Agenda – Council – December 10, 2014

Report – Executive Policy Committee – December 3, 2014

Item No. 6 Winnipeg Police Headquarters Redevelopment Project – Insurance Recovery Report

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 3, 2014, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service, as amended, and submitted the following to Council:

1. That as a result of water damage in August 2014 at the Winnipeg Police Service (WPS) Headquarters and the subsequent insurance claim, the Chief Administrative Officer be delegated the authority to:
   A. approve contract over-expenditures with Caspian Projects Inc., Adjeleian Allen Rubeli Ltd., and Integrated Designs Inc.; and
   B. negotiate and approve the terms and conditions of the subject agreements, in accordance with terms and conditions deemed necessary by the Director of Legal Services and City Solicitor to protect the interests of the City.

2. That the Winnipeg Public Service report back to the Standing Policy Committee on Finance the complete cost of the damage once it is fully known.

3. That the Proper Officers of the City be authorized to do all things necessary to facilitate the work associated with the subject insurance claim and to implement the intent of the foregoing.

Agenda – Council – December 10, 2014

Report – Executive Policy Committee – December 3, 2014

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 3, 2014, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service, with the following amendments:

- Add new Recommendation 2.:

  "2. That the Winnipeg Public Service report back to the Standing Policy Committee on Finance the complete cost of the damage once it is fully known."

- Renumber Recommendation 2. as 3.

and submitted the matter to Council.

Further on December 3, 2014, the Executive Policy Committee received from David Sanders a communication dated December 3, 2014, in opposition to the Winnipeg Police Headquarters Redevelopment Project – Insurance Recovery Report.

ADMINISTRATIVE REPORT

Title: **Winnipeg Police Headquarters Redevelopment Project - Insurance Recovery Report**

Critical Path: **Executive Policy Committee, Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
I. Day	B. Thorgrimson	M. Ruta	D. Joshi A/CAO

RECOMMENDATIONS

1. As a result of water damage in August 2014 at the Winnipeg Police Services (WPS) Headquarters and the subsequent insurance claim, that Council delegate authority to the Chief Administrative Officer to:
    a. approve contract over-expenditures with Caspian Projects Inc., Adjeleian Allen Rubeli Ltd., and Integrated Designs Inc.; and
    b. negotiate and approve the terms and conditions of the subject agreements**,** in accordance with terms and conditions deemed necessary by the City Solicitor/Director of Legal Services to protect the interests of the City.

2. That the Proper Officers of the City be authorized to do all things necessary to facilitate the work associated with the subject insurance claim and to implement the intent of the foregoing.

REASON FOR THE REPORT

- To inform Council that over-expenditures to the Winnipeg Police Service (WPS) Headquarters construction project's contracts and agreements are required to ensure that all water damage related work is performed in compliance with existing contracts, regulations and legislation and in a timely fashion.

- Council authority is required to amend a previous Council direction.

- To inform Council that post-loss financing is available, as detailed later in this report, to respond to the costs of repairing the water damage arising from the significant rain event of August 21, 2014.

IMPLICATIONS OF THE RECOMMENDATIONS

The City must proceed with due diligence in arranging all necessary contract and agreement extensions in order to reduce any additional costs, fines and penalties and to avoid increased costs which would not be covered by insurance or by the Insurance Reserve Fund (IRF).

A $2,000,000 reservation of funds has been set aside within the IRF and is available for interim/ bridging costs and for uninsured costs which may be required in order to proceed with repairs in a timely fashion. The IRF currently has sufficient funds available for this purpose.

HISTORY

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. The total approved budget for the project as approved by Council in July 2011 and disclosed in the 2012 Capital Budget is $193.567 million, which included $31.567 million for the purchase cost of the building. The purchase cost of the building is not included in this report as it is not within the responsibilities of the Project Director and Project Team. 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.

In July 2011, Council also delegated authority to the CAO to enter into a Guaranteed Maximum Price (GMP) contract. On November 18, 2011, the City entered into a GMP contract with Caspian Projects Inc. for $137.1 million.

In December 2013, Council increased the project budget by $17.2 million bringing the total redevelopment cost to $178.2 million and total project value (including purchase of the building) to $209.8 million. Further, Council's decision included the following:

> 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.

On February 21, 2014, the City signed a Supplemental Agreement with Caspian Projects Inc. establishing a Total Contract Price of $156,374,911.67, which is within the funding authorized by Council.

The new Winnipeg Police Service Headquarters passed all Life and Safety testing on July 29, 2014 and Final Inspection on August 20, 2014. Final Inspection is required before the Interim Occupancy permit application can be made. The building was to be handed over to the City on August 25, 2014 following application for the Interim Occupancy permit. However, that never happened due to the rain event that occurred on August 21, 2014. The impact of storm overwhelmed the roof drain leaders and rainwater infiltrated the lower levels of the building. Subsequently, steps are big taken to upgrade the roof drain leaders (pipe straightening and bracing, pressure relief valves) to accommodate another intense rain event.

As required by the Winnipeg Electrical By-law, a Standards Council of Canada (SCC) firm has been hired to carry out the testing and assessment of the electrical systems (wiring, hardware) and equipment (switches, breakers, transformers). The firm will prepare a report that will identify what electrical equipment and systems are acceptable, require repair/re-certification or need to be replaced. Once the scope of the remediation work has been determined, contract over-expenditures for the project consultants and the contractor will be approved by the appropriate delegated authority in order to make the repairs.

In accordance with the original Bid Opportunity 833-2010 for the construction of the Winnipeg Police Headquarters Redevelopment project, and the successor agreements, the City was responsible for carrying all project specific insurance for this Project. Arranging project specific insurance provides an economic benefit to the City by combining all insurances under one program for economy of scale and protecting all parties. As owner, this provides the City with the ability to negotiate the project insurance contracts in the best interest of the City and allows the City to retain control over the contract terms and take the lead in all claim settlements.

An insurance claim is being made under the City's Course of Construction insurance policy. Specifics of the claim are as follows:

- The flooding was caused by "any other accidental or normally insurable cause available under current general property insurance programs".
- The damage is a direct financial loss to a City asset requiring immediate repairs to allow the business of the City to continue uninterrupted.
- The insurance contract covers the perils of water damage/flooding under the project specific Owner Controlled Insurance Program (OCIP) Builder's Risk property insurance policy.
- Insurance will provide a significant portion of the financing necessary for the WPS Headquarters to recover from the water damage. However, insurance does not respond to all costs related to a major sudden and accidental event.
- The IRF is intended to protect the City from serious financial impact of a sudden and accidental property loss and is typically used in combination with Insurance transfer.
- There are sufficient funds in the IRF to permit the use of up $2,000,000 from the reserve as a temporary measure to pay for repairs. It is anticipated that once the Insurers are satisfied with the claim, the associated insurance recovery would be deposited in the IRF to replenish the reserve.
- The assumption is that a significant portion of this insurance claim will be responded to through the Project Builders Risk insurance policy.

Post loss funding is available as follows:

- insured damage costs will be recovered from the Insurers;
- necessary interim or bridging costs will be responded to from the IRF and/or recovered from the Insurers; and
- uninsured costs will be responded to from the IRF.

The City and the insurance adjuster, representing the insurers, are working collaboratively with the existing project consultants and contractor. It has been determined that this is the most cost-effective and timely way to make the repairs and finish the construction project. Funds from the IRF will be used to expedite the necessary repair work which will be performed by the current project consultants (Adjeleian Allen Rubeli Ltd., Integrated Designs Inc.) and the contractor (Caspian Projects Inc.). All invoices will be tracked and costs submitted (as per the agreed-to amounts) to the City's Insurance Adjuster for final settlement. Once approved, the Insurance Adjuster will advance funds to the City for the repair work which will be deposited into the IRF.

The reservation of $2,000,000 in funds from the Insurance Reserve Fund ensures:

- necessary professional, technical and construction repair work can be done in a timely manner;
- Interim Occupancy can occur following restoration of life and safety equipment; and
- delay costs, penalties and fines will be reduced by proceeding immediately rather than waiting for receipt of the eventual anticipated insurance recovery.

FINANCIAL IMPACT

Financial Impact Statement

Date: November 20, 2014

Project Name:

Winnipeg Police Headquarters Redevelopment Project - Insurance Recovery Report

First Year of Program **2014**

	2014	2015	2016	2017	2018
Capital					
Capital Expenditures Required		$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs		-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (P3 Canada Fund)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 2,000,000	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 2,000,000	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	2,000,000	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Comment(s): Direct costs of up to $2 million, to be funded on an interim basis from the Insurance Reserve Fund, are intended to restore the building to its pre-rain event state. As such, for the purposes of this FIS, the expenditure has been reflected as a current rather than capital expenditure.

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

CONSULTATION

In preparing this report there was consultation with:

Legal Services (as to legal issues)
Corporate Finance

SUBMITTED BY

Department:	Planning, Property and Development
Division:	Municipal Accommodations
Prepared by:	Iain Day
Date:	November 27, 2014
File No.	MA2014-219

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