only be changed with the City's consent;

E. The Contractor shall ensure that Total Performance of the project occurs on or before November 1, 2008. The date set out in this paragraph may only be changed with the City's consent;

F. In the event that the Contractor is unable to provide substantial performance of the project on or before September 1, 2008, the Contractor shall immediately be responsible for liquidated damages at the rate of 1% per month of the total estimated construction value as at September 1, 2008;

G. The Contractor shall prepare and provide a construction schedule consistent with the dates set out in this RFP. The Contractor shall prepare and provide to the City regular monthly status reports on the progress of the project and how such progress measures up to the construction schedule. The specific form and method of presentation of said status reports is to be determined at the City's discretion;

H. The Contractor shall permit the City or its designate to inspect the project at any time and from time to time during its construction, provided that such inspection does not unduly disrupt the progress of construction and is conducted in accordance with the safety and construction rules of the Contractor and its subcontractors;

I. The Contractor shall make all changes required by the City to ensure that the project complies with this RFP and the Contract Documents as approved therein, and the Proposal responding to this RFP for which they became Contractor;

J. Any change in building materials or inputs or other deviation from building specifications (extras and substitutions) as described in this RFP and inclusive of all finishes, coverings, systems, and equipment required to be provided by the Contractor requires prior approval by the City appointed Contract Administrator.

Any resulting monetary difference (price adjustment) from original specification is to be negotiated between the Contract Administrator and Contractor and will be resolved by cash settlement or an adjustment to the annual rent to be paid at the time and in the manner as the annual rent is payable under the Lease Agreement;

K. The Contractor hereby indemnifies and saves the City harmless of and from any and all liabilities of any nature and kind relating to or arising from the construction or financing of the project, and without limiting the generality of the foregoing, the Contractor shall be responsible for any and all damage to property owned by either the City or third parties resulting from the construction of the project, except as may result from the willful acts or negligence of the City or of those persons for whom City is responsible at law. This indemnity shall survive the expiry or sooner termination of this Project Development Agreement;

L. If the Contractor commits a default under the terms of this Project Development Agreement, which default is not remedied within fifteen (15) Calendar Days of receipt by the Contractor of written notice of default from the City or, if such default cannot be reasonably remedied by the Contractor within fifteen (15) Calendar Days or, if the Contractor does not commence remedial action within that time and diligently prosecute such action thereafter, then the City shall have whatever remedies are available to it at law and, without limiting the foregoing, it shall be entitled to do any one or more of the following:

    1. Take immediate possession of the project and the Contractor's interests with respect thereto;

    2. Receive from the Contractor an assignment of any and all agreement, warranty, guarantee, lease, license, and easement granted to the Contractor in connection with the project;

    3. Enforce the Performance Bond; or

    4. Terminate this Project Development Agreement, the Offer to Lease, or any one or more agreements associated with, and entered into, respecting this project.

M. The City reserves the right to introduce into the Project Development Agreement different or supplementary terms from this RFP and different or supplementary terms from the Proposal responding to this RFP from the successful Proponent or person or parties thereof which became the Contractor;

N. Upon acceptance of the terms and conditions as contained herein and negotiation of any additional terms and conditions to be contained in the Project Development Agreement, the Project Development Agreement shall be prepared by the City solicitor;

O. The City and the Contractor each to pay their own legal costs and disbursements.