Agenda – Executive Policy Committee – January 20, 2016

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – January 12, 2016

Item No. 15 Requirement for Additional Funds and Increased Delegated Award Authority for a Single Source Contract with Manitoba Hydro for Electrical and Natural Gas Servicing in the St. Boniface Industrial Park Phase 2 Development

STANDING COMMITTEE RECOMMENDATION:

On January 12, 2016, the Standing Policy Committee on Property and Development, Heritage and Downtown Development concurred in the recommendation of the Winnipeg Public Service, as amended, and submitted the following to Council:

1. That Item No. 1 of the Report of the Standing Policy Committee on Property and Development dated July 14, 2015, as adopted by Council on July 15, 2015 and amended by Council on September 30, 2015, be amended as follows:

    A. Recommendation 2.C. be amended by deleting the amount of "$2,110,000.00" in the first line and replacing it with the amount of "$2,510,000.00".

    B. Recommendation 2.D. be amended by deleting the amount of "$4,110,000.00" in the first line and replacing it with the amount of "$4,510,000.00".

    C. Recommendation 4.B. be amended to add subparagraph iv. as follows:

        iv. notwithstanding the foregoing, the Chief Administrative Officer shall be authorized to proceed with the negotiation, on a single source basis, and award and approval of contract with Manitoba Hydro as contemplated by Recommendation 4.E. hereof in advance of fully-executed funding agreements between the City and Parmalat and the Province of Manitoba respectively."; and

    D. Recommendation 4.E. be amended by deleting the amount of "$150,000" in the third line and replacing it with the amount of "$550,000".

2. That the use of any or all of the additional funds in the amount of $200,000, that are included herein as an allowance for a future contract payment to Manitoba Hydro, be subject to the approval of the Standing Policy Committee on Property and Development, Heritage and Downtown Development.

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

Agenda – Executive Policy Committee – January 20, 2016

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – January 12, 2016

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On January 12, 2016, the Standing Policy Committee on Property and Development, Heritage and Downtown Development concurred in the recommendation of the Winnipeg Public Service, as amended, and recommended to Council:

- Delete recommendation 1.E. in its entirety.

- Add the following new recommendation 2 and renumber the remaining recommendation accordingly:

    2. That the use of any or all of the additional funds in the amount of $200,000, that are included herein as an allowance for a future contract payment to Manitoba Hydro, be subject to the approval of the Standing Policy Committee on Property and Development, Heritage and Downtown Development.

and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: **Requirement for Additional Funds and Increased Delegated Award Authority for a Single Source Contract with Manitoba Hydro for Electrical and Natural Gas Servicing in the St. Boniface Industrial Park Phase 2 Development**

Critical Path: **Standing Policy Committee on Property and Development, Heritage and Downtown Development - Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
J. Zabudney	J. Kiernan	Mike Ruta	Doug McNeil

RECOMMENDATIONS

1. That Item No. 1 of the Report of the Standing Policy Committee on Property and Development dated July 14, 2015, as adopted by Council on July 15, 2015 and amended by Council on September 30, 2015, be amended as follows:

    a. Recommendation 2.C. be amended by deleting the amount of “$2,110,000.00” in the first line and replacing it with the amount of “$2,510,000.00”.

    b. Recommendation 2.D. be amended by deleting the amount of “$4,110,000.00” in the first line and replacing it with the amount of “$4,510,000.00”.

    c. Recommendation 4.B. be amended to add subparagraph iv. as follows:

        iv. notwithstanding the foregoing, the Chief Administrative Officer shall be authorized to proceed with the negotiation, on a single source basis, and award and approval of contract with Manitoba Hydro as contemplated by Recommendation 4.E. hereof in advance of fully-executed funding agreements between the City and Parmalat and the Province of Manitoba respectively.”; and

    d. Recommendation 4.E. be amended by deleting the amount of “$150,000” in the third line and replacing it with the amount of “$550,000”.

    e. Recommendation 4.E. be further amended by adding the following sentence at the end: “That the Chief Administrative Officer be delegated authority to approve

over-expenditures, if any, relating to this contract with Manitoba Hydro providing monies are available within the applicable budget funded through the Land Operating Reserve as approved by Council."

2. 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

On July 15, 2015, Council concurred in the recommendation of the Standing Policy Committee on Property and Development that the authority be delegated to the Chief Administrative Officer to negotiate on a single source basis, and approve the terms and conditions of contract and award a contract to Manitoba Hydro in an amount not to exceed $150,000, plus P.S.T and G.S.T. as applicable for the installation of electricity and natural gas utility servicing requirements to facilitate the sale of the subject site.

EXECUTIVE SUMMARY

- Parmalat Canada Inc. (Parmalat) is pursuing an expansion proposal and requires a suitable new location in Winnipeg to establish a new fluid milk processing plant in Winnipeg replacing the current aging facility in St. Boniface. Parmalat Canada Inc. has imposed critical timelines to commence construction of its new facility in order to meet its production demands.

- On July 15, 2015, Council delegated the authority the Chief Administrative Officer to negotiate and approve an award of contract to Manitoba Hydro for the installation of electrical and natural gas services required to the lands being acquired by Parmalat in the proposed development (now known as St. Boniface Industrial Park Phase 2).

- Since July, 2015, additional information has been provided by Parmalat to Centra Gas (subsidiary to Manitoba Hydro) and to the City regarding their expected natural gas consumptive demands required by their processing facility which are now much larger than originally anticipated.

IMPLICATIONS OF THE RECOMMENDATIONS

- There are no regulatory or human resources implications associated with this report.
- Funds for this contract are available in the Land Operating Reserve (209-163040-638089).

HISTORY/DISCUSSION

On July 15, 2015, Council adopted Item 1 of the Report of the Standing Policy Committee on Property and Development dated July 14, 2015, which included the following:

“Recommendation 2 - That in order to facilitate the sale of the City-owned property shown hatched on Misc. Plan No. 14362/6, attached (the “Site”), to Parmalat Canada Inc., Council approve the installation of the necessary services as described herein with a net cost of $5.61 million to be funded as follows:

A. cash contribution by Parmalat Canada Inc. in the amount of $1,500,000.00, to be paid to the City concurrently with the payment of the purchase price for the Site;

B. contribution by the Province of Manitoba in the amount of $2,000,000.00 plus interest at the RBC prime rate, to be front-ended by the City and reimbursed by the Province of Manitoba over an estimated 18 year period through the Province’s annual Community Revitalization Levy with respect to the Site; and

C. $2,110,000.00 contribution from the City, to be funded from the Land Operating Reserve and reimbursed with: (i) the net sale proceeds of the balance, or any portion of the balance of the City-owned property identified on Misc. Plan No. 14362/6; and (ii) municipal property taxes and business taxes with respect to the Site;

Recommendation 4 - That the Chief Administrative Officer be delegated the authority:

A. to negotiate and approve the sale of the Site in favour of Parmalat Canada Inc. (or its Nominee), for the purchase price of $2,625,000.00, in accordance with the City’s standard terms and conditions of Offer to Purchase and upon such additional terms and conditions that the Director of the Planning, Property and Development Department and the Director of Legal Services and City Solicitor consider necessary to protect the interests of the City.

B. to proceed with the installation of the necessary services as described herein in order to facilitate the sale of the Site to Parmalat Canada Inc., subject to fully executed funding agreements between:

   i. the City and Parmalat Canada Inc., setting out the terms and conditions of Parmalat Canada Inc.’s contribution to wastewater oversizing costs in the amount of $520,000.00 and site servicing costs in the amount of $1,500,000.00; and

   ii. the City and the Province of Manitoba, setting out the terms and conditions of the Province’s agreement to reimburse the City for site servicing costs in the amount of $2,000,000.00 plus interest at the RBC prime rate.

E. to negotiate on a single source basis, and approve the terms and conditions of contract and award a contract to Manitoba Hydro in an amount not to exceed $150,000, plus P.S.T and G.S.T. as applicable for the installation of electricity and natural gas utility servicing requirements to facilitate the sale of the subject site.”

When cost estimates for servicing for the St. Boniface Industrial Park Phase 2 were being developed earlier this year, the natural gas consumptive load from Parmalat had not been

finalized, and the cost estimates for natural gas servicing from Manitoba Hydro were therefore very preliminary. With the natural gas loads now being finalized by Parmalat for the projected 2016 and future 2018 milk processing facility needs, Manitoba Hydro has provided their cost estimate for gas line extension into St. Boniface Industrial Park Phase 2 which is in excess of preliminary cost estimates from earlier this year.

Manitoba Hydro will require a cost contribution from the City, acting as developer of the lands, in an estimated amount of approximately $303,440.00 plus GST before installation of the new gas service will commence. The total cost of the gas line extension will be approximately $800,000 and involve extension of 3.1 kilometers of 200mm diameter pipeline. Manitoba Hydro will contribute approximately $500,000 towards the gas line installation based on their estimates of future revenues from Parmalat and from other potential customers within the St. Boniface Industrial Park Phase 2 lands. The gas line being installed for Parmalat can be readily extended to service the balance of the lands within St. Boniface Industrial Park Phase 2.

Manitoba Hydro has advised that the estimated construction cost and future revenues are Manitoba Hydro's estimates only, and actual construction costs and actual future revenues will be used to determine the final cost to the City of Winnipeg. The process and timeline to determine final costs and as specified by a draft agreement with Hydro will be as follows:

1. End of 1st year of Parmalat operation and any other new business:

    - Assessment to be completed by approximately June 30, 2018 assuming Parmalat begins production on January 1st, 2017.

    - Actual construction costs for natural gas line extension will be calculated.

    - Actual revenues from natural gas sales will be determined by Manitoba Hydro.

    - If actual construction costs exceed estimates or if actual revenues are less than estimates, a further financial contribution will be required by the City of Winnipeg. The actual amount is not known at this time but could be as much as $200,000, payable in 2018.

    - If actual construction costs are less and/or if revenues are greater, the City will not be refunded any difference from their initial financial contribution.

2. End of 5th year of Parmalat operation and any other new business:

    - Assessment to be completed by approximately June 30, 2022 using actual data to December 21, 2021.

    - Total revenues from all gas main extension users will be calculated in a "True Up".

    - If gas sale revenues exceed projections, a partial refund of the City's initial contribution, without interest, may be available to the City of Winnipeg.

- If gas sale revenues are less than projections, the City will not be required to pay anything further.

Therefore in summary, there is a risk to the City being required to make an additional financial contribution to Hydro in 2018, if:

1) The actual cost for gas line extension exceed Hydro's preliminary cost estimate and/or;

2) The demands from Parmalat as well as demands from other customers that may develop in St. Boniface Industrial Park Phase 2, do not materialize as projected.

Hydro has advised however that the primary consideration governing the possible requirement for additional contribution from the City after one year of operation is the actual construction cost exceeding preliminary construction cost estimates. The actual cost of installation for the required natural gas infrastructure, net of any credits for anticipated future revenue, will be billed by Manitoba Hydro to the City of Winnipeg in 2018 if the amount exceeds the City's initial financial contribution.

The financial feasibility test is a method used by Hydro to determine the required financial contribution from their customers. Based on the propriety of Hydro's financial test and the uncertainty of future natural gas demands within the St. Boniface Industrial Park Phase 2, together with the uncertainty in the estimated cost for the gas line extension, it is impossible to precisely calculate the future amount that could be required from the City in 2018; or to determine a possible credit due to the City in 2022.

In a worst case scenario, if the gas line extension were to cost $800,000 and no development were ever to occur in St. Boniface Industrial Park Phase 2, Hydro could seek full reimbursement of their costs or an additional $500,000 above the City's initial $300,000± contribution. This is extremely unlikely however as Parmalat has already begun construction of their processing facility and will, according to current schedules, begin utilizing natural gas in their production by January, 2017.

A more likely scenario is that the cost for the gas line extension will exceed Hydro's preliminary estimates, and that Hydro will seek an adjustment to the City's contribution based on actual construction costs. An allowance of $200,000 has been included in the requested funding and delegation for Hydro agreement authorization to account for this eventuality although it is not expected to occur until the first half of 2018.

Estimated Cost Summary:

- Estimated City cost contribution to natural gas supply pipeline extension - $303,440
- Allowance for Future Contribution- $200,000
- Estimated City cost contribution to electrical service street lighting - $ 46,560
- Total Authorization required before taxes- $550,000
- Existing authorization- $150,000
    - **Increased authorization required before taxes $400,000**

Agreements with Parmalat and the Province of Manitoba are still under development. To meet the installation schedule for natural gas service to the new Parmalat processing plant, an award of contract with Manitoba Hydro should be made by the end of January or early February, 2016. In the event that both agreements with Parmalat and the Province are not available by that time, a request to allow the CAO to award the contract to Manitoba Hydro in advance has been made.

In the event that Manitoba Hydro does seek an additional contribution from the City at the end of the first full year of Parmalat's operation estimated to occur in 2018, delegation of authority for contract over-expenditure to the Chief Administrative Officer has been requested.

FINANCIAL IMPACT

Financial Impact Statement

Date: December 29, 2015

Project Name:

First Year of Program **2016**

Requirement for Additional Funds and Increased Delegated Award Authority for a Single Source Contract with Manitoba Hydro for Electrical and Natural Gas Servicing in the St. Boniface Industrial Phase 2 development.

	2016	2017	2018	2019	2019 to 2036
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 550,000		$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 550,000	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	150,000		-	-	-
Net Budget Adjustment Required	$ 400,000	$ -	$ -	$ -	$ -

Additional Comments: Direct costs represent the amount to be charged to Inventory (209-163040-638089) in the Land Operating Reserve (LOR). The $550,000 consists of the estimated City contribution to natural gas supply pipeline extension ($303,440), allowance for future contribution of $200,000 and to electrical service street lighting ($46,560). The "Existing Budget Amounts" represent the currently authorized single source authority while the "Net Budget Adjustment Required" represent the additional single source authority being sought. The incremental $400,000 in costs will be charged to Inventory in the LOR and expensed as cost of sales upon disposition of benefitting properties.

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

CONSULTATION

Legal Services Department (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

OURWINNIPEG AND COMPLETE COMMUNITIES DIRECTION STRATEGY

- The subject lands are located within the General Manufacturing Policy Area under
- the Complete Communities Direction Strategy. Supporting Direction and Enabling Strategies include:

  - "Consider options to encourage development of under-utilized parcels and obsolete sites" (p.94).
  - "Maximize the economic development potential of existing and future employment lands" (p.96).

ZONING BY-LAW

- The proposed use conforms with the current zoning of the subject lands which are zoned M3 PDO-2 – Prairie Industrial Park Manufacturing Heavy District. The purpose of this overlay is to provide flexibility for "M3" Manufacturing Heavy Zoning District uses for the area defined as the PDO-2 Prairie Industrial Park.

- M3 lands are intended to accommodate light or heavy industrial development, including heavy manufacturing, storage, major freight terminals, waste and salvage, resource extraction, processing, transportation, major utilities, and other related uses, particularly those that require very large buildings, frequent heavy truck traffic for supplies or shipments, or that may require substantial mitigation to avoid sound, noise, and odour impacts to neighbouring properties.

SUBMITTED BY

Department	Planning, Property & Development
Division	Real Estate
Prepared by:	John S. Zabudney
Date:	December 29, 2015
File No.	o:\reports directive\real estate\sales\st boniface industrial phase 2 development -hydro additional funds and award authority (3)(rev3).docx