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November 27, 2013

Chair and Members
Executive Policy Committee
The City of Winnipeg
510 Main Street
Winnipeg MB

Re: Executive Policy Committee – 9:00 a.m. Wednesday, November 27, 2013

(a) Report 2. Police Headquarters Construction Project Steering Committee Meetings

(b) Committee Reports:
SPC on Downtown Development, Heritage and Riverbank Management
1. Over-Expenditure Authorization for the Redevelopment of the Winnipeg Police Service Headquarters Building

Report 2. Police Headquarters Construction Project Steering Committee Meetings

I am appearing today in support of Councillor Havixbeck's motion:

> "That the Public Service provide all members of Council with a list of the members of the project steering committee, their meeting dates, and the minutes for the respective meetings for the past five years."

I would add the requested information should be published at the same time, so that the taxpayers who are being expected to pay for this financial fiasco can understand what their civic servants were thinking and doing, or failing to do, that has brought us to this highly unexpected and unsatisfactory result.

The requested information should be provided to Council and published **before** Council is asked to approve the expenditure or borrowing of another dime for this project.

If the Winnipeg Public Service refuses to provide the unedited and unredacted minutes as requested, then I expect EPC to demand immediate resignations from the responsible officials, without severance, and without any guarantees of confidentiality.

I would add that based on the unacceptable explanations provided to the SPC on Downtown Development on Friday, November 22, EPC should consider recommending today that City Council reconsider its decision of November 20, when a bare majority voted against Councillor Havixbeck's motion that an independent audit of the Police Headquarters project be undertaken.

Since the forthcoming Ernst & Young Report on the Real Estate Management Audit of all City real estate transactions will already include the original less than diligent purchase of the Canada Post Office Building, it ought to be a reasonable next step to have Ernst & Young do a follow-up forensic audit of the New Police Headquarters Redevelopment Project as a whole, including all design, construction and management activities that followed.

Committee Reports:
SPC on Downtown Development, Heritage and Riverbank Management
1. Over-Expenditure Authorization for the Redevelopment of the Winnipeg Police Service Headquarters Building

I am also appearing this morning in opposition to the Administration's recommendations on the Police Headquarters project, which were **not approved** by the SPC on Downtown Development. Attached is a copy of my submission to the November 22nd meeting of the SPC on Downtown Development regarding these recommendations.

I listed a number of major questions.

After two hours of questioning by the SPC members, the Chief Financial Officer, the Project Director, the Manager of Capital Projects from Corporate Finance, the representative of the Winnipeg Police Service and the representative of the second consulting engineering firm, AAR, failed to answer any of my questions.

I was particularly offended by the inability or unwillingness of the CFO to answer a Committee member's question as to the amount of the real estate commission paid to Shindico for the purchase of the Canada Post Building, for which there is so far no evidence that Shindico participated in. The CFO said he would get the figure for the Councillor. I would like to hear the correct answer to the Councillor's question today. And now I would also like to see a copy of any contract which may have been issued to Shindico regarding the unassisted purchase from a federal Crown Corporation.

In the absence of any further explanation, it would appear that a commission of $1.5 million was paid.

Whatever EPC and Council may do with these recommendations, I am adamantly opposed to Recommendation #4, which would just compound previous similar errors by Council, delegating all authority to approve over-expenditures to the CFO.

Unless and until Council receives satisfactory answers to its questions, including Councillor Orlikow's promised 400 questions, I ask that Council refuse to approve any further expenditure or borrowing for this project. If that means construction has to stop, then maybe that is the kind of message which will finally be understood by the senior civic service and the construction industry.

Nothing else has worked.

Thank you,



David M. Sanders, M.A., LL.B.

River Heights-Fort Garry

David M. Sanders, M.A., LL.B.
907-885 Wilkes Avenue
Winnipeg MB

November 22, 2013

Chair and Members
Standing Policy Committee on Downtown Development.
Heritage and Riverbank Management
The City of Winnipeg
510 Main Street
Winnipeg, MB

Re: SPC Downtown Development Committee
1:30 p.m., Friday, November 22, 2013

Reports
1. Over-Expenditure Authorization for the Redevelopment of the Winnipeg Police Service Headquarters Building

I am appearing this afternoon to oppose the Winnipeg Public Service recommendations for this matter.

The public explanations of the mismanagement and perhaps misconduct involved in this whole project are not at all adequate to support the latest increase in the project budget proposed.

I continue to support proposals for the conduct of a thorough forensic audit of the management and construction of the New Winnipeg Police Service Headquarters Project, including the office tower at 266 Graham Avenue and the new Police Shooting Range at Wyper Road.

I am absolutely opposed to allowing Council to continue to abdicate all responsibility for this ongoing administrative nightmare by now delegating its authority "to approve all contract over-expenditures necessary to the Guaranteed Maximum Price (GMP) Agreement with Caspian Projects Inc.," provided that monies are available within the proposed new project budget of $172.2 million for the Headquarters project.

That Recommendation #4 is completely inconsistent with the decision of City Council on Wednesday, to limit the signing authority of the Chief Administrative Officer to just $5 million.

The Chair of this Committee has invited everyone to suggest questions to be put to the responsible officials. Here are my suggestions:

a) Will the City publish all of the Minutes and Reports of the Major Project Steering Committee (the Oversight Committee which is reported to have met **bi-weekly**), so that Council and the public may know who knew what when?

b) Which City official has overall responsibility for this project? Who does the Project Director report to?

c) Will the City publish all of the major contracts awarded with respect to this ongoing project, especially the so-called Guaranteed Maximum Price contract which turns out to be a Guaranteed **Minimum** Price contract?

d) Why was the $137.1 million GMP contract signed by only the CAO, Project Director Ossama Abouzeid (Dunmore Corporation), and the external counsel from Duboff Edwards? Why were there no City of Winnipeg sign-offs except for the CAO?

e) AECOM was paid more than $5 million to design the headquarters, and then taken off the job and a new sole source contract was given to AAR of Ottawa and Toronto in December, 2011. The structural engineering services provided by AAR have now cost more than $4.8 million. IF AECOM was incapable of handing this project, why was AAR not hired in the first place? I gather AAR actually knows something about building police headquarters facilities. What happened with the first consultant, and has there been any financial or professional repercussions for AECOM?

f) This is to be the Winnipeg Police Service Headquarters. Just when and how has the Winnipeg Police Service been involved in the planning and design of this project. Which members have actually participated in this project, and what authority have they had to influence the design? Exactly what changes did the WPS require for their purposes?

g) In November, 2009, $22.1 million was added to the project budget for "Furniture, Fixtures and Equipment (FF&E) **required to move into the building."** That allowance was reduced to $14.4 million in the initial GMP contract, and is now to be reduced further to only $5.6 million. Was the original estimate really double the requirement, or is that cost going to be added in back later?

h) Will the City publish the final pricing submitted by Caspian Projects Inc. on September 26, 2013, and AAR's written response?\

i) Who represented the City in the meeting with AAR and Caspian on November 13, 2013? Will the City publish the written advice from AAR and Caspian that "the $17.2 million additional budget is sufficient to complete the project."

j) What is the official opinion of the Winnipeg Police Service on the acceptability of the final design and still estimated costs today?

k) Whose opinion is it that $177.2 million represents value for the City's money? A professional quantity surveyor and cost consultant? A qualified commercial real estate appraiser?

I am afraid a thorough forensic audit is definitely required here.

Respectfully submitted,



David M. Sanders MA LLB

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Excerpt from my November 7, 2013 submission to the SPC on Finance re the Chronology of the new Police HQ project..

Appendix – Chronology – New Winnipeg Police Service Headquarters Project

Now if we thought the New Fire Paramedic Stations Construction Project was badly mismanaged, let's consider the New Winnipeg Police Service Headquarters Redevelopment Project.

What started out as a $19 million renovation project has now ballooned to $217 million, and counting. As the press have been reminding us, in 2006 the City planned to spend $19 million on fixing up the present Public Safety Building. The estimated cost rose to $21.3 million by the spring of 2007, and then more than $40 million by the fall. In 2008, when the estimated project cost went to $65 million, the City looked for other options.

November 25/09	Council then approved the purchase of the Canada Post Building for $29,250,000, and the issuing of a call for proposals to complete the $105 million redevelopment of the 4-storey mail processing plant for the consolidation of the Winnipeg Police Service. **The October 28/09 Financial Impact Statement footnote adds that the City's acquisition costs will be $1.5 million more, to be charged to other capital budgets.** (WPS Authorization: P.Sheegl, M. Ruta, D. Joshi, R. Klassen)
April 6, 2010	SPC Infrastructure Renewal and Public Works approved the routing of transit services to the new Canada Post mail processing plant near the airport at an estimated annual net cost of $125,000, as required by the purchase agreement. (WPS Authorization: G. Laubenstein, M. Ruta, Dave Wardrop, Bill Menzies)
February, 2011	Caspian Projects was awarded the construction contract.

July 16, 2011 — City officials disclosed that eight different consultants had been retained to advise on increased cost estimates for foundation and building envelope issues, etc. Shindico provided "information coordination" but that consulting cost was included in the real estate firm's commission on the sale of the building, and "the city did not disclose the commission for proprietary reasons." If the aforementioned commission was 5%, paid to a broker who was apparently not retained by the Vendor (Canada Post), and not mentioned in the Agreement of Purchase and Sale, that would account for the $1.5 million in "acquisition costs" mentioned in the October 28, 2009 Financial Impact Statement.

July 20, 2011 — Council approved the increase in the Winnipeg Police Headquarters Redevelopment Project from $127,167,000 to $155 million. External debt financing was increased from $101,054,000 to $139,920,000. The Office Tower was to be financed temporarily at $18,976,000, for resale at some future date. The cost of acquiring the 4-storey portion of the Canada Post building was $12.6 million for the Police HQ, and $7 million more in construction period interest brought the grand total to $193,567,000. The Report stated that the Caspian had presented a guaranteed maximum price (GMP) of $137,750,000 – except there were **many conditions about additional costs "that may impact the final cost of redevelopment."**
(WPS Authorization: P. Sheegl, M. Ruta, D. Joshi, I. Day, M. McGinn)

December 7, 2011 — EPC approved a single source negotiation with Adjeleian Allen Rubeli Limited, "on an emergency basis," to assist the City's Project Director, Ossama AbouZeid (Dunmore Corporation), with professional engineering services for up to $2.6 million. The Report listed earlier consulting contracts with AECOM broken down into phases costing $2,520,092 in 2010 and $2,520,092 in 2011.
(WEPS Authorization: D. Joshi, M. Ruta, B. Thorgrimson, R. Benoit)

November 7, 2012 — Property and Development Committee ordered the City administration to cancel its contract with Shindico to manage the 11-storey office tower portion of the former Canada Post building, after the firm had been awarded the contract under a search that did not explicitly identify property-management services.

December 13, 2012 — Councillor Wyatt requested that Ernst & Young include the Police HQ construction management contracts in its Real Estate Management Audit, now nearing completion a year later.

January 29, 2013 — Council approved the 2013 Capital Budget and 2014-2018 Five Year Forecast, which still indicated a total cost of $193,567,000, "supported by Class 2 estimates." Expected accuracy was between -5% and +20%.

May 2, 2013 — Finance Committee received as information Financial Status Report **No. 2**, for the period ending December 31, 2012. (Administrative Standard No. FM-004 requires **quarterly reporting** to Finance Committee – and this is only the second quarterly report?)
The report was approved by the "Major Project Steering Committee":

- P. Sheegl, CAO
- D. Joshi, COO
- M. Ruta, CFO
- D. Clunis, Police Chief
- O. Abouzeid, Project Director
- R. Benoit, Winnipeg Police Services
- J. Ruby, Corporate Finance

The major contracts were listed. It was revealed that the single source contract with Adjeleian Allen Rubeli Limited (AAR) had been increased on April 25, 2012, by $1.8 million, to $4.4 million, plus another $150,000 overexpenditure on June 8, 2012.
The report stated that the Caspian GMP price of $137.1 million was based on 30% completion of design drawings, which were not going to be completed until March 2013, and that pricing of the complete design "may differ" from the "GMP".
But as at December 31, 2012, the estimated costs remained at the previously reported $193,567,000.
(WPS Authorization: D. Joshi, M. Ruta, D. Clunis, J. Ruby)

July 2, 2013 — Property and Development Committee approved a recommendation from the Planning, Property and Development Department that it use internal resources to provide property management services for the Office Tower at 266 Graham, at a cost of $45,000 per year instead of the $147,000 per year budgeted, presumably for Shindico's property management contract, which was not finally terminated until June 30, 2013.
(WPS Authorization: D. Joshi, M. Ruta, B. Thorgrimson, I. Day)

November 7, 2013 Finance Committee today is receiving the Financial Status Report **No. 3**, supposedly for June 30, 2013, but dated October 31, 2013 and reflecting receipt of final pricing from Caspian on September 26, 2013. The report forecasts that the project will be $17.2 million over budget, subject to further review of the final pricing by the City's consulting engineers (AAR). This brings the total to **$210,767,000**. Heading for an even quarter billion dollars, perhaps?

Note that the construction contract has actually been increased by $22 million (18%), while the budget for furniture, furnishings and equipment for the police has been reduced dramatically, by almost $5 million.

Pages 9-11 of the report provide a long list of "surprises," which have plagued this project from the beginning, and which give us citizens absolutely no confidence in the persons responsible for its mismanagement thus far.

The Major Project Steering Committee remained the same as in May, but former CAO P. Sheegl had resigned before this report was submitted.

While officials seem to be scrambling to minimize the costs, the report indicates that additional long term debt of at least $15 million will be required, and the Winnipeg Police Service operating budget is going to have to cover the cost in higher annual "rent" for the new building.

However, even now, the report states that a report for additional capital authorization and borrowing authority "will be presented to Council at a future date."

(WPS Authorization: D. Joshi, M. Ruta, D. Clunis, J. Ruby)

As a matter of interest, the Standing Policy Committee on Downtown Development, Heritage and Riverbank Development has been approving leases in the 266 Graham Office Tower:

June 24, 2013	Starbucks lease (City's agent – Shindico)
September 9/13	Relocation of a main floor retail tenant to accommodate the Police Service plans (part of the July 4, 2013 construction overexpenditure of $795,964 on renovations to the Office Tower.)
	Canada Post renewal of only 15,143 of 46,219 square feet, causing a budget shortfall of $365,000 per year starting in 2015 unless the space can be leased to other tenants.

DMS/bm