Agenda - Executive Policy Committee – June 20, 2012

Report - Standing Policy Committee on Property and Development – June 12, 2012

Item No. 8 Police Building Replacement - Funding Strategy and Award of Contract for a Public Private Partnership to build, finance and maintain the South District Police Station (Charleswood-Tuxedo Ward)

STANDING COMMITTEE RECOMMENDATION:

On June 12, 2012, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That the establishment of a new capital project budget entitled "South District Police Station", in the amount of $18,049,000 be approved, consisting of:

   A. A transfer from the "Police Building Replacement" capital program budget of $1,861,000 in existing Council approved cash-to-capital funding, and;

   B. $16,188,000 in existing Public Private Partnership authorization.

2. That the amendments to the Capital and Operating Budgets as contained in the report of the Winnipeg Public Service be approved.

3. That the award to Shelter Canadian Properties Limited for its Proposal "Alternative 1 - Form C: P3 Offer to Lease" pursuant to RFP No. 1-2011B, be approved.

4. That the Chief Administrative Officer be delegated authority to finalize and approve the terms and conditions of the Project Contract and leases related to RFP 1-2011B to achieve the intent of Council.

5. That the City-owned properties located at 210 Lyle Street and 1350 Pembina Highway be declared surplus to the needs of the City and made available for immediate disposition.

6. 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 – June 20, 2012

Report - Standing Policy Committee on Property and Development – June 12, 2012

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On June 12, 2012, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: POLICE BUILDING REPLACEMENT - FUNDING STRATEGY AND AWARD OF CONTRACT FOR A PUBLIC PRIVATE PARTNERSHIP TO BUILD, FINANCE AND MAINTAIN THE SOUTH DISTRICT POLICE STATION (RFP NO. 1-2011B)

Critical Path: Standing Policy Committee on Property and Development
Executive Policy Committee
Council

AUTHORIZATION

Author	Department Head	CFO	CAO
I. Day	B. Thorgrimson	M Ruta	D. Joshi, COO

RECOMMENDATIONS

1. That Council approve the establishment of a new capital project budget entitled "South District Police Station" in the amount of $18,049,000 consisting of:

   A. A transfer from the "Police Building Replacement" capital program budget of $1,861,000 in existing Council approved cash-to-capital funding, and;
   B. $16,188,000 in existing Public Private Partnership authorization.

2. That Council approve the amendments to the Capital and Operating Budgets as contained in this report.

3. That Council approve the award to Shelter Canadian Properties Limited for its Proposal "Alternative 1 - Form C: P3 Offer to Lease" pursuant to RFP No. 1-2011B.

4. That the Chief Administrative Officer be delegated authority to finalize and approve the terms and conditions of the Project Contract and leases related to RFP 1-2011B to achieve the intent of Council.

5. That the City-owned properties located at 210 Lyle Street and 1350 Pembina Highway be declared surplus to the needs of the City and made available for immediate disposition.

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

REASON FOR THE REPORT

Council approval is required to amend Capital and/or Operating Budgets.

Council approval is required for third party leases when the term of the lease is greater than 10 years or the net cost to the City is in excess of $1,000,000.

To provide Council with the evaluated results of RFP No. 1-2011B and comparative financial cost/benefit analysis supporting the request to fund development of the South District Police Station.

IMPLICATIONS OF THE RECOMMENDATIONS

- The new South District Police Station (SDPS) to be located at 2321 Grant Avenue will replace the existing District 2 and District 6 Police Stations presently located at 210 Lyle Street and 1350 Pembina Highway, respectively.

- The P3 payment authorization over the 30-year term will decrease by $10,420,000 compared to the amount included in the 2012 Capital Budget and Five-Year Forecast.

- The Winnipeg Police Service (WPS) annual accommodation budget will decrease by approximately $534,000 in 2013 compared to the amount include in the operating budget financial forecast and by $47,000 in 2014.

- Risk associated with asset life-cycle maintenance of the SDPS will be transferred to the proponent under the Private Public Partnership (P3) Option.

- WPS operational enhancements will be achieved in staff allocation, span of control, and equitable demand for police services.

- Additional debt financing is within the City debt limits established in the Debt Strategy report for tax supported, utilities, and total City borrowing approved by Council on June 22, 2011.

- Shelter Canadian Properties Limited (SCPL) will be awarded a contract to build, finance, and maintain the new SDPS. The City will lease the land to SCPL which will sublease the land and SDPS to the City for a 30 year term, with two options to renew, each for a further 10 year term.

HISTORY

1. 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.

2. On September 12, 2008, the Certificate of Substantial Performance was issued for the East District Police Station and operation by the WPS commenced.

3. On April 20, 2011, a contract was awarded to Number Ten Architectural Group for professional consulting services for development of the SDPS.

4. On November 2, 2011, RFQ No. 1-2011A was issued for A Public Private Partnership to Build, Finance and Maintain a SDPS. Proposals for qualification were received on November 24, 2011.

5. On December 21, 2011, RFP No. 1-2011B was issued for A Public Private Partnership to Build, Finance and Maintain a SDPS. Proposals for development were received on February 24, 2012.

Project Description and Objectives

1. The subject of this report and the associated RFP is the new SDPS to be located at 2321 Grant Avenue (see Appendix A).

   The WPS six-district service delivery model is based on a municipal structure that 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.

   The scope of work consists of development of a single storey, approximately 3,000 square metre (33,000 square feet) district police station at an existing City owned site as referred to in Appendix A. The Building frontage will have a southern exposure with employee and fleet vehicle parking on the north side. The building has been designed to the project site layout and orientation.

   The integrated design process utilized for the East District Police Station (EDPS) provided a thoroughly designed, state-of-the-art police facility. The EDPS design and functionality are highly accepted by the WPS and building managers/operators. Due to the effectiveness and efficiency provided by the design, re-use of the EDPS design for development of the SDPS was undertaken. Utilizing the EDPS design results in operational familiarity between stations which is magnified by WPS operations which incorporate routine staff relocation/transfers. In addition, common design results in equality amongst work environments and standards for all districts.

   The objectives of this project are to:

   A. Provide a new SDPS 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.

SDPS: RFP No. 1-2011B - Proposal Evaluation

2. The objective of the RFP was to:

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

   Following a Request for Qualifications (RFQ) for a Public Private Partnership to Build, Finance and Maintain the SDPS (RFQ 1-2011A), four (4) companies were invited to submit Proposals in response to RFP No. 1-2011B.

   Three (3) Bidders submitted Proposals, inclusive of procurement strategy alternatives, by the submission deadline (February 24, 2012). Procurement strategy alternatives included a P3 Offer to Lease for a Public Private Partnership to build, finance & maintain the SDPS (Alternative 1 - two proposals received); a Conventional Offer to Lease to build, finance & maintain solely building structural elements of the SDPS (Alternative 2 - three proposals received); and, a Purchase upon Total Performance associated with solely building the SDPS (Alternative 3 - three proposals received).

Proposals were evaluated based on the Evaluation Criteria set out in the RFP. Specifically, the Evaluation Committee evaluated each Proposal, based on the respective criterion, as follows:

Item	*Scoring Allocation*	*Evaluation Methodology/Description*
B25.1 (a)	**Pass/Fail**	Compliance by the Bidder with the requirements of the Request for Proposal or acceptable deviation therefrom.
(b)	**Pass/Fail**	Qualifications of the Bidder and the Subcontractors, if any, pursuant to B18.
(c)	**100%**	Form B: Lease Rate(s), Allowances and Purchase Options (B16).
(d)	**Pass/Fail**	Form C: Offer to Lease (B17.1).
(e)	**Pass/Fail**	Form D: Offer to Lease (B17.2).
(f)		Economic analysis of any approved alternative pursuant to B13.

A maximum total proposal score of 100 points was available for each Alternative. The Proposal from Shelter Canadian Properties Limited (SCPL) was the highest scoring submission for each of Alternatives 1, 2 and 3. The Proposal with the lowest price for Purchase upon Total Performance received the highest score for Alternative 1 and the Proposals with the lowest discounted cash outflow to the City received the highest scores for Alternatives 2 and 3.

The Planning, Property and Development Department are satisfied that the recommended Bidder has the necessary resources and experience to complete development in accordance with the requirements of the RFP. Proposals received from SCPL remain open for acceptance by the City until June 30, 2012.

The recommended Bidder has identified Bird Construction Company as its construction subcontractor and Bird Construction Company is COR certified with the Construction Safety Association of Manitoba #10907-00. The Manager of Materials has waived the requirement for bid security in accordance with the authority delegated pursuant to Administrative Standard FM-002.

Based on the Comparative Financial Cost/Benefit Analysis (see "Procurement Strategy – Evaluation of Options" below) and other considerations contained in this report, it appears that it would be in the best interest of the City to award the contract to SCPL for Alternative 1 - Form C: P3 Offer to Lease.

Procurement Strategy - Evaluation of Options

3. Having identified the highest scoring submission for each of Alternatives 1, 2 and 3, a further decision is required prior to award of contract, namely, which procurement strategy alternative represents the development methodology which is in the City's best interest. The three (3) procurement strategy alternatives to be considered for development of the SDPS are:

   A. P3 Offer to Lease (Public Private Partnership to build, finance & maintain) - Alternative 1;
   B. Conventional Offer to Lease (build, finance & maintain solely building structural elements) - Alternative 2; and,

C. Purchase upon Total Performance (to solely build the SDPS) - Alternative 3.

The RFP requested that Alternative 1 & 2 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, Proposals for Alternative 1 (P3 Offer to Lease) must have specified purchase (buyout) options exercisable at the discretion of the City at the end of years ten (10), twenty (20), and thirty (30) of the initial lease term. Further, Alternative 1 & 2 Proposals 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, note the City would retain options to purchase the SDPS in years 10, 20, and 30 of the contract term under either Alternative 1 or 2 of the recommended Bidder's Proposal.

The following chart summarizes comparison of the three procurement strategies considered:

RFP No. 1-2011: South District Police Station
Procurement Strategy: Evaluation of Options
Comparative Financial Cost/Benefit Analysis[1,2]
As at April 27, 2012

Cost Factor	Purchase Option	P3 Lease	Conventional Lease
5.25%, 30 Year Term			
Purchase Option/Lease Cost[3]	$16,651,000	$20,596,000	$19,473,000
Operations & Maintenance Cost	$7,167,000	$5,520,000	$6,840,000
Tenant Improvements (Year 7,14, & 21)	$1,192,000	$0	$0
Building System Replacement Cost (Year 20)	$1,785,000	$0	$1,785,000
Structural Element Replacement Cost (Year 20)	$893,000	$0	$0
Net Tax Cost[4]	$0	$2,797,000	$2,797,000
Purchase Option Buyout (Year 30)	$0	$1	$1
Base Net Present Value Cost	**$27,688,000**	**$28,913,000**	**$30,895,000**
Net Option Financial Benefit	**$1,225,000**		
Risk Retained by the City[5]	$2,801,000	$280,000	$2,381,000
Total Net Present Value Cost	**$30,489,000**	**$29,193,000**	**$33,276,000**
Net Financial Benefit		**$1,296,000**	
VFM Savings		**4.3%**	

Note 1: The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis. "Comparative Financial Cost/Benefit Analysis: Key Assumptions are contained in Appendix B.

Note 2: The purpose of the Comparative Financial Cost/Benefit Analysis is to estimate the net present value difference between the Alternatives presented. Readers' are cautioned that the information may not be appropriate for other purposes.

Note 3: The City's future incremental borrowing rate has been estimated at 5.25%. The rate implicit in the P3 and lease payment streams has been estimated at 4.85%.

Note 4: This analysis includes projected future tax expense resulting from lease alternatives. Such future taxes have been estimated using assumptions that reflect the Public Service's judgment as to probable subject property development and future economic conditions.

Note 5: Project risk has been estimated based on potential quantifiable civic financial exposure to account for associated procurement strategy alternative uncertainty. Other risks presently not quantifiable associated with alternatives presented may exist. However, such risks cannot be reasonably estimated and, therefore, have not been included in this analysis.

“Comparative Financial Cost/Benefit Analysis: Key Assumptions” are contained in Appendix B.

Based on the City's best estimate of borrowing costs at the date of future exercise of the Purchase Option (5.25%) and reflecting the anticipated financing plan for this option, the estimated Value-for-Money (VFM) for the P3 Lease Option is $1,296,000 or 4.3% for the 30-year term under study.

The estimated cost of borrowing of 5.25% was determined using independent forecasts of Canada bonds to approximate 3.45% in Quarter three of 2013 plus the City's spread over Canada bonds that may approximate 180 basis points for a total cost of 5.25%. Based on today's rates, it is estimated that the City could borrow at 4.30%. The rate of 5.25% was used in the "baseline" VFM analysis as it is the City's best estimate of the future borrowing rate under the purchase option and is consistent with the VFM methodology used for establishing discount rates for the VFM analyses associated with the Disraeli Bridges project and the Chief Peguis Trail Extension project.

The project approved in the 2012 Capital Budget for development of the SDPS contemplated a Public Private Partnership (P3) procurement strategy. The P3 procurement strategy alters the risk allocation and results in the private sector landlord having responsibility for, among other requirements, technical maintenance and capital replacement (asset life-cycle costs) in accordance with prescribed condition. As such, the private sector landlord is responsible for risk associated with long-term maintenance of the asset, providing the City with cost certainty.

Key risks related to long-term maintenance of the asset include:

- Inflation associated with maintenance costs,
- Availability of service providers,
- Cost overruns, and
- Maintenance service defects.

The VFM analysis has quantified risk transfer utilizing a simplified model based on the methodology employed for the VFM analyses associated with the Disraeli Bridges project and the Chief Peguis Trail Extension project. This methodology estimates the probability and cost impact of risks associated with development projects.

Cost estimates under the Purchase Option are based on both planned and historical maintenance expenditures for similar assets. Note, under the Purchase Option, the City retains the risk if technical maintenance and capital replacement items are either (1) required earlier than anticipated or (2) cost more than anticipated e.g., roof replacement required earlier than forecasted and/or cost is greater than estimated. The estimated value of project risks retained by the City under the Purchase Option has been quantified largely based on such potential asset life-cycle cost requirements for similar development projects.

Note that P3 projects under a capital value of $50 million generally result in high sensitivity based on the selected discount factor for analysis. Specifically, lower discount factors tend to favor a purchase option while higher discount rates tend to favor a P3 option. The following table represents a sensitivity analysis associated with the P3 and Purchase Options utilizing various City borrowing rates:

RFP No. 1-2011: South District Police Station
P3 VFM Savings - Sensitivity Analysis
As at April 27, 2012

City Borrowing Rate	VFM Savings
4.25%	(3.7%)
4.75%	0.4%
5.25%	4.3%
5.75%	7.9%
6.00%	9.6%

Note that, based on the costs set out in the recommended Bidder's Proposal, electing an award of contract for either (1) a Public Private Partnership [P3] to build, finance & maintain (Alternative 1) or (2) a Conventional Lease to build, finance & maintain solely building structural elements (Alternative 2), the SDPS project is not forecasted to require any additional funding to the approved Capital Budget.

SDPS Funding Implications

4. Council previously approved development of the SDPS utilizing a P3 methodology and associated 30-year payment stream. Proceeding with Alternative 1 - Form C: P3 Offer to Lease would commit the City to a 30-year payment stream totaling $42,950,000. Factoring in a 3.5% contingency for development risk during the construction period, the total 30-year payment stream increases to $44,454,000. The existing Council-approved P3 authorization is for a 30-year payment stream totaling $54,874,000. This estimate was prepared by the Public Service based on the best information available at the time the 2012 Capital Budget and Five-Year Forecast was adopted. The residual $10,420,000 in P3 authorization may be required for the planned North District Police Station dependant upon the future procurement strategy recommended for NDPS development.

South District Police Station - Capital Budget Implications

Estimated Total Budget Requirement for Consulting, Procurement & Overheads:

Consulting and Design (incl. contingency)	$ 1,251,000	
Marshalling Yard - demo & relocation (incl. contingency)	555,000	
Sub-total	$ 1,806,000	
Finance (2%) & Admin Fees (1%)	55,000	$ 1,861,000
Existing Capital Budget *		$ 1,861,000
Additional Budget Required		$ -

P3 Authorization - 30 Year Payment Stream

	Existing Approved		Recommended		Variance
	Per Annum	5-Year Period	Per Annum **	5-Year Period	5-Year Period
Years 1 to 5	$ 1,466,900	$ 7,334,500	$ 1,169,600	$ 5,848,000	$ 1,486,500
Years 6 to 10	1,629,900	8,149,500	1,304,100	6,520,500	1,629,000
Years 11 to 15	1,738,600	8,693,000	1,397,300	6,986,500	1,706,500
Years 16 to 20	1,901,600	9,508,000	1,531,800	7,659,000	1,849,000
Years 21 to 25	2,064,600	10,323,000	1,676,700	8,383,500	1,939,500
Years 26 to 30	2,173,200	10,866,000	1,811,300	9,056,500	1,809,500
Total		$ 54,874,000		$ 44,454,000	$ 10,420,000

* *Includes Cash-to-Capital of $1,861,000 in procurement funds.*

(i.e. cash-to-capital) included in capital account # 6331002712 - Police Building Replacement)

** *Includes 3.5% contingency for development risk during construction period.*

Debt Strategy Impact and Borrowing Authority

5. On June 22, 2011, Council adopted the Debt Strategy report for tax supported, utilities and total City borrowing. The impact of this debt financing falls within the City debt limits established in the Council report as outlined in the table below.

Debt Financing Impact:

- Total City net debt as a percentage of revenue maximum of 85%
- Forecasted peak rate including proposed debt from this report 78.1%

- Tax Supported net debt as a percentage of revenue maximum of 60.0%
- Forecasted peak rate including proposed debt from this report 56.3%

- Total City debt servicing as a percent of revenue maximum of 11%
- Forecasted peak rate including proposed debt from this report 8.3%

- Tax Supported debt servicing as a percent of revenue maximum of 10%
- Forecasted peak rate including proposed debt from this report 7.6%

- Total City debt per capita not to exceed maximum of $2,050
- Forecasted peak rate including proposed debt from this report $1,756

- Tax Supported debt per capita not to exceed maximum of $1,050
- Forecasted peak rate including proposed debt from this report $1,003

Existing District Police Stations: 210 Lyle Street & 1350 Pembina Highway

6. The Municipal Accommodations Division is not aware of any alternate civic use for the City-owned properties located at 210 Lyle Street (see Appendix E) and 1350 Pembina Highway (see Appendix F). As such, it is recommended these properties be declared surplus to the needs of the City and made available for immediate disposition.

Appendices:

1. Appendix A contains “South District Police Station - Site Plan”.
2. Appendix B contains “Comparative Financial Cost/Benefit Analysis: Key Assumptions”.
3. Appendix C contains “Additional Detail to the Financial Impact Statement”.
4. Appendix D contains “Operations & Maintenance Expense and Asset Life-Cycle Cost”.
5. Appendix E contains “Misc. Plan 14265 - 210 Lyle Street”.
6. Appendix F contains “Misc. Plan 14266 - 1350 Pembina Highway”.

FINANCIAL IMPACT

Financial Impact Statement — Date: April 30, 2012

Project Name: — **First Year of Program** **2012**

Public Private Partnership to Build, Finance and Maintain the South District Police Station: RFP No. 1-2011B - Award of Contract and Funding Strategy

	2012	2013	2014	2015	2016 to 2043
Capital					
Capital Expenditures Required	$ 1,521,750	$ 729,117	$ 1,169,600	$ 1,169,600	$ 41,724,933
Less: Existing Budgeted Costs	1,521,750	1,439,425	1,466,900	1,466,900	50,839,575
Additional Capital Budget Required	$ -	$ (710,308)	$ (297,300)	$ (297,300)	$ (9,114,642)
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	$ 474,656	$ 873,287	$ 1,670,550	$ 1,683,074	$ 61,822,384
Less: Incremental Revenue/Recovery	53,750	40,504	81,761	83,806	3,507,003
Net Cost/(Benefit)	$ 420,906	$ 832,784	$ 1,588,789	$ 1,599,268	$ 58,315,382
Less: Existing Budget Amounts	420,906	1,393,652	1,717,650	1,761,000	71,946,940
Net Budget Adjustment Required	$ -	$ (560,868)	$ (128,861)	$ (161,732)	$ (13,631,559)

Additional Comments: Capital expenditures in 2012 & 2013 consist of consulting & design costs of $1,251,000 for the SDPS, $50,000 to demolish the existing marshalling yard at the SDPS site and an estimated $453,000, including $13,000 in Municipal Accommodations overheads, for reconstruction at the Wyper Road site, contingency of $53,000 and short-term financing costs of $36,000 + corporate admin fees of $18,000; the latter two amounts being offset by recoveries in the Corporate Finance Department. Capital expenditures in 2013 also include $389,867 in P3 payments. Expenditures from 2014 to 2043 represent P3 payments for the remainder of the 30-year term. Existing budget amounts in $1,521,750 & $339,250 in 2012 & 2013 respectively in Cash-to-Capital funding for procurement costs. P3 payment budget in 2013 is $1,100,175 with $1,466,900 for 2014 & 2015. From 2016 onward, P3 payment budget totals $50,839,575. **Overall, P3 payments over the 30-year term as proposed would be $10,419,550 less than currently budgeted.**

Direct costs in 2012 & 2013 (Jan. 1 to Aug. 31) represent the WPS' accommodation charges (revenues to Muncipal Accommodations) for 210 Lyle & 1350 Pembina and the SDPS pro-rated for a projected occupancy date of Sep. 1, 2013. Direct costs from 2014 onward represent accommodation charges for a full year. Municipal Accommodations' offsetting costs consist of annual P3 payments of $1.13M plus other costs of approximately $541,000. There will be a mill rate savings to the WPS budget of ~ $534,000 in 2013 and $47,000 from 2014 to 2016. Amounts beyond 2016 have been increased by an annual inflation factor of 2.5%. **See Appendix C for additional detail on amounts presented above in the "Current Expenditures/Revenues" section.**

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

CONSULTATION

In preparing this Report there was consultation with:

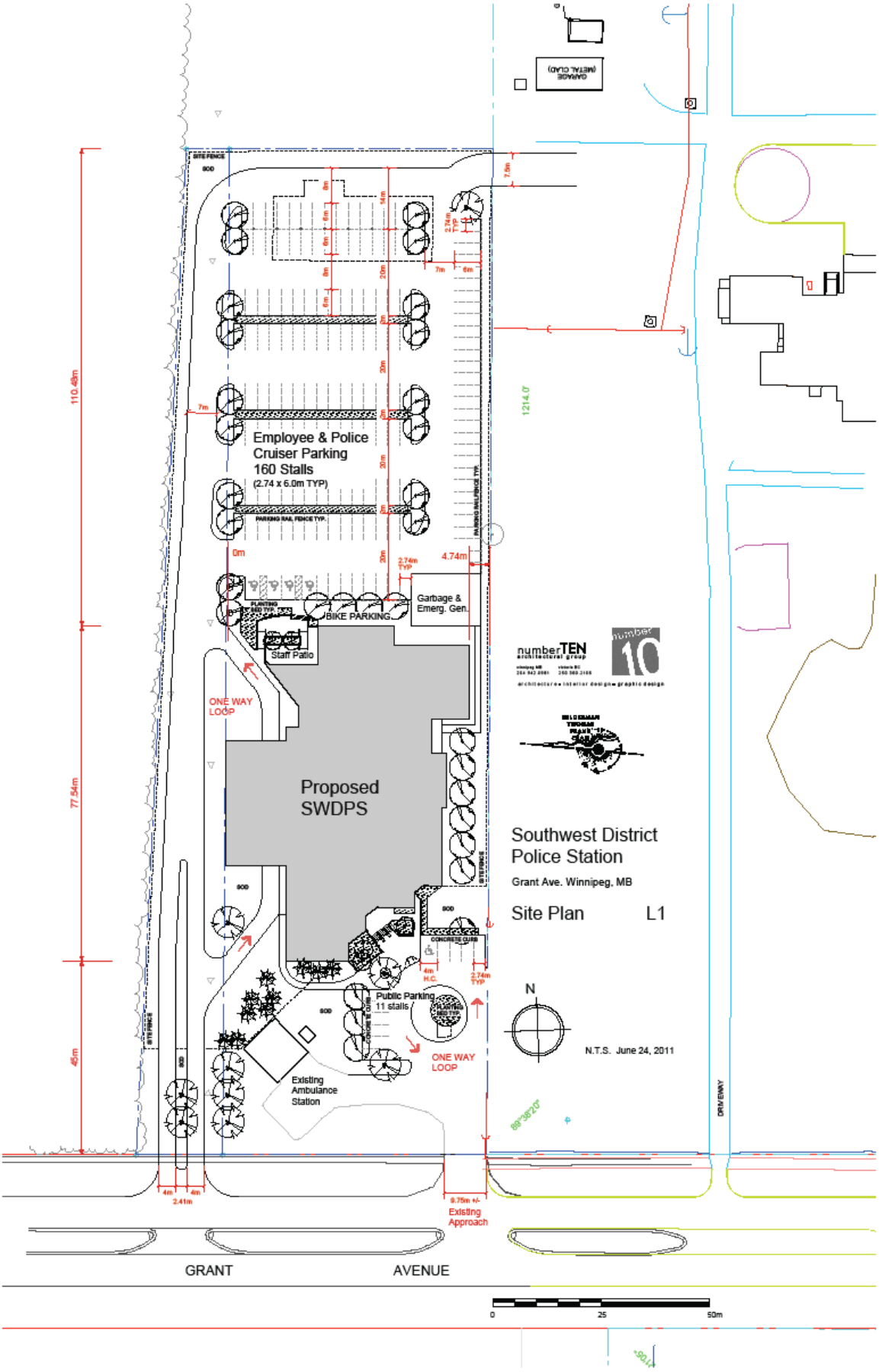
1. Winnipeg Police Service
2. Corporate Finance Department - Materials Management & Treasury
3. Legal Services Department (as to legal issues)

SUBMITTED BY

Department:	Planning, Property and Development
Division:	Municipal Accommodations
Prepared by:	Brad Erickson, Portfolio Strategies Coordinator Mike McGinn, Manager of Finance Jason Ruby, Manager of Capital Projects, Corporate Finance Department
Date:	May 29, 2012
File No.	O:\Reports Directive\Municipal Accommodations\Award of Contract\2012\SDPS Award Report - May 29 2012 final.doc

MA2012-021

APPENDIX A: SOUTH DISTRICT POLICE STATION - SITE PLAN



APPENDIX B: Comparative Financial Cost/Benefit Analysis: Key Assumptions

1. The Comparative Financial Cost/Benefit Net Present Value (NPV) Analysis was performed using a discount factor of 5.25% which represents the City's best estimate of current long-term borrowing costs.

2. Development cost estimates includes all factors required to estimate material costs to the City necessary to implement the Proposal or otherwise prepare asset(s) ready for use for the intended purpose including, but not limited to, a representative amount for all contractor fees, consulting fees, taxes, and associated contingencies and burdens (e.g., finance & administration, etc.).

3. The Purchase Option assumes the City will maintain the building according to Original Equipment Manufacturers' (OEM) specifications i.e., in prescribed condition.

4. The interest rate utilized in the Purchase Option is 5.25% financed for a term of 30 years. This represents the City's best estimate of future borrowing rates at the time the City anticipates borrowing to fund exercise of the Purchase Option.

5. Lease payments over the 30 year term of either the P3 Option or Conventional Lease Option are fixed per the associated bid response. The estimated interest rate implicit in both the P3 and Conventional Lease options is 4.85%.

6. Under the P3 Option, the private sector landlord is responsible for maintaining all major building systems and structural elements over the associated 30 year term.

7. Under the Conventional Lease Option, the private sector landlord is responsible for maintaining solely structural elements. All remaining maintenance including building systems is the responsibility of the City.

8. Under the Purchase Option, upon expiry of associated warranty period(s), all maintenance becomes the City's responsibility.

9. Operating and maintenance (O&M) costs represent (a) ongoing costs for goods/services and (b) routine/periodic asset servicing performed to retain the asset in prescribed use. Operating and maintenance costs include utilities, building system and structural element repair and maintenance of a non-capital nature e.g., less than $100,000 and investment useful life less than one (1) year. Major retrofitting and rehabilitative capital investment such as building system replacement or overhaul (e.g., mechanical system, roof membrane, etc.) are not included in O&M costs.

10. For operating and maintenance costs as well as net taxes, inflation factor of 2.5% per annum was utilized to approximate general inflation.

11. For capital or technical maintenance, 5.0% per annum was utilized to approximate construction inflation.

APPENDIX B (Continued): Comparative Financial Cost/Benefit Analysis: Key Assumptions

12. Net taxes represent the (a) School Tax Levy and (b) Provincial Education Taxes (non-municipal portion of property taxes) forecasted under the P3 Option or Conventional Lease Option.

13. The analysis includes 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, risk exists under purchase or lease options which could result in budget over-expenditure(s).

    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.

APPENDIX C: Additional Detail to the Financial Impact Statement

Current Expenditures/Revenues

	($ Thousands)					
Direct Costs:	**2012**	**2013**	**2014**	**2015**	**2016**	
Market Rents on Two Stations Currently Occupied by WPS	475	317				*a*
Operating Costs of Two Vacated Stations		32	96	98	100	*b*
Market Rents on new South District Police Station		557	1,671	1,684	1,698	*a*
	475	906	1,767	1,782	1,798	
Existing Budget Amounts:						
Market Rents on Two Stations Currently Occupied by WPS	475	119				*c*
Operating Costs of Two Vacated Stations		32	96	98	100	*b*
Market Rents on new South District Police Station		1,289	1,718	1,761	1,805	*c*
Short-term Financing/Admin Costs - Recovered from Capital	(54)	(15)	0	0	0	
	421	1,424	1,814	1,859	1,905	
Incremental Revenue/Recovery:						
Municipal Taxes from SDPS	0	(27)	(82)	(84)	(86)	*d*
Short-term Financing/Admin Costs - Recovered from Capital	(54)	(15)	0	0	0	
	(54)	(42)	(82)	(84)	(86)	
Net Budget Adjustment Required:	**0**	**(561)**	**(129)**	**(161)**	**(193)**	

a In 2012, represents market rents on existing facilities at 2010 Lyle and 1350 Pembina occupied by WPS. In 2013, includes market rents on existing facilities up to August 31 ($317,000) plus market rent on the new SDPS from the assumed occupancy date of September 1 ($557,000). In 2014, represents market rent for just the new SDPS. A 2.5% inflation factor on other components of accommodations costs (i.e. excluding P3 payments) is assumed in each of 2015 and 2016.

b Beginning Sept 1, 2013 operating costs will be incurred to "moth ball" the two vacated stations. The rate / sq. ft. for moth-balled facilities is one-third the normal operating rate, which for the purposes of this analysis have been estimated to be $11.50 per sq. ft. Total square footage of the two facilities is approximately 25,000. Moth ball costs for 2013 are estimated to be $32,000 (i.e. 25,000 s.f. x $11.50 / 3 = $96,000 prorated for Sept to Dec = $32,000). Projected actuals for 2014 are full the full year. An annual 2.5% inflation factor has been applied to 2015 & 2016. The sale of the vacated properties is assumed to occur after 2016. The costs are included in Municipal Accommodations operating budget.

c Existing budget amounts in 2012 & 2013 represent accommodation charges for the two existing stations; the 2013 budget is for the first quarter only. Accommodations charges budget for the new SDPS in 2013 of $1.289 million is based on the previously estimated P3 payment stream and was prorated for an occupancy date of April 1. The 2014 budget is the same as 2013 but is for the full year. Amounts for 2015 and 2016 have been increased by an annual inflation factor of 2.5%.

d Municipal tax revenues based on 2012 taxes applicable to the East District Police Station. The amount for 2013 has been prorated for the assumed Sept 1 occupancy date while the amount for 2014 is for the full year. Amounts for 2015 and 2016 have been increased by an annual inflation factor of 2.5%.

Note: Municipal and provincial taxes are included as a charge to WPS (i.e. included in their facilities charges) while the municipal portion is included as revenue to the Assessment & Taxation Department. The "net cost" to the City is therefore just the provincial portion of property taxes.

APPENDIX D: Operations & Maintenance Expense and Asset Life-Cycle Cost

RFP No. 1-2011: South District Police Station
Comparative Financial Cost/Benefit Analysis[1,2]
Operations & Maintenance Expense and Asset Life-Cycle Cost
As at April 27, 2012

Year		Purchase Option	P3 Option[3]	Difference
1	2013	$368,940	$429,244	($60,304)
2	2014	$378,164	$436,347	($58,184)
3	2015	$387,618	$443,628	($56,010)
4	2016	$397,308	$451,091	($53,783)
5	2017	$407,241	$458,740	($51,500)
6	2018	$417,422	$596,581	($179,159)
7	2019	$1,227,857	$604,618	$623,240
8	2020	$438,293	$612,855	($174,562)
9	2021	$449,250	$621,299	($172,049)
10	2022	$460,481	$629,953	($169,472)
11	2023	$471,993	$728,824	($256,831)
12	2024	$483,793	$737,917	($254,124)
13	2025	$495,888	$747,237	($251,349)
14	2026	$1,308,285	$756,790	$551,495
15	2027	$520,683	$766,582	($245,900)
16	2028	$533,700	$906,619	($372,919)
17	2029	$547,042	$916,907	($369,865)
18	2030	$560,718	$927,451	($366,733)
19	2031	$574,736	$938,260	($363,524)
20	2032	$7,851,873	$949,338	$6,902,534
21	2033	$1,403,473	$1,100,694	$302,779
22	2034	$620,715	$1,112,334	($491,619)
23	2035	$636,233	$1,124,264	($488,031)
24	2036	$652,139	$1,136,493	($484,354)
25	2037	$668,442	$1,149,027	($480,585)
26	2038	$685,153	$1,291,875	($606,722)
27	2039	$702,282	$1,305,044	($602,762)
28	2040	$719,839	$1,318,542	($598,703)
29	2041	$737,835	$1,332,378	($594,543)
30	2042	$756,281	$1,346,560	($590,279)
SubTotal		**$25,863,676**	**$25,877,495**	**($13,819)**
Risk Retained by the City[4]		$2,801,000	$280,000	$2,521,000
Total		**$28,664,676**	**$26,157,495**	**$2,507,181**

Note 1: The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis. "Comparative Financial Cost/Benefit Analysis: Key Assumptions are contained in Appendix B.

Note 2: The purpose of the Comparative Financial Cost/Benefit Analysis is to estimate the net present value difference between the Alternatives presented. Readers' are cautioned that the information may not be appropriate for other purposes.

Note 3: The rate implicit in the P3 and payment stream has been estimated at 4.85%.

Note 4: Financial risk has been estimated based on potential quantifiable civic financial exposure to account for associated procurement strategy alternative uncertainty. Other risks presently not quantifiable associated with alternatives presented may exist. However, such risks cannot be reasonably estimated and, therefore, have not been included in this analysis.

APPENDIX E: Misc. Plan 14265 - 210 Lyle Street



APPENDIX F: Misc. Plan 14266 - 1350 Pembina Highway

