Minutes – Executive Policy Committee – September 17, 2024

Report – Standing Policy Committee on Public Works – September 12, 2024

Item No. 1 North Garage Replacement Project Budget Status

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Public Works and submitted the following to Council:

1. That Option 3 to reduce the scope of the current project to match the existing approved budget of $200.066 million, as outlined in the report, be approved.

2. That the Public Service be directed to report back to the Standing Policy Committee on Finance in January, 2025, to present a revised plan for the North Garage Replacement.

3. That the Public Service be directed to continue consultations with the Provincial and Federal Governments with regards to ICIP funding and principles to ensure future cost overruns are managed effectively.

4. That the Public Service be directed to report back to Council in January, 2025, on the implication the reduction in project scope has for the recently approved Winnipeg Transit Master Plan.

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

Minutes – Executive Policy Committee – September 17, 2024

Report – Standing Policy Committee on Public Works – September 12, 2024

DECISION MAKING HISTORY:

Moved by Councillor Browaty,

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than four business days preceding the committee meeting, be considered by Committee.

Carried

Moved by Councillor Lukes,

That the recommendation of the Standing Policy Committee on Public Works be concurred in and forwarded to Council.

Carried

The following persons submitted communications in opposition to the matter:

- Jason Ward
- Matthew Peters
- Max Schreckenbach

STANDING COMMITTEE RECOMMENDATION:

On September 12, 2024, the Standing Policy Committee on Public Works concurred in the recommendation of the Winnipeg Public Service, with the following amendments:

- Delete Recommendations 1 – 3 and replace with the following:

    "1. That Option 3 to reduce the scope of the current project to match the existing approved budget of $200.066 million, as outlined in the report, be approved.

    2. That the Public Service be directed to report back to the Standing Policy Committee on Finance in January, 2025, to present a revised plan for the North Garage Replacement.

    3. That the Public Service be directed to continue consultations with the Provincial and Federal Governments with regards to ICIP funding and principles to ensure future cost overruns are managed effectively."

Report – Standing Policy Committee on Public Works – September 12, 2024

DECISION MAKING HISTORY (continued):

STANDING COMMITTEE RECOMMENDATION (continued):

- Add the following new Recommendation 4 and renumber the remaining accordingly:

  "4. That the Public Service be directed to report back to Council in January, 2025, on the implication the reduction in project scope has for the recently approved Winnipeg Transit Master Plan."

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

The following persons submitted communications:

- Councillor Lukes with respect to the matter
- David Grant in opposition to the matter
- Chris Scott, President Business Agent, Amalgamated Transit Union Local 1505, with respect to the matter

ADMINISTRATIVE REPORT

Title: North Garage Replacement Project Budget Status

Critical Path: Standing Policy Committee on Public Works - Executive Policy Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Crowder	G. Ewankiw	T. Graham	S. Armbruster, Interim CAO

EXECUTIVE SUMMARY

The North Garage Replacement project is forecast to be over-budget by approximately $105 million. This is based on a recent Class 3 estimate (range -20 percent to +30 percent) from the City's project consultant. The estimated total budget for the project is now $305.066 million.

The current approved budget for the North Garage Replacement is $200.066 million. The increase in project cost is due to many factors including:

- The budget being set in 2019 with a Class 5 estimate (range -50 percent to +100 percent);
- The delay in approval for the Investing in Canada Infrastructure Program (ICIP) funding commitment;
- Cost increases related to the COVID-19 pandemic and related impacts on the construction industry;
- The requirements for the Transition to Zero Emission Bus program;
- The remediation of impacted soil; and
- Updates to building and energy codes.

The Public Service has come up with three potential options to address the project budget shortfall:

- Option 1 - Amend the project budget. Fund the estimated $105 million budget shortfall through increased debt funding, as one possible funding source.
- Option 2 - Defer elements of the scope of the current project to bring the estimated budget shortfall to $80 million. Plan to deliver deferred amenities in future phases.
- Option 3 - Reduce the scope of the current project to match the existing approved budget. Plan to add removed elements in a future phase.

The Public Service is recommending Option 2.

The Public Service will continue discussions with the Federal and Provincial governments, which are partners in funding the project. We will determine if they can increase their financial commitment to the North Garage Replacement in accordance with ICIP cost-sharing principles.

To maintain the project schedule and meet the required ICIP timelines, a tender for construction of the facility is planned for Q4 2024 with award of the project in Q1 2025. Any changes in the project scope approved by Council will also require discussion and agreement with the Provincial and Federal governments. An updated project scope will form the basis on which the detailed design for the new garage is built.

Without certainty regarding the project budget and scope, there is risk to the overall project schedule. The detailed design cannot be finalized until the final budget is determined. This ICIP project needs to completed by December 31, 2027, in order to be compliant with its funding agreements. The impact will be determined once the project scope and budget issues have been resolved.

RECOMMENDATIONS

1. That Option 2, the deferral of some elements to reduce the budget shortfall to $80 million as outlined in the report, be approved.

2. That the North Garage Replacement project budget be amended to include an additional $80 million, financed through external debt funding.

3. That, in an effort to defer additional use of debt, the Public Service be directed to continue consultations with the Provincial and Federal Governments with regards to ICIP funding and principles.

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

REASON FOR THE REPORT

Council approval is required for material changes to the project scope or budget of a previously-approved capital project.

IMPLICATIONS OF THE RECOMMENDATIONS

If Option 2 is approved, scope reduction will reduce and/or eliminate areas of the Transit garage and service capacity of the facility once it is operational. Identified garage areas could be introduced in the future as directed by Council.

A change to scope will involve additional design work and an adjustment to the prime Consultant’s service contract. This will increase the duration and cost of design services and postpone current procurement timelines, thereby extending the project schedule overall. Schedule impacts will be dependent on the nature of scope change adopted.

Recommendation 1 of this report requires a capital budget adjustment and additional borrowing approved in the amount of $80 million. Although there may be some capacity to fund all or a portion of the related debt and finance costs through the Department's reserves in future years, at this time it is assumed the costs will be funded by Transit's annual Operating Budget.

Agreement with the Provincial and Federal governments will be required for any project scope changes.

HISTORY/DISCUSSION

Background
Winnipeg Transit currently operates a fleet of over 600 buses from three bases located at 421 Osborne Street, 600 Brandon Avenue and 1520 Main Street.

The North Garage is Winnipeg Transit's oldest facility, having opened in the 1950s as a streetcar storage building. The building is in poor condition and functionally obsolete. The risk of the North Garage becoming unusable due to further deterioration of the facility is among the most significant operations risks facing Winnipeg Transit.

The North Garage was designed for vehicles of another era, and cannot accommodate articulated buses, buses with bike racks, or even the newer buses in Transit's fleet equipped with roof-mounted air conditioners. It cannot be upgraded to accommodate zero-emission buses.

The design and construction of a Transit Bus Parking, Servicing, Maintenance and Repair Garage to replace North Garage is one of Winnipeg Transit's highest priority infrastructure projects. It is vital for the replacement to be constructed in order to mitigate the current risks to Winnipeg Transit's operations, to allow for the addition of 60-foot buses to the fleet, as well as the expansion of the zero-emission bus program.

This project will be delivered through a Design-Bid-Build process. The land and design will accommodate provisions for the installation of the required infrastructure for the storage and fueling of zero emission buses as well as the expansion of the garage in future phases. This first phase of the garage is expected to be approximately 40,000 square metres in size.

Transit has received Council approval to proceed with the procurement of a new Transit Bus Parking and Servicing Garage funded through the Investing in Canada Infrastructure Program (ICIP). Through the March 2024 approval of the ICIP application, the Government of Canada has committed $73.023 million towards the project. The Province of Manitoba is contributing $60.846 million. The City's contribution to the project is $66.197 million, of which $17.509 million is considered to be ineligible costs under the terms of the ICIP agreement.

Section 6.3 of the ICIP Contribution Agreement limits changes to the project scope and requires that the City notify the Province promptly if the total costs of the project will differ materially from the amount identified in the agreement.

A summary of the project implementation is attached as Appendix A.

Current status
The 33 percent design of the North Garage Replacement was completed in March 2024 followed by receipt of a Class 3 cost estimate the following month. The proposed facility is approximately 40,000 square metres, in alignment with the ICIP application. The design incorporates bus storage for 246 40-ft buses, bus washing and servicing amenities, parts and storage receiving areas, additional power required for electric bus charging as well as bus repair and maintenance areas and administrative space.

The Class 3 estimate indicates the new garage will be over-budget by approximately $105 million at the time of procurement. The increased project cost is attributable to a number of factors including, but not limited to:

- Establishing the project budget at a Class 5 level in 2019 dollars in order to apply for external funding opportunities via ICIP.
- Delays attributable to when ICIP funding approval was received. At the time of the application to ICIP in May 2021, it was estimated that construction would commence in 2023. ICIP funding was not confirmed until November of 2022, and a draft funding agreement was not received from the Province of Manitoba until February 2023. This delay, coupled with a pause on advancing design work until direction is provided to the Public Service concerning the budget deficit, results in construction now likely to begin no earlier than Q2 2025.
- Unprecedented cost escalation associated with the COVID-19 pandemic and related impacts on the construction industry.
- Changes in Energy and Building codes in 2024 related to sustainability and green buildings.
- Mitigation of contaminated soil on the property.
- Escalated costs and scope changes associated with supplying power from Manitoba Hydro to the site and accommodation of 24 Zero Emission Buses at opening.

The cost difference between the Class 5 and Class 3 estimates is within the margin of accuracy established by the City's cost estimate classification system. Under the current ICIP Contribution Agreement, the City is responsible for all incremental costs related to the North Garage Replacement Project.

Options to address the increased estimated cost of the North Garage Replacement project
Options to address the increased project cost of the North Garage Replacement project include:

- Option 1 - Amend the project budget and solely fund the estimated $105 million budget shortfall through increased debt funding, as one possible funding source.

- Option 2 - Defer elements of the scope of the current project to bring the estimated budget shortfall to $80 million and plan to deliver deferred amenities in future phases. The scope changes associated with this option may include:
    - Reducing the bus storage space by 39 40-ft equivalent spaces from 246 to 207,
    - Reducing the maintenance bays by 8 from 20 to 12,
    - Removing the geothermal heating system, and
    - Deferring installation of one wash rack.

  The operational impacts of this option include:

    - The facility running out of bus storage space in approximately eight to 10 years; and
    - Deferring future purchases of 60-ft articulating buses, due to a lack of storage space, which were planned to support the new Transit network and may adversely impact ridership and service.

- Option 3 - The City would substantially reduce the scope of the current project to match the approved budget and plan to introduce removed elements in future phases. The scope changes associated with this option may include:
    - The same reductions/deferrals as Option 2,
    - The complete removal of the maintenance bays,
    - The complete removal of other aspects.

  The operational impacts of this option include:
    - The same operational impacts as Option 2,
    - The inability to service any of the buses stored at the facility, which would lead to increased operational costs of transporting buses back and forth to Fort Rouge Garage for repair.
    - A delay to the Transition to Zero Emission Bus program as the reduced scope of the facility would not be able to support additional zero emission buses until future phases are built.

  With the elimination of bus maintenance at the new facility, this option is considered very high risk to Transit operations and ability to provide service to the public.

The Public Service will continue discussions with the Federal and Provincial governments, which are partners in funding the project, about increasing their financial commitment to the North Garage Replacement in accordance with ICIP cost-sharing principles. If funding principles are consistent with the ICIP agreement, the City's share of the increased project cost is estimated to be up to $28 million (assuming total project cost of $305.066 million).

Next steps
Each option presented will include value engineering as a process to control overall project costs. Value engineering is a process to adopt changes in design, construction methodology, and/or material specification that is intended to reduce the overall project cost. Value engineering, by itself, will not address the estimated shortfall in North Garage Replacement funding, under the original project scope.

- Option 1 – If Council amends the project budget and solely funds the estimated $105 million budget shortfall, design work would continue under the original project scope, utilizing value engineering processes to address the on-going risk of the current Class 3 estimate.
- Option 2 – If Council directs a deferral of the scope of the current project to bring the budget shortfall to $80 million, the Public Service would work with the design consultant on building floor area reductions in the storage space and maintenance facility. Proposed changes to investment levels and/or scope redefinition as a means of addressing the over-budget status of the project will materially impact the ICIP Agreement and require review and amendment with governments of Manitoba and Canada.
- Option 3 – If Council directs the reduction of the scope of the current project to match the approved budget, the Public Service would work with the design consultant on building floor area reductions which would result in building a smaller facility, resulting in

a general reduction or elimination of some areas. Reducing floor area and eliminating or deferring the bus maintenance garage represents the single greatest opportunity to realign the building cost with approved/available funding. However, this change may impact the schedule of the project, bus maintenance operations and a scope redefinition that will materially impact the ICIP Agreement and require review and amendment with governments of Manitoba and Canada. As such, amendment of the ICIP Agreement poses an ongoing risk to the project.

Debt Strategy
On February 22, 2024, Council adopted an updated Debt Strategy for total City borrowing.

If Council decides to fund this project through additional debt, additional borrowing authority of $80 million is required, leaving $70 million of remaining City borrowing capacity (based on 2024 borrowing estimates).

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

Total City net debt as a percentage of revenue not to exceed	100%
Forecasted peak rate including proposed debt from this report	97.4%

FINANCIAL IMPACT

Financial Impact Statement

Date: July 17, 2024

Project Name:

North Garage Replacement Project Budget Status

First Year of Program **2024**

	2024	2025	2026	2027	2028
Capital					
Capital Expenditures Required		$ 80,000,000	$ -	$ -	$ -
Less: Existing Budgeted Costs			-	-	-
Additional Capital Budget Required	$ -	$ 80,000,000	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	80,000,000	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ 80,000,000	$ -	$ -	$ -
Total Additional Capital Budget Required	$ 80,000,000				
Total Additional Debt Required	$ 80,000,000				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ 2,840,000	$ 4,400,000	$ 4,400,000
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ 2,840,000	$ 4,400,000	$ 4,400,000
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ 2,840,000	$ 4,400,000	$ 4,400,000

Additional Comments: The Capital Expenditures Required reflect the additional external debt issuance of $80 million to increase the budget of the North Garage Replacement capital project as needed to fund the recommended option presented in this report.

The Direct Costs reflect the total external debt interest and debenture issue expenses which will be included in the Department's future budgets. Although there may be some capacity to fund all or a portion of these costs through the Department's reserves in future years, at this time it is assumed the costs will be funded by Transit's annual Operating Budget.

Laurie Fisher July 17 2024

Laurie Fisher, CPA, CA
Manager of Finance and Administration

CONSULTATION

This Report has been prepared in consultation with:

- Financial Services

OUR WINNIPEG POLICY ALIGNMENT

Goal: Environmental Resilience:
- **Objective 2**: *Prioritize sustainable transportation as the mobility options of choice.*

Goal: Good Health and Well-Being
- **Policy 4.10 –** Transportation Safety

Goal: City Building
- **Objective 2 -** *Integrate resilient land use, transportation and infrastructure, and investment* - Ensure that land use, transportation, and infrastructure planning are aligned to provide the conditions for compact, complete and connected communities, supported by sustainable transportation options and municipal infatuation capacity.
  - **Policy 6.29** - New Communities
  - **Policy 6.24, 6.37, 6.38** —Transit-Oriented Development

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Key Direction, Strategic Opportunity #3
- Advancing Sustainable Transportation – Increasing Mobility Options and Shift to Zero Emission Vehicles

Key Directions and actions
3.1 - Increase Use and Efficiency of Public Transit Systems

3.3 - Design New Suburban Communities to Enable Enhanced Transit Services and Access to Transit Corridors

3.7 - Utilize Zero Emission Buses

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Goal 5(c) Transportation System Equity is Enhanced – Increase collaboration with community partners improves access to safe and secure transportation by all residents.

SUBMITTED BY

Department: Transit
Division: Asset Management Office
Prepared by: Adolfo Laufer, Project Manager
Date: July 25, 2024

Attachment:

Appendix A: Implementation History

Appendix A – Implementation History

On April 29, 2021, Council directed the Public Service to submit the North Garage Replacement project to the Investing in Canada Infrastructure Program (ICIP) for Federal and Provincial funding under the Public Transit Infrastructure Stream (PTIS), subject to written confirmation of Federal and Provincial funding that is satisfactory to the Chief Financial Officer, including the 2021 Adopted Capital budget and 2022 to 2026 Five-Year forecast be amended to include $200.066M for the project.

On December 16, 2021, Council approved the 2022 Capital Budget, and amended the 2023 to 2027 Five-Year budget to include $198.415M allocated to the North Garage Replacement. The project total of $200.066M also includes $1.651M from the approved 2021 budget.

On November 16, 2022, the City received notification from the Province that the North Garage Replacement was approved for Federal and Provincial funding under the ICIP-PTIS stream. The notification outlined maximum eligible costs of $182.557M with a maximum $73.023M Federal and $60.846M Provincial contribution, respectively.

On December 5, 2022, the Province provided interim information regarding the project contribution agreement, including an effective start date of October 25, 2022. Only expenditures signed on or after this date are eligible for reimbursement, with the exception of Climate Lens Assessments.

On January 9, 2023, the Standing Policy Committee on Property and Development approved the acquisition of the 4-acre property required for the project located at 100 Oak Point Highway.

On June 1, 2023, the Standing Policy Committee on Property and Development approved a report for the expropriation of the 10-acre property required for the project; lots 52, 56 and 57 Plan 24342 on the south side of Selkirk Avenue, west of Oak Point Highway.

On September 29, 2023, Council confirmed the expropriation of the 10-acre property required for the project; lots 52, 56 and 57 Plan 24342 on the south side of Selkirk Avenue, west of Oak Point Highway.

On November 9, 2023, the Standing Policy Committee on Public Works approved a report for the award of contract for Professional Consulting Services for Detailed Design, Tender for Construction and Contract Administration of the North Garage Replacement to AECOM Canada Ltd.

The Contribution Agreement under the ICIP was signed by the City and the Province on March 19, 2024.