



TOWN OF SIDNEY

REPORT TO COUNCIL

TO: Mayor & Council

FROM: Andrew Hicik, Director of Corporate Services

DATE: October 3, 2017 **FILE NO.:** 1700-20-2017

SUBJECT: COMMUNITY SAFETY BUILDING BUDGET UPDATE

PURPOSE:

To provide an update on the budget for the Community Safety Building.

BACKGROUND:

The approved budget in the current financial plan for the Community Safety Building (CSB) is \$10 million, spread over two years: 2017 and 2018; this is the figure that has been used in our public information about the project. The project funding currently includes \$2M from the sale of the existing fire hall; \$500k in Gas Tax revenues; \$1.2M from the BC Ambulance lease; and the remaining \$6.3M in borrowing.

Changes to the scope of the BC Ambulance component, as well as rising construction costs and shortage of tradespeople in the region, have driven up the projected cost of the building. This report will address some of the cost impacts, and discuss potential funding mitigation measures for Council's consideration.

DISCUSSION:

Following several years of delays in securing a site for the CSB, an ultimate location was selected in 2016, on lands partially owned by the Town and partially leased from the Victoria Airport Authority through a reciprocal agreement. At the time of budget development in 2016, some approvals were still pending, but preliminary designs were complete, and commencement of construction was approved by Council for 2017.

A budget figure of \$10M was originally identified for the CSB project, based on professional estimates provided by Kinetic Construction – the Town's project manager – who have previous experience in the development of similar structures. The Town was advised of potential cost escalation through additional delays, as the Victoria construction market was getting busier all the time; contractors had plenty of work, and tradespeople were harder and harder to find. Completing the construction within the shortest possible timeline was seen by both staff and Council as the best way to control project costs.

Unfortunately, the local construction market has seen even higher than expected cost escalations. This, combined with several changes in the project scope, have contributed to an increase in the projected construction cost to just over \$12.7M. Combined with the soft costs, such as design and engineering, the total project budget is now estimated at closer to \$14M. The cost escalation factors are identified and discussed below.

Increase in Scope of the Ambulance Station

The original \$10M budget included \$1.2M for the BC Ambulance component. However, through ongoing consultation with BCEHS, the size and scope of their part of the building has increased to a value of approximately \$2.2M. This alone would have increased the overall project budget to \$11M; however, as BCEHS would be responsible for the entire overage (through their lease arrangement with the Town) there is no impact on Town funding.

General Increase in Local Construction Costs

The volume of activity – primarily major residential construction projects – in the South Island market has meant that construction tenders are simply not generating a high degree of competition; construction and material supply firms have more than enough work. This has resulted in both a limited number of bidders, and extremely high tender submissions (the one or two bidders will simply throw in a high bid, knowing that the competition is limited). The Town has seen other evidence of this trend, as two other capital projects have had to be postponed due to higher-than-anticipated bids. Commodities prices have risen along with labour costs; steel and concrete are large components of the CSB, and these prices have been large contributors to the cost escalation we have seen to date. And, most recently, the disasters in the southern U.S. have impacted the demand for certain resources and equipment.

Given the importance of a post-disaster emergency building, and the fact that the project is already in the ground, it is not practical to postpone the CSB; there would be no guarantee that there would be more favourable conditions a year from now, or even two years from now. Doing all we can to keep BC Ambulance in town to serve our residents is also an important consideration.

The first tender package for building construction, issued in late spring, came in \$50,000 under budget. The initial tender package (TP1) was for pile driving. TP2, however, was a different story. This included smaller components like in-ground Electrical and Mechanical works, which were marginally over budget (\$4,200 combined). It also included larger components such as Rebar and Civil Excavating; these components came in significantly over budget, by \$182k and \$187k, respectively. Concrete works were the final component of this tender package. No bids were received for the latter, so Kinetic provided a competitive quote for doing the work using their own forces.

It remained uncertain, at the time of considering TP2, what the impact on the overall project budget would be. However, following the close of TP3, it became apparent that the project budget would be exceeded; the awarding of contracts under TP3 is included in a separate report. A new project budget has now been developed, taking into consideration the results to date. There are two additional tender packages that may further impact the budget.

Other Cost Impacts

Some additional – though less significant – cost impacts include: redesign costs for the CSB access road through the Mary Winspear site; a slightly longer access road from Bevan Avenue, due to relocation of the building from the MPS site to the current location; and the inclusion of a fibre-optic connection to support the Town's computer network. This latter project would have been undertaken separately, but is being combined with the CSB work for efficiency.

Proposed Mitigation Measures

While the overall project budget may increase by up to \$4M, this does not mean that the amount of borrowing to be undertaken by the Town will increase by that amount. The total borrowing is capped at \$10M, as per the Town's borrowing bylaw. However, despite this upper limit, the projected borrowing (for the Town's portion of the project) has always been in the range of \$5M

to \$8M. This is the range that has been used in all past communications with the public about the CSB project. We chose to use a range of potential borrowing amounts due to the uncertainties involved with a project of this magnitude. The most recent budget estimate, which was used for the latest financial plan, projected \$6.3M of Town borrowing. Given the overall borrowing limit of \$10M, as per the bylaw, we have no choice but to keep the Town's portion of the borrowing within the \$8M upper limit of our estimate (to allow for the Ambulance portion).

BCEHS Lease Payments

The lease arrangement with BCEHS for the ambulance station being built as part of the CSB captures the incremental cost of the ambulance station. Therefore, \$1M of the cost escalation is covered.

Proceeds from Sale of Existing Fire Hall Site

This portion of the CSB funding was conservatively projected to be \$2M. It was assumed that the ultimate number would be higher than this, and the excess could potentially be used to reduce the borrowing amount from \$6.3M, or provide a cushion for potential overages.

This is one aspect of the hot real estate market that may work in our favour. A recent valuation has confirmed that the site should generate net proceeds in excess of \$3.25M. If all of this is directed toward funding the CSB, an additional \$1.25M of the cost escalation is covered.

Council will be considering site sale options in the near future.

Gas Tax Revenues

\$500,000 was originally identified as funding from Federal Gas Tax contributions. The eligible component of this project would be the incremental costs of making this a post-disaster building – the seismic upgrades. While it is most likely that the cost of seismic upgrades will exceed \$500k, the amount of Gas Tax funds is limited. In order to allocate more funding to the CSB from this revenue source, some projects currently earmarked for Gas Tax funding would have to be postponed, or funded from other sources. Depending on the status of net CSB overages during the next budget process, staff may bring forward options in this area.

Infrastructure Reserves

Included in the total cost of the CSB project are offsite improvements to Eighth Street, including road widening, and the construction of sidewalk and curb & gutter works. As a way to reduce the borrowing that will ultimately be required for this project, the offsite works could potentially be funded from an internal source: the Town's Infrastructure Reserve. While this would place a burden on that reserve, it would be a viable funding source that could be replenished over time in order to minimize the borrowing. Additional consideration will be given to this option as the project proceeds, and recommendations are likely to be brought forward ahead of, or in conjunction with, the next budget.

One-time allocation of Surplus

An additional funding option to mitigate the cost escalation is the potential use of accumulated surplus. A one-time allocation of \$500,000 from surplus may be supportable, while maintaining the balance of surplus within policy levels. This is possible due to the higher-than-anticipated 2016 surplus from operations, the continuing growth in building permit revenues (another positive consequence of the hot construction / real estate market) and current year savings on the RCMP contract. The justification for this use of surplus is that certain commercial tax revenues have not materialized as quickly as anticipated; therefore, this allocation of surplus may serve as a bridge to that additional revenue, which is expected (along with all the new tax revenues from residential growth) to reduce the impact of borrowing costs on existing taxpayers.

Value Engineering

Since the latest project cost estimate was prepared, the message has been conveyed to the project manager and architect that the Town will be expecting recommendations on measures to reduce costs, make up for some of the earlier overages, and minimize additional cost escalation. All future tenders will be evaluated on this basis. A range of potential savings has been identified, and will be brought forward to Council for consideration after additional analysis has been completed. Cost cutting measures will only be considered “savings” if they reduce the lifecycle cost of the project; in other words, if cost cutting measures simply reduce the initial cost at the expense of future maintenance costs, or a shorter lifespan, then they will not be identified as true savings. This building is to have a 50-year life, with associated community benefits; it should be done right the first time.

Value engineering may not be able to reduce the overage already identified in the project cost; but it should be able to mitigate additional cost impacts in the two remaining tender packages.

FINANCIAL IMPACTS:

At this point, the best estimate for a total project budget is approximately \$14 million. While this is above the original estimate, mitigation measures have been discussed above that will keep the amount of funds to be borrowed for the Town’s portion of the building within the range previously advertised; unfortunately, it will be at the higher end of the \$5M to \$8M range. Despite the financial challenges associated with the CSB – most of them are outside our control and forced upon the Town through various delays in project initiation – the project is expected to be completed in the fall of 2018.

The original projection in the current financial plan was for a \$10M project, funded as follows:

Total Project Cost	\$ 10,000,000
<u>Less:</u>	
Proceeds from sale of existing fire hall site	(2,000,000)
BC Ambulance lease payments	(1,200,000)
Gas Tax revenues	(500,000)
Net Borrowing Amount	\$ 6,300,000

The recent cost escalation, combined with the mitigation measures discussed above, may change the funding model as illustrated below:

Total Project Cost	\$ 13,950,000
<u>Less:</u>	
Proceeds from sale of existing fire hall site	(3,250,000)
BC Ambulance lease payments	(2,200,000)
Gas Tax revenues	(500,000)
Surplus	(500,000)
Infrastructure Reserves (for Offsites)	(300,000)
Net Borrowing Amount	\$ 7,200,000

The Town’s portion of the borrowing is now projected to be \$7.2M. While this is an increase of \$900,000 from the most recent projection, it remains consistent with the range previously identified.

For Council’s information, the cost to the average taxpayer of borrowing between \$6M and \$8M for the Town’s portion of this project, using the current MFA interest rate of 3.15%, is illustrated below:

Borrowing Amount	Annual Payments	% Tax Equivalent	\$ Impact Annual	\$ Impact Monthly
\$ 6,000,000	315,115	2.87%	\$ 39.96	\$ 3.33
\$ 6,300,000	330,871	3.01%	\$ 41.96	\$ 3.50
\$ 7,200,000	378,140	3.44%	\$ 47.95	\$ 4.00
\$ 8,000,000	420,154	3.83%	\$ 53.28	\$ 4.44

With the recent and ongoing growth in the tax base, the impacts illustrated above will be slightly lower than indicated. In addition, the borrowing will be phased over two to three years, making it a more gradual impact. While we will certainly endeavor to keep the borrowing to a minimum, the difference between \$6.3M and \$7.2M, for example, is approximately \$6 per year for the average household. Moving to the upper end of the range (\$8M) would add another \$5.33 per year; this would likely be the worst case.

It should be noted that the BC Ambulance portion of the cost will have to be added to the Town portion of the borrowing amount. The two amounts combined must remain within the total borrowing bylaw limit of \$10M. The Ambulance portion is not illustrated in the above table, as the lease payments will fully cover that portion of the debt.

A budget for the interior fit-up costs – such as workspace partitioning, furniture and exercise room equipment – has not yet been fully captured in the total project budget presented here. This cost could be as high as \$250,000. Some of the net recoveries from the deployment of staff and equipment to the interior fires will be set aside to assist with funding this component. Some existing furnishings and equipment from the current fire hall will also be used.

Tender package #4 closed at the end of September; the bids are all being evaluated and put through the value engineering scope. Initial results indicate an additional overage, but until potential cost-saving measures are considered, any definite prediction on impact is premature. It is important, however, that Council understands that the \$14 million projection may, in fact, increase slightly.

There is no need to make any decisions on the proposed funding options discussed above; these will be brought forward for consideration with, or ahead of, the next financial plan. Additional information on project costs will be brought forward as it becomes available during the course of construction, and as additional tenders are awarded.

While this, the largest project ever undertaken by the Town, is proving to be challenging financially, the recently-completed audit on the Town’s Emergency Management practices, by the Auditor General for Local Government, has reinforced the importance of being pro-active with emergency preparedness.

RECOMMENDATION:

That this report be received for information.

Respectfully submitted,

I concur,

Andrew Hicik
 Director of Corporate Services

Randy Humble
 Chief Administrative Officer