

APPENDIX 6

Agenda – Standing Policy Committee on Finance – November 7, 2013

REPORTS

**Item No. 10 Winnipeg Police Service Headquarters Redevelopment Project –
Financial Status Report No. 3 for the Period Ending June 30, 2013**

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

That the financial status of the Winnipeg Police Service Headquarters Redevelopment Project as contained in this report be received as information.

ADMINISTRATIVE REPORT

ISSUE: WINNIPEG POLICE SERVICE HEADQUARTERS REDEVELOPMENT PROJECT – FINANCIAL STATUS REPORT NO. 3 FOR THE PERIOD ENDING JUNE 30, 2013

Critical Path: STANDING POLICY COMMITTEE ON FINANCE

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Ruby	Chief D. Clunis	Mike Ruta CFO	Deepak Joshi A/CAO

RECOMMENDATIONS

That the financial status of the Winnipeg Police Service Headquarters Redevelopment Project as contained in this report be received as information.

REASON FOR REPORT

Administrative Standard No. FM-004 requires quarterly reporting to the Standing Policy Committee on Finance.

IMPLICATIONS OF THE RECOMMENDATIONS

The project is currently forecasted to be \$17.2 million over budget. The project is currently on schedule.

EXECUTIVE SUMMARY

This report provides an update on the status of the Winnipeg Police Service (WPS) Headquarters redevelopment which is currently on schedule. Investing in the relocation of the WPS to the former Canada Post building at 266 Graham Avenue commenced in 2009, to consolidate the core WPS functions that are currently dispersed at several locations throughout the City, to increase police presence and improve public safety in the downtown, and to provide the men and women of the police service with the ability and resources required to reduce crime across Winnipeg. Current and anticipated needs of the WPS cannot be achieved in the antiquated Public Safety Building at 151 Princess Street.

On July 20th 2011, Council approved the “Over Expenditure Authorization for the Redevelopment of the Winnipeg Police Service Headquarters Building” which included:

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 initial Guaranteed Maximum Price (GMP) was provided in 2011 based on an incomplete design; the City proceeded with construction 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 two-year wait to commence work
- prevent manpower and tradesperson shortages during heightened construction project work availability during stadium, museum and airport projects ongoing simultaneously

Original cost estimates were based on an incomplete design. Now, with 100% design, costs are estimated to have increased by \$17.2M.

A GMP transfers part of the total risk, however, does not provide absolute protection from cost escalations where risk belongs to the City. Responsibility for unanticipated requirements, design and scope change remained the City's. 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 provided the Project Director with an adjusted contract price in late August 2013. The detailed supporting documentation to allow the City's consultant engineers to evaluate the final pricing was received from the contractor in late September 2013.

It is not expected that additional operating budget funds will be required as borrowing costs are less than original budget for the project. A report for additional capital authorization and borrowing authority will be presented to Council at a future date.

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.

MAJOR PROJECT STEERING COMMITTEE

The project team reports to an Oversight Committee on a regular basis (bi-weekly). The Committee has been formed and its members are:

Deepak Joshi, Interim Acting Chief Administrative Officer
 Mike Ruta, Chief Financial Officer
 Devon Clunis, Police Chief
 Ossama AbouZeid, Project Director
 Randy Benoit, Project Team Member – Winnipeg Police Services
 Jason Ruby, Project Team Member – Corporate Finance

Prior to this report, the former CAO Phil Sheegl was a member of this committee.

The Committee has reviewed this report and recommended that the report be submitted to the Standing Policy Committee on Finance.

PROJECT STATUS

The building is 49% complete, the shooting range is open and in service and furniture, fixtures and equipment are in the procurement stage as at June 30, 2013.

DESCRIPTION OF PROJECT

- This project is for the redevelopment of the former Canada Post mail sorting plant (which is now known as 245 Smith Street) and the construction of a new shooting range facility at Wyper Road. For clarity, the following activities are not within the responsibility of the Project Director and Project Team:
 - Purchase of the Building from Canada Post Corporation.
 - Management of the office tower at 266 Graham Avenue.
 - Disposal of the Public Safety Building.
- 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.
- The outdoor shooting facilities at Wyper Road include a 9,500 sq. ft. building for classroom training and an outdoor shooting facility comprised of 36 gun shooting lanes and 12 shotgun shooting lanes.
- Overall, the project budget is \$162 million comprised of \$155.0 million for redevelopment plus \$7.0 million of corporate charges that are meant to represent construction period interest.

PROJECT SCHEDULE

The following is a summary of key project milestones.

Key Milestones	Target	Actual
Range occupancy	Summer 2012	Sept 24, 2012
Building – available for occupancy	Summer 2014	-

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Construction commenced on the range facility at Wyper Road in the late fall of 2011. The range reached substantial completion in fall 2012 and is now being used by the WPS. The City is working with the contractor to correct the remaining deficiencies with the range facility.

Construction commenced on the main headquarters building (245 Smith Street) in Summer 2012.

Furniture, fixtures and equipment are in the procurement stages in order to be in place at occupancy.

MAJOR CONTRACTS

The following is a list of major contracts awarded.

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 18, 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	July 4, 2013 (**)	Ongoing	\$795,964.12

		the Office Tower at 266 Graham Avenue.			
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.

(**) – contract event is subsequent to June 30, 2013 reporting date, but included in report for completeness.

RISK AND MITIGATION STRATEGIES

The GMP Agreement of \$137.1 million with Caspian Projects Inc. was based on a 30% completion of design drawings. Previous reports have identified there was a risk that pricing of the 100% complete design drawings may differ from the price based on 30% design. The differences between the 30% complete design and 100% complete design have now been identified and are discussed in the Financial Implications section.

Previous reports had identified that the GMP Agreement also included a Construction Contingency Fund, which is an allowance to cover a small number of construction items where the City was at risk for overages and benefited if these items were less than budget. These items have been resolved and are discussed in the Financial Implications section.

The City has sent a formal letter to Caspian emphasizing that Council has not approved funding beyond \$155.0 million to the project and there are currently insufficient monies in the project for any further extension of the GMP Agreement.

Caspian had complied with the City imposed deadline of September 26, 2013 regarding providing final pricing and all supporting back-up for additional items.

Forecasted amounts include a small amount of contingency as there is still another 6 months of construction. The contingency would not be sufficient to handle any unforeseen major issues.

The forecasted costs are based on preliminary reviews of the consultant engineer and Project Director for certain items under discussion with the contractor. There may be further adjustments once the consultant engineer completes their review. The Project Director indicates that \$17.2 million in additional funding will be sufficient to complete the project.

FINANCIAL ANALYSIS - as at June 30, 2013

(All figures are in \$000)

Project Component	Budget	Value/Cost Estimate	Variance Budget to Value/Cost Estimate	Change in Variance from Last Report
Engineering, design and other costs	\$ 17,900	\$ 17,013	\$ (887)	\$ (887)
GMP Agreement				
- Building redevelopment	\$ 116,227	\$ 138,303	\$ 22,076	\$ 19,913
- Shooting range facility	\$ 6,573	\$ 7,421	\$ 848	\$ 93
- Furniture, fixtures & equipment	\$ 14,300	\$ 9,463	\$ (4,837)	\$ (1,919)
	\$ 137,100	\$ 155,187	\$ 18,087	\$ 18,087
sub-total	\$ 155,000	\$ 172,200	\$ 17,200	\$ 17,200
Corporate charges - to represent construction period interest	\$ 7,000	\$ 7,000	\$ -	\$ -
Total	\$ 162,000	\$ 179,200	\$ 17,200	\$ 17,200

Note: This quarterly reporting was to be as at March 31, 2013. As the June 30, 2013 numbers are available and more current information is available, the report has been updated to this date. The forecasted costs have been updated to information available as at October 31, 2013.

Summary

The project is currently forecasted to be \$17.2 million over budget. 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)
Total	\$155,000	\$172,200	\$17,200

The City has a GMP Agreement with Caspian Projects Inc. in the amount of \$137.1 million.

The GMP Agreement contained a construction contingency allowance to deal with 7 specific risk items. As disclosed in previous reports, 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 allowance by \$4.4 million. The other 6 items combined were within allowance. No foundation work was required.

Regarding the Genset load bank, the Police Headquarters building must be constructed to nationally prescribe 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 brand of cable originally specified in the design was discontinued during the construction forcing the use of a more expensive product, which was a contributing factor in the overage.

The GMP Agreement also included an allowance of \$14.3 million for 'Furniture, Fixtures and Equipment' (FF&E), with the detail being disclosed in the above table (FFE Allowance). 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.

As construction progressed, there were a number of items where it was identified that the preliminary design was not functional. As such, the WPS used some of the furniture, fixtures and equipment 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. This was not identified at the earlier stage of design and amounted to \$1.7 million in extra costs.

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.

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 officer was assigned to the project and change items were declined unless deemed critical to occupy the building in its intended purpose.

Additional costs of \$796 thousand were incurred to deal with costs associated 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 disclosed in previous reports, the City was at risk for design changes between the 30% and 100% drawings. As the design progressed and the paper drawings were taken out into the building, it was determined that the mechanical systems envisioned at the 30% design were not going to physically work. As such there was a significant amount of re-design which resulted in additional costs of approximately \$12.1 million relating to mechanical, electrical and fire protection.

Final drawings were not completed until April 2013. There was significant delay in obtaining final pricing from the contractor. As such, the City issued a deadline of September 26, 2013 to obtain final pricing with supporting documentation on the 100% design. At that time, the City also advised the contractor that no additional budget had been authorized by Council and the contractor was proceeding at their own risk. Caspian complied with the deadline and no work stoppage was required. As such, the order of magnitude of the design issues was not known definitively until after this time. Support for the pricing adjustments is currently under review by the City's consultant engineer and amounts should be finalized in November 2013.

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 estimated to be in a shortfall position of \$17.2 million (if costs are not adjusted further by the AAR review).

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
	<u>\$ 17,200,000</u>

Since the current project budget was originally approved by Council in July 2011, interest rates have declined 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.

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. Debt servicing charged to the WPS is built into their rents and has been adjusted in the annual budget processes.

To summarize, 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
Forecasted 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 is currently reviewing the operating budgets for the WPSHQ and other operating budgets with the view that the above net operating impact can be absorbed within existing budgets.

A separate over-expenditure report will be prepared by the Public Service for Council consideration once AAR has completed their review and costs have been finalized.

For clarity, should Council authorize the additional \$17.2 million in capital expenditures, the project cost including the purchase of the land and building would be as follows:

	WPSHQ	Tower	Range	Total
Purchase of building	\$ 12,600	\$ 18,967	\$ -	\$ 31,567
Renovation	\$ 147,579	\$ -	\$ 7,421	\$ 155,000
Increase	\$ 17,200	\$ -	\$ -	\$ 17,200
	\$ 177,379	\$ 18,967	\$ 7,421	\$ 203,767
Construction interest	\$ 7,000	\$ -	\$ -	\$ 7,000
	\$ 184,379	\$ 18,967	\$ 7,421	\$ 210,767

FINANCIAL IMPACT**Financial Impact Statement****Date:** October 25, 2013**Project Name:** Winnipeg Police Headquarters Development Project
First Year of Program: 2011**Comments:**

There is no financial impact as this report is for information only.

As noted in the body of this report, a separate over-expenditure report will be prepared by the Public Service for Council consideration once AAR has completed their review and costs have been finalized.

"Original Signed By"

Mike McGinn, CA
Manager of Finance

CONSULTATION

In preparing this Report there was consultation with:

- Project Director
- Winnipeg Police Service
- Corporate Finance

SUBMITTED BY

Department: Winnipeg Police Services
Prepared by: Jason Ruby – Corporate Finance, Manager of Capital Projects

Date: October 31, 2013
File No.:

Winnipeg Police Services Headquarters Project

as at June 30, 2013

Project Component	Capital Budget	Capital Expenditure Forecast				Surplus (Deficit) From Revised Budget	Variance Last Report	Change in Variance
		Actual Costs		Total				
	Original	To June 30 2013	Remainder 2013	2014	Forecast			
Engineering, design and other costs	\$ 17,900	\$ 10,742	\$ 2,802	\$ 3,470	\$ 17,013	\$ 887	\$ 887	\$ (0)
GMP Agreement								
- Building	\$ 116,227	\$ 67,533	\$ 49,283	\$ 21,487	\$ 138,303	\$ (22,076)	\$ (2,163)	\$ (19,913)
- Range	\$ 6,573	\$ 7,092	\$ 329	\$ -	\$ 7,421	\$ (848)	\$ (755)	\$ (93)
- Furniture, fixtures, equipment	\$ 14,300	\$ -	\$ 3,857	\$ 5,606	\$ 9,463	\$ 4,837	\$ 2,918	\$ 1,919
	\$ 137,100	\$ 74,625	\$ 53,469	\$ 27,093	\$ 155,187	\$ (18,087)	\$ -	\$ (18,087)
sub-total	\$ 155,000	\$ 85,367	\$ 56,271	\$ 30,563	\$ 172,200	\$ (17,200)	\$ -	\$ (17,200)
Corporate charges - to represent construction period interest	\$ 7,000	\$ 2,158	\$ 2,608	\$ 2,234	\$ 7,000	\$ -	\$ -	\$ -
Total	\$ 162,000	\$ 87,525	\$ 58,879	\$ 32,797	\$ 179,200	\$ (17,200)	\$ -	\$ (17,200)

Explanatory Notes:

- This project is for redevelopment of the former Canada Post Mail Sorting Plant at 266 Graham Avenue and for the development of a new shooting range at Wyper Road. For clarity, the scope of this project does not include the purchase of the Building at 266 Graham Avenue, management of the office tower at 266 Graham Avenue or the disposal of the Public Safety Building.

All figures are in \$000