Minutes – Executive Policy Committee – November 27, 2013

Minute No. 36
Report – Standing Policy Committee on Downtown Development, Heritage and Riverbank Management – November 22, 2013

Item No. 1 Over-Expenditure Authorization for the Redevelopment of the Winnipeg Police Service Headquarters Building

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and recommended to Council:

1. That the capital budget for the 'Winnipeg Police Headquarters Redevelopment' - capital project (#6331001911) be increased by $17.2 million.

2. That the increased authorization of $17.2 million be addressed as follows:

   A. by waiving all internal construction period interest charges, and noting that external construction period interest charges are forecasted to be $6.0 million, resulting in a net saving of $1.0 million.
   B. by transferring the surplus of $674,579 from the 'Four Division Model' capital project (#6331002707) to the project.
   C. by transferring $300,000 from the General Revenue Fund to this project, which is the forecasted 2013 net income from the rental of the Office Tower.
   D. by increasing the external debt required to finance the project from $139.920 million up to $155.146 million.

3. That additional borrowing authority in an amount of up to $15,226,000 for this project be authorized and that the Director of Legal Services and City Solicitor be requested to submit the necessary borrowing by-law(s) to Council.

4. That the Chief Financial Officer be delegated 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 project budget as adjusted above.

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

Minutes – Executive Policy Committee – November 27, 2013

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DECISION MAKING HISTORY:

Moved by Councillor Pagtakhan,

That the recommendation of the Winnipeg Public Service be concurred in and forwarded to Council.

Carried

David M. Sanders submitted a communication dated November 27, 2013 in opposition to the over-expenditure authorization for the redevelopment of the Winnipeg Police Service Headquarters Building.

STANDING COMMITTEE RECOMMENDATION:

On November 22, 2013, the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management submitted the matter to Executive Policy Committee and Council without recommendation.

Further on November 22, 2013, the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management received a communication from David M. Sanders dated November 22, 2013, in opposition to the over-expenditure authorization for the redevelopment of the Winnipeg Police Service Headquarters Building.

ADMINISTRATIVE REPORT

Title: **Over-Expenditure Authorization for the Redevelopment of the Winnipeg Police Service Headquarters Building**

Critical Path: **Standing Policy Committee on Downtown Development, Heritage and Riverbank Management**
Executive Policy Committee
Council

AUTHORIZATION

Author	Department Head	CFO	A/CAO
J. Ruby	Barry Thorgrimson	Mike Ruta	Mike Ruta

RECOMMENDATIONS

1. That the Capital budget for the 'Winnipeg Police Headquarters Redevelopment' - capital project (#6331001911) be increased by $17.2 million.

2. That the increased authorization of $17.2 million be addressed as follows:
    a. by waiving all internal construction period interest charges, and noting that external construction period interest charges are forecasted to be $6.0 million, resulting in a net saving of $1.0 million.
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4. That the Chief Financial Officer be delegated 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 project budget as adjusted above.

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

REASON FOR REPORT

Additional capital of $17.2 million is required to complete the Winnipeg Police Services (WPS) Headquarters building.

Council approval is required to amend the 2013 Capital Budget, approve borrowing authority and approve the contract over-expenditure.

IMPLICATIONS OF THE RECOMMENDATIONS

- An additional $17.2 million is required to complete the project in order for the WPS to occupy the building and use it for its intended purposes; $15.2 million in debt will be issued to fund the majority of this increase.
- As the report proposes above, the City would use debt financing, resulting in borrowing of $15.2 million financed by $1 million per year in debt payments, which is expected to be accommodated within existing budgets due to lower long-term interest rates and an extended payment period.
- The additional debt repayment requirements will not require adjustment of the draft 2014, 2015 and 2016 Operating Budgets as interest rates have declined and repayment terms have lengthened since originally approved by Council Report in July 2011.
- The project is currently on schedule with the building to be ready for occupancy at June 30, 2014.

EXECUTIVE SUMMARY

This report provides background information for a $17.2 million funding increase request for the relocation of the Winnipeg Police Service (WPS) to the former Canada Post building at 266 Graham. The relocation project will consolidate the core WPS functions that are currently dispersed at locations throughout the City, to increase police presence and improve public safety in the downtown. When complete, the new police headquarters will house 14 divisions and approximately 1,250 people. All 6 floors at 245 Smith Street will be redeveloped and have approximately 606,000 square feet of space. The building is being redeveloped to 'as-new' condition and has an estimated useful life of 50 years. Current and anticipated needs of the WPS cannot be accommodated in the antiquated Public Safety Building at 151 Princess Street.

The Guaranteed Maximum Price (GMP) contractual arrangement approved by Council in July 2011 was based on conceptual design drawings, which were determined to be approximately 30% complete. The Public Service proceeded at that time in order to mitigate the risk introduced by the long wait to complete the design (work would not have proceeded for 2 years), prevent cost increases due to construction inflation during a two-year wait and prevent manpower and tradesperson shortages during heightened construction project work as stadium, museum and airport projects were ongoing simultaneously.

As this report identifies, a GMP is not an absolute protection. It only transfers part of the total risk. Even with a GMP, the City is at risk for unforeseen conditions, unanticipated requirements, and design, and scope changes. The report states:

> *The contractor has presented a guaranteed maximum price (GMP) of $137.750 million. The contractor's submission includes several conditions involving remediation construction costs (caissons/piles, slab flooring, fire stopping/fire proofing, etc.) that may impact the final cost of redevelopment.*

The GMP Agreement also contained a construction contingency allowance to deal with 7 specific risk items (See Appendix B). As discussed in previous reports to Standing Policy Committee on Finance, the City was at risk on these specific items for any overages and benefited if costs were less on these specific items. One item, the Genset Load Bank and associated works was over the allowance by $4.4 million. The other 6 items combined were within allowance.

Regarding the Genset load bank, the Police Headquarters building must be constructed to nationally prescribed standards that allow the building to continue in a disaster situation. Specifically, the building systems must continue to operate and withstand fire for a period of 2 hours. Building to this standard exceeded the original estimate. Further, the decertification of Draka cable by UCL Canada as a 2 hour fire rated cable during the construction forced the use of Pyro cable, which is approximately 3 to 4 times the cost of Draka cable, which was a contributing factor in the overage.

The final 100% design was completed in April 2013, at which time the contractor began to calculate costs based on the 100% design. The contractor (Caspian Projects Inc.) provided the Project Director (Dunmore Corporation) with an adjusted contract price in late August 2013. The detailed supporting documentation to allow the City's consultant engineers (Adjeleian Allen Rubeli Limited) to evaluate the final pricing was received from the contractor in late September 2013. As outlined in the report, the extra cost from the conceptual (30%) design was created by the change in mechanical, fire alarm and electrical systems at $12.1 million, the Gen Set (backup generator) at $4.4 million, small change orders at $220,000 and stairs pressurization to meet building code at $486,000 for a total of $17.2 million.

Construction is approximately 70% complete, with the most complex parts of the construction either finished or completely costed out. The final cost per sq. ft. for the new WPS Headquarters is $293 per sq. ft. (including land) compared to the East District which cost is $379 per sq. ft. and the West District which is $479 per sq. ft. (both excluding land). The expected life of each of these buildings is 50 years. Based on the cost per square foot of the East District compared to the WPS Headquarters and 606,000 square feet the City has received value for its money of approximately $52 million.

The project is a major capital project and as such reports to an Oversight Committee, usually on a bi-weekly basis.

Appendix A is a summary of the various amounts previously approved by Council. For more information, a quarterly status report was submitted to Standing Policy Committee on Finance and tabled at its November 7, 2013 meeting.

HISTORY

The History Section of this report should be read with reference to Appendix C which includes details of the Major contracts awarded during construction.

In December 2007, City Council adopted the 2008 Capital Budget and the 2009-2013 Five Year Forecast with a recommendation that the budgeted expenditure for the Public Safety Building re-cladding project, the related decanting projects and the Identification Unit-Forensic Services Project be reviewed by the Chief Financial Officer, and that an examination of alternatives be undertaken. These alternatives included (but were not limited to) re-cladding strategies and/or the construction of a new facility.

After reviewing the alternatives and performing due diligence with external consultants, the Public Service negotiated an Agreement for purchase and sale of the Canada Post Building at 266 Graham Avenue. A report, entitled *Winnipeg Police Service Headquarters - Acquisition of Canada Post Building (266 Graham Avenue) comprised of the Office Tower and the Winnipeg Mail Processing Plant* was submitted to Council and adopted at its meeting on November 25, 2009.

The land and buildings were purchased from Canada Post in December 2009 for a total cost including fees and disbursements of $31.567 million. Combined with the estimated redevelopment cost of $105 million, the total project value was $136.5 million, as per the November 2009 report to Council.

However the report to Council in November 2009 was for acquisition and renovation costs only and did not consider the Furniture, Fixtures and Equipment (FF&E) required to move into the building. Thus, $22.1 million was added to the project for FF&E during the 2011 Capital Budget, which brought the project total to $158.6 million including the purchase of the property for $31.567 million.

The purchase cost of the building has been recorded in the City's financial statements with $12.6 million being allocated to the Mail Sorting Plant at 245 Smith Street and $18.967 million being allocated to the office tower at 266 Graham Avenue. The capital projects to which the purchase costs of $31.567 million were charged were completed and subsequently closed, which is consistent with normal capital projects practice.

On March 30, 2010, the City issued an RFP for engineering services for the renovation of the Headquarters building. The RFP included seven phases. On August 19, 2010, the City entered into a contract with an Engineering Consultant (AECOM) to provide services relating to the first three phases of the project which was subsequently extended to a fourth phase on January 4, 2011. On December 7, 2011, Executive Policy Committee approved the appointment of Adjeleian Allen Rubeli Limited (AAR) as Engineering Consultants for the next three phases of project work.

The project began as a design, bid, build, led by city staff, which is a normal project delivery method for the City. As the design began to progress, it became apparent that costs were increasing beyond original estimates and the project was slipping from the schedule.

In order to address this situation, the CAO recommended that a professional Project Coordinator be hired and an RFP was issued in July 2010. However, in September 2010 it was recommended by the consultant engineer and the City's Project Lead to change the delivery approach from Project Coordinator (Project Manager) to a Construction Manager. A no-award was approved by the Director of Planning Property & Development in accordance with The City of Winnipeg's Materials Management policy. The benefit of this delivery approach was that it provided real world construction expertise to the project which could be incorporated into the design to help reduce costs.

On November 18, 2010, an RFP for a Construction Manager was issued. During the RFP process, there was a request that the City reduce the bonding requirement. The City, in consultation with various surety companies and at the urging of the Surety Association of Canada, determined that lowering the bonding requirements on the Headquarters project could provide a broader base of potential bidders and potentially provide savings on the project cost. The change was authorized by the Acting CAO, in consultation with Legal Services, Materials Management and the Deputy CAOs. The reduced bonding level also required dual obligee riders from sub-contractors over $100,000. The Caspian/Akman joint venture was the highest scoring respondent to the RFP and the lowest priced bidder (awarded February 10, 2011).

The success of this revised Construction Manager approach was highly dependent on the ability of the construction manager and consultant engineer to work together as a team. However, the two parties often disagreed which created a difficult situation for the Public Service to manage. At that point, the project was not meeting the expectations of the CAO as to cost and schedule. As such, the CAO made a number of changes to address these issues. The intent of the changes was to reduce costs and preserve the schedule. As a result, in June, 2011, the city staff project lead was supplemented by a professional project manager (Dunmore Corporation), who assumed the Project Director role on the project.

The Construction management RFP included the GMP contract concept. The CAO gave direction to the Project Director to negotiate the GMP contract. An external lawyer was also engaged to draft the

legal agreement. However, City Legal Services continued to be involved as well, in order to maintain continuity with city processes and to provide legal support throughout the project.

The CAO and Project Director began exploratory negotiations with the Caspian/Akman joint venture on the GMP contract. During the process, with City approval, Akman assigned their portion of the project to Caspian and the negotiations continued with Caspian Projects Inc., solely.

When negotiations arrived at a point where it appeared that a GMP agreement with Caspian Projects Inc. was a possibility, a report (July 2011) was prepared and submitted to Council adjusting project budgets and delegating authority to the CAO to enter into a GMP contract.

Specifically, in July 2011, Council approved an increase to $162 million for the redevelopment of the Winnipeg Police Services (WPS) Headquarters building comprised of $155 million for construction and construction period interest charges of $7 million. Including the original cost of the building of $31.567 million, the total approved budget for the project as approved by Council in July 2011 and disclosed in the 2012 Capital Budget was $193.567 million. As noted above, the total project costs, including the purchase of property in the 2011 capital budget, totaled $158.6 million. The increase in total costs was primarily related to an increase in construction costs and construction period interest charges. Council also delegated authority to the CAO to enter into a GMP Contract with Caspian Projects Inc. up to $137.7 million.

After Council approval, negotiations with Caspian Projects Inc. continued. The CAO together with the COO and Project Director was involved directly in negotiations of the GMP contract. As the negotiations neared completion, project team members were asked to review and provide comments on the draft GMP agreement. These comments were taken under consideration by the CAO.

On November 17, 2011, the City entered into the GMP contract with Caspian Projects Inc. for $137.1 million. The GMP Agreement was signed on behalf of the City by the CAO, Project Director as to contract details and external counsel as to legal form. Given the level of involvement and responsibilities of the Project Director in the project, Dunmore Corporation was also a signing party to the GMP contract.

At the time of signing the GMP agreement, it was known that the drawings were at the 30% stage on an overall basis, with mechanical and electrical understood to be more advanced. However, at this stage, it was the City's expectation that the conceptual design was feasible and that there were no major code issues in the drawings.

Also, at the time of signing the GMP Agreement, it was the City's intent to complete the 100% drawings prior to the commencement of construction. Had the drawings been completed prior to construction, the final costing that is known now would have been known prior to construction. However, if the City would have waited for the 100% design completion, it would have delayed commencement of construction until September 2013.

Subsequent to the signing of the GMP Agreement, the contract with the consultant engineer was not extended to the next phase and a sole source report was approved by Executive Policy Committee appointing AAR as the new consultant engineer. It was found at this time that the design was not at a high level of completion as understood from discussions but at a lesser level. As a result the contract with AAR was increased to reflect the greater than expected level of design work. It was also found that the drawings were not fully code compliant. The completion of the drawings was significantly behind original schedule and in order to meet the target occupancy date of June 30, 2014, (and other reasons stated earlier in the report) construction was started prior to the completion of design, but on a staged basis.

As the design/construction progressed, it became clear that the original 30% drawings were not sufficient to meet the requirements of a Police building. There were a number of items where it was identified that the preliminary design would not meet the requirements of the WPS. As such, the WPS

used some of the FF&E allowance to address these building issues. A major item was additional concrete work that was required in the level 2 parking garage. Due to certain mechanicals running through the garage area, the already low ceiling height lacked the clearance required for certain Police vehicles.

During demolition it was identified that the present condition of the south wall was such that the long term durability of the existing wall was compromised by air leaks and water penetration. Leaving the wall in the current condition would likely have required the City to perform repairs in the next 10 to 15 years. The required repairs were additional costs, but are expected to provide a service life of 50 years and were more economical to complete at this time.

While the above described chain of decision making was intended to save the City time and money, this coupled with the unsatisfactory 30% drawings resulted in a compromised understanding of the project budget and the current requirement to seek approval for an additional $17.2 million.

Guaranteed Maximum Price Agreement

For clarity, the City has a GMP Agreement with Caspian Projects Inc. in the amount of $137.1 million.

Under the GMP agreement, the contractor is responsible and at risk for the following:

- General labour and material price escalation
- Sub trade performance and productivity
- Cost of delays

Under the GMP agreement, the City is responsible and at risk for the following:

- Unforeseen conditions and unanticipated requirements
- Design
- Scope change
- Any overage on the 7 risk items (see Appendix B)

The GMP Agreement also included an allowance of $14.3 million for FF&E. Originally, there was approximately $4.0 million intended for furniture, $1.5 million for security requirements and the remainder to address other items required to occupy the building.

Other examples of items that were identified as the design and construction progressed were the requirement of an additional elevator to transport prisoners as well as needing to ensure secure ceilings in interview rooms. To ensure that only needs were approved (vs. wants), a senior WPS officer was assigned to the project and change items were declined unless deemed critical to occupy the building for its intended purpose.

Additional costs of $796,000 were incurred to deal with the relocation of existing tenants in the Office Tower. Project scope had been defined as only dealing with code requirements in the Office Tower and dealing with tenant issues was an increase in project scope.

The security requirements of the building were difficult to estimate at the early stages of design; as such, an allowance of $1.5 million was carried in the GMP for security. Once security requirements were determined, the amount required was $3.9 million. Examples of security requirements are card lock doors and security cameras, as well as the required door frames and wiring that needs to be installed during construction.

As discussed in previous reports, the City was at risk for design changes between the 30% and 100% drawings. As the design progressed and the drawings were reviewed, it was determined that the mechanical systems envisioned at the 30% design were not going to physically work and were not building code compliant in some instances. The original design was for in-floor HVAC for approximately

25% of the building. It was later determined that this was not workable. The change from in-floor to conventional HVAC resulted in increased duct work, which impacted ceilings, drywall and the relocation of approximately 9,000 sq. ft. of mechanical area. As such there was a significant amount of re-design from the 30% to the 100% drawings, which resulted in additional costs of approximately $12.1 million relating to mechanical, electrical and fire protection.

		Forecast	
	Budget	Total	Variance
Electrical	$18,100	$22,897	($4,797)
Mechanical	$22,796	$29,716	($6,920)
Fire protection	$3,100	$3,562	($462)
	$43,996	$56,175	($12,179)

Variance Analysis

The project budget is currently forecasted to be in a shortfall position of $17.2 million. The following is an analysis of the variances in the GMP contract, detailed as follows:

all numbers in thousands			
		Forecast	
	Budget	Total	Variance
Original GMP	$137,100	$137,100	$0
Allowance - CCF for "at risk" items	($5,830)	($5,830)	$0
Allowance - FFE	($14,300)	($14,300)	$0
	$116,970	$116,970	$0
CCF Allowance for at risk items			
Genset load bank - CCN 24	$2,350	$6,759	($4,409)
Other CCN's	$3,480	$2,104	$1,376
	$5,830	$8,862	($3,032)
FFE Allowance			
Furniture, fixtures and equipment	$12,800	$5,606	$7,194
Level P2 Concrete slab - CCN 002	$0	$1,690	($1,690)
South wall modifications - CCN 001	$0	$1,343	($1,343)
Office Tower tenant relocation costs - out of original project scope	$0	$796	($796)
Other CCN's/pending CCN's	$0	$3,236	($3,236)
	$12,800	$12,670	$130
GMP Adjustment			
Security	$1,500	$3,857	($2,357)
Mechanical, electrical & fire protection	$0	$12,179	($12,179)
Other	$0	$648	($648)
	$1,500	$16,684	($15,054)
GMP - total	$137,100	$155,186	$18,086
Soft cost	$17,900	$17,014	($886)
sub-total	$155,000	$172,200	$17,200
Construction period interest	$7,000	$6,000	($1,000)
Total	$162,000	$178,200	$16,200

It should be noted that an additional funding requirement of $17.2 million was reported to Standing Policy Committee on Finance and at a Council seminar. The proposed funding solution of waiving the $1.0 million in internal construction period interest will reduce the revised project value from $179,200 million to $178,200 million and the additional funding required from $17.2 million to $16.2 million. The higher amount of $17.2 million was reported to Standing Policy Committee on Finance and Council in order to not understate the amount of additional cost. For clarity, after the reduction of construction period interest, the additional funding required is $16.2 million.

Current Situation

Final drawings were not completed until April 2013. Final pricing from the contractor was due by May 19, 2013, 45 days after the completed design. Several requests were sent to the contractor for final pricing including the contractor appearing before the Oversight Committee. The City received the initial price indication from the contractor on August 24, 2013. However, the information provided to the City was incomplete as it did not have the required supporting documentation required for the consultant engineer to review the increases.

As such, the City issued a final deadline of September 26, 2013 to obtain final pricing with supporting documentation on the 100% design. The City advised the contractor that no additional budget had been authorized by Council and the contractor was proceeding at their own risk.

The contractor complied with the September 26, 2013 deadline. As such, the order of magnitude of the design issues was not known definitively until after this time. Support for the pricing adjustments has been reviewed by the City's consultant engineer and amounts have been finalized.

A Council seminar regarding the project shortfall was held on Friday November 1, 2013 and a quarterly status report was tabled at the November 7, 2013 Standing Policy Committee on Finance.

On November 13, 2013, the City met with the consulting engineers and Caspian to review final costing for the project. It was determined that there were further construction costs beyond $17.2 million. These additional costs were offset by the following:

- Some of the costs on this project have been incurred as a result of the Winnipeg Mail Processing Plant reconstruction. Notwithstanding this, these costs are benefitting the tenants of the Office Tower. These costs include tenant improvements, installation of a new switch gear (the old one was found to be deficient) and stair pressurization (building code requirement). As such, it is justifiable that some portion of these costs be attributed to the tower rental operations. Applying square footage pro-rata between the plant and tower, $402,840 is the amount to be allocated to the benefit of the tower. As such, $330,000 will be charged to capital project #6331000212 and $72,840 charged to capital project #6331000213, which are authorized to fund building renovations.
- deletion of a canopy ($50,000),
- reduction of project contingency ($500,000),
- deletion of window treatments ($110,468),
- reduction in furniture/moving ($500,000) and
- reductions in contractor pricing by $550,000.

A small contingency remains for the balance of the project which is intended for incidental issues that may arise during the remainder of the construction period. The consulting engineers and contractor have advised in writing that the $17.2 million additional budget is sufficient to complete the project. Further, the contractor has re-affirmed in writing that no further construction or other costs will be charged to the City unless change orders approved by the CFO are initiated by the City. The confirmed all-in price of reconstruction will now be $172.2 million excluding construction interest and building purchase.

In addition, while finalizing the budget with the contractor, it came to the attention of the Public Service that the sub-trade bonding required under the contract with Caspian Projects Inc. was not put in place as required in the RFP. It is the City's understanding that incomplete drawings contributed to this issue. However, the City has received a credit of $846,000 from Caspian Projects Inc. which is fair compensation for the reduced bonding.

Based on the receipt of the final pricing above, it was determined that the allowances in the project are no longer sufficient to deal with the additional costs and that the project is in a shortfall position of $17.2 million.

RISK AND MITIGATION STRATEGIES

On October 4th, 2013 the City sent a formal letter to the contractor emphasizing that Council has not approved funding beyond the contracted price and there are currently insufficient monies in the project for any further extension of the GMP Agreement.

Forecasted amounts include a small amount of contingency as there is still another 6 months of construction. There is limited contingency for small items outside of the contracted price. However, the contingency would not be sufficient to handle any unforeseen major items. This is mitigated to a degree by the consulting engineer and contractor acknowledging that the $17.2 million of additional funding is sufficient to complete the project.

FUNDING SOURCES

The Public Service has reviewed potential funding sources for an estimated shortfall of $17.2 million and is recommending the following:

	in dollars
Funding Sources	
Surplus in 4 District Model Project #6331002707 (identified in 2013 Capital Review Proess)	$ 674,579
Waive internal portion of construction period interest	$ 1,000,000
Office Tower - 2013 Operating surplus	$ 300,000
Long Term Debt	$ 15,225,421
	$ 17,200,000

It should be noted that Council is being asked to waive all construction period interest on internal debt which was budgeted to be $2.8 million in the July 2011 report to Council. However, external interest costs are estimated to exceed the original budget of $4.2 million by $1.8 million for a total of $6.0 million, leaving only the $1.0 million than can be used to fund the shortfall.

Since the current project budget was originally approved by Council in July 2011, interest rates have remained low and have not increased as expected and the City has been able to finance over longer periods; as such, the City's projected debt servicing costs have declined substantially since the July 2011 Report to Council which approved $10.2 million for annual debt servicing.

Debt Impacts

Further to Recommendation #3, the additional amounts of annual debt servicing associated with the additional $15.2 million in debt results in additional debt and finance charges of $1.0 million per year, less in 2014 due to a partial year occupancy. The annual debt servicing has been calculated using a 5% interest rate and a repayment term of 30 years. Debt servicing charged to the WPS is built into their rents and has been adjusted in the annual budget processes.

The debt servicing associated with the additional costs on the project has largely been off-set by the favorable interest rates and longer financing terms. As such, the projected impact on the City's operating budget is as follows:

Operating Budget Impact of an additional borrowing of $15.2 million				
all numbers in thousands				
	July 2011 Report to Council 2014	Draft Operating 2014	Draft Operating 2015	Draft Operating 2016
Forecsted Debt Service				
Base borrowing - $139.9 million	$10,165	$4,365	$7,675	$7,675
Additional borrowing - $15.2 million	$0	$505	$1,011	$1,011
	$10,165	$4,870	$8,685	$8,685
Carried for debt servicing in WPS rents in draft Operating Budget		($4,581)	($8,633)	($8,633)
Net Operating impact		$289	$52	$52

The Public Service has reviewed the operating budgets for the WPSHQ and other operating budgets and determined that the above net operating impact can be absorbed within existing budgets.

On June 22, 2011, Council adopted the Debt Strategy report for tax supported, utilities and total City borrowing. This Project requires an incremental $15.226 million in long-term debt financing.

The impact of this debt financing falls within the debt limits established in the Council report as outlined in the table below.

Tax Supported net debt as a percentage of revenue not to exceed	60%
Forecasted peak rate including proposed debt from this report	56.2%
Total City net debt as a percentage of revenue not to exceed	85%
Forecasted peak rate including proposed debt from this report	68.5%
Tax Supported debt servicing as a percent of revenue not to exceed	10%
Forecasted peak rate including proposed debt from this report	6.7%
Total City debt servicing as a percent of revenue not to exceed	11%
Forecasted peak rate including proposed debt from this report	7.1%
Tax Supported Debt per Capita not to exceed	1050
Forecasted peak rate including proposed debt from this report	1046
Total City Debt per Capita not to exceed	2050
Forecasted peak rate including proposed debt from this report	1753

Project Costs

For clarity, should Council approve the recommendations, the project cost including the purchase of the land and building would be as follows:

All numbers in thousands	Office Tower	Gun Range	Headquarters Building (*)	Total
Purchase of building (**)	$ 18,967	$ -	$ 12,600	$ 31,567
Renovation	$ -	$ 7,421	$ 147,579	$ 155,000
Increase	$ -	$ -	$ 17,200	$ 17,200
	$ 18,967	$ 7,421	$ 177,379	$ 203,767
Construction interest	$ -	$ -	$ 6,000	$ 6,000
total authorized	$ 18,967	$ 7,421	$ 183,379	$ 209,767
Proceeds from future sale of Office Tower	$ (18,967)	$ -	$ -	$ (18,967)
Final project cost	$ -	$ 7,421	$ 183,379	$ 190,800

(*) - includes land cost.

At the inception of the project, the Public Service embarked on the renovation option as it was judged to be significantly less expensive than new construction. For comparative purposes, the cost per square foot of the WPSHQ Building is compared to the East District and West District Stations, noting that the costs for the East District Station have not been adjusted for inflation.

Project	Building Size (sq ft)	Cost per Square Foot ($/sq ft)
East District Police Station (*)	33,000	379
West District Police Station (*)	33,000	479
WPS Headquarters Building (**)	606,000	293

(*) - includes FF&E /does not include land.

(**) - includes land and FF&E / does not include construction interest.

Financial Impact Statement

Date: November 8, 2013

Project Name:

First Year of Program **2013**

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

	2013	2014	2015	2016	2017
Capital					
Capital Expenditures Required	$ 179,200,000	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	162,000,000	-	-	-	-
Additional Capital Budget Required	$ 17,200,000	$ -	$ -	$ -	$ -
Funding Sources:					
Cash-to-Capital	$ 674,579	$ -	$ -	$ -	$ -
Debt - External	15,225,421	-	-	-	-
Reduction of Construction Period Interest	1,000,000	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Transfer from Operating	300,000	-	-	-	-
Total Funding	$ 17,200,000	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ 17,200,000				
Total Additional Debt Required	$ 15,225,421				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	6,000,000	-	-	-	-
Net Cost/(Benefit)	$ (6,000,000)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	(6,000,000)	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: The over-expenditure total of $17.2 million is to be financed by internal sources totaling $1,974,579 + external debt of $15,225,421. Incremental revenues of $6 million represent construction period interest charged to the project budget and recovered in the current budget of Corporate Finance Department. There is no operating budget impact related to the additional external debt. Lower than projected interest rates and longer amortization periods than estimated when formulating the WPS accommodations budget for 2014 onward have resulted in existing projected budgets being sufficient to fund the additional debt servicing costs.

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

CONSULTATION

In preparing this Report there was consultation with:

- Corporate Finance
- Materials Management
- Legal Services (as to legal issues)
- Winnipeg Police Service

SUBMITTED BY

Department: Planning, Property and Development
Prepared by: Jason Ruby – Corporate Finance, Manager of Capital Projects

Date: November 18, 2013 (Final 12:45 pm)
File No.:



WPSHQ - 2013 Borrowing By-law.pdf

WPSHQ Project
Appendix A
Summary of Council Approvals
November 4, 2013

	Nov 2009 Original Report to Council	2011 Capital Budget	July 2011 Report to Council	2012 Capital Budget	Nov 2013 Report to Council
Capital Value of Project					
Redevelopment	$105,000	$127,100	$155,000	$155,000	$172,200
Construction period interest			$7,000	$7,000	$6,000
	$105,000	$127,100	$162,000	$162,000	$178,200
Purchase					
Cost - not allocated	$31,500	$31,500	$0		$0
Cost - Mail sorting plant (box)	$0	$0	$12,600	$12,600	$12,600
Cost - Office Tower			$18,967	$18,967	$18,967
	$31,500	$31,500	$31,567	$31,567	$31,567
sub-total	$136,500	$158,600	$193,567	$193,567	$209,767
Proceeds of sale	$0	($29,935)	$0		$0
Other		($1,632)	$0		$0
Total capital value of project	$136,500	$127,033	$193,567	$193,567	$209,767
Project Funding					
Long term debt	$88,000	$100,920	$139,920	$139,920	$155,145
Cash to capital	$48,500	$26,113	$26,113	$30,669	$30,669
Short term debt			$18,967	$18,967	$18,967
Cash to capital or other sources			$7,000	$0	$0
Manitoba/Winnipeg Infrastructure fund				$4,011	$4,011
Other			$1,567	$0	$975
	$136,500	$127,033	$193,567	$193,567	$209,767

All figures are in $000

Appendix B – Allowance for 7 specific items.

all numbers in thousands			
	Allowance in GMP	Change Orders	Variance
Back-up Power	$2,350	$6,759	($4,409)
Caisson	$1,288	$0	$1,288
Fire stop / proofing	$684	$1,011	($327)
Exterior Column fire proof	$514	$560	($46)
Exterior grade beam upgrade	$412	$0	$412
Slab remediation and surfacing	$370	$532	($162)
Floor reinforcement for shelving	$212	$0	$212
	$5,830	$8,863	($3,033)

Appendix C – Major contracts

The following is a list of major contracts awarded and their status as at September 1, 2013.

Bid Opportunity	Awarded To	Description	Award Date	Completion Date	Award/Contract Value
66-2010 Phase 1-3	AECOM Inc.	Professional Consulting Services for the Design and Development of the Winnipeg Police Service Headquarters at 266 Graham Avenue (former Canada Post Building) in Winnipeg	Aug 19, 2010	Feb 24, 2012	$2,520,092.00
66-2010 Phase 4	AECOM Inc.	Professional Consulting Services for the Design and Development of the Winnipeg Police Service Headquarters at 266 Graham Avenue (former Canada Post Building) in Winnipeg	Jan 4, 2011	Feb 24, 2012	$2,820,446.00 (*)
833-2010 Phase 1	Caspian Projects Inc. &Akman Construction Ltd. *assigned to Caspian Projects Inc.	Construction Management Services for the Design and Development of the Winnipeg Police Service Headquarters at 266 Graham Avenue (Former Canada Post Building) in Winnipeg	Feb 10, 2011	June 5, 2012	$50,000.00
833-2010 Phase 1 – Over expenditures	Caspian Projects Inc.	During the design process, the design engineer determined that additional invasive testing/inspection on the building was necessary to further the design process	Dec 20, 2011	June 5, 2012	$276,020.61
833-2010 Phase 1 – Over expenditures	Caspian Projects Inc.	During the design process, the design engineer determined that additional invasive testing/inspection on the building was necessary to further the design process	June 5, 2012	June 5, 2012	$113,937.99
833-2010 Phase 2&3 **GMP**	Caspian Projects Inc.	Guaranteed Maximum Price Contract for the redevelopment of 245 Graham Avenue and shooting range at Wyper Road	Nov 17, 2011	Ongoing	$137,100,000.00

Over-expenditures (833-2010)	Caspian Projects Inc.	GMP Contract extended for the relocation/construction of new office space to accommodate an existing tenant in the Office Tower at 266 Graham Avenue displaced by the WPSHQ lobby and other renovations to the Office Tower at 266 Graham Avenue.	July 4, 2013	Ongoing	$795,964.12
Single Source	Adjeleian Allen Rubeli Limited	Professional Engineering Services Required by the City of Winnipeg Police Headquarters (Canada Post) Project	Dec 23, 2011	On going	$4,400,000.00 ($2,600,000.00 original contract) ($1,800,000.00 over-expenditure April 25, 2012)
Over-expenditure -	Adjeleian Allen Rubeli Limited	Professional Engineering Services Required by the City of Winnipeg Police Headquarters (Canada Post) Project	June 8, 2012	Ongoing	$150,000.00
Over-expenditure	Adjeleian Allen Rubeli Limited	Professional Engineering Services related to additional design services and revisions to contract drawings related to tower / link requirements and building code standards.	July 19, 2013	Ongoing	$260,000.00
201-2012	Integrated Designs Inc.	Commissioning of the Winnipeg Police Headquarters at 266 Graham Avenue	Jun 19, 2012	Ongoing	$375,000.00
Direct Assignment	Duboff Edwards Haight & Schachter	Legal Services in the development of the GMP for the Winnipeg Police Services Headquarters	Jul 21, 2011	April 3, 2012	Services up to $100,000.00 ($33,989.48 paid)
Direct Assignment	Dunmore Corporation	Project Management Services for the Winnipeg Police Headquarters Project	Jun 1, 2011	On going	$262,580.67

(*) – plus $81,866.84 paid to close out services.

THE CITY OF WINNIPEG

BY-LAW NO. _____

A borrowing by-law of THE CITY OF WINNIPEG to authorize the borrowing of money in the amount of up to $15,226,000.00.

WHEREAS Section 294 of *The City of Winnipeg Charter* provides, in part, as follows:

"294(1) Subject to subsection (2), council may pass by-laws enabling the city to borrow money in such manner, in such amounts, and on such security as council may consider necessary for any purpose for which the city is authorized to make provision, including, without limiting the generality of the foregoing, borrowing money required for local improvements.

294(2) Before council gives second reading to a by-law under subsection (1), the city must apply for and obtain the approval of the Minister of Finance for the borrowing under the proposed by-law.

294(3) An application for approval under subsection (2) must specify the principal amount to be borrowed and give a general description of the objects for which the amount will be used, but it is not necessary to specify in the application

(a) the manner of borrowing;

(b) the particulars of any proposed securities to be issued in respect of the borrowing; or

(c) the rate of interest payable on the amount or the term within which it is repayable.

294(4) In dealing with an application made under this section, the Minister of Finance must consider only the financial position of the city and must

(a) approve the application in whole or in part or subject to terms and conditions, including specifying the time within which the amount to be borrowed is to be repayable; or

(b) refuse to approve the application."

AND WHEREAS By-law No. 93/2011 authorized THE CITY OF WINNIPEG (hereinafter referred to as "the City") to borrow money in the amount of up to $139,920,000.00 for the purpose of the redevelopment of the Winnipeg Police Services Headquarters Building.

AND WHEREAS the City considers it necessary during the year 2013 and subsequently, to borrow additional money in the amount of up to $15,226,000.00 for the purpose of the redevelopment of the Winnipeg Police Service Headquarters Building.

AND WHEREAS after the first reading and before the second reading of this borrowing by-law, its enactment received the authorization of the Minister of Finance;

NOW THEREFORE THE CITY OF WINNIPEG, in Council assembled, enacts as follows:

1. For the purposes and objects of the City specified in this by-law, money in the principal amount of up to $15,226,000.00 may be borrowed during the year 2013 and subsequently on the credit of the City by the issue and sale of debentures of the City, or by the issue of such other city securities as may be determined by the Chief Financial Officer.

2. Pending the issue of the debentures or other city securities, the City may agree with a bank or person for temporary borrowing from time to time to meet expenditures incurred for the purposes stated in this by-law.

RECEIVED FIRST READING on the day of , 2013;

AUTHORIZATION OF THE MINISTER OF FINANCE RECEIVED on the day of , ;

RECEIVED SECOND READING on the day of

RECEIVED THIRD READING AND PASSED on the day of

DONE AND PASSED, in Council assembled, this day of

_____
Mayor

_____
City Clerk

Approved as to financial details:

_____
City Treasurer

Approved as to form:

_____
for Director of Legal Services/
City Solicitor