

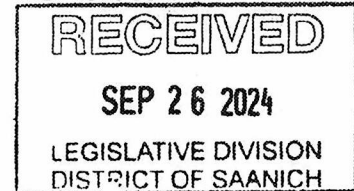


The Corporation of the District of Saanich

C-October-7-2024

Report

To: Mayor and Council
From: Harley Machielse, Director of Engineering
Date: 9/27/2024
Subject: Saanich Operations Centre Redevelopment – Project Update



RECOMMENDATION

That Council accepts the recommendations to implement the SOC Redevelopment project by:

- a) Proceeding with a single-counterparty development option.
- b) Proceeding with the following transaction options:
 - a. Cash Inflow Option 1 (single lump sum payment at financial close from the private partner to the District of Saanich for the Residual Land).
 - b. Cash Outflow Option 2 (progress payments during construction of the SOC).
 - c. Progressive Design Build (also known as, ProgDB) procurement option

PURPOSE

The purpose of this report is to provide information on the Saanich Operations Centre (SOC) project planning status and budget and provides the background analysis that supports the recommendations from the consultant (Infrastructure BC) for the District's procurement of a private sector investor. The Infrastructure BC (IBC) report provides the rationale to assist Council in their support and direction for the project.

DISCUSSION

Background

At the June 24, 2024, Council meeting, Staff provided an update on the SOC project progress. While certain advancements in the planning, re-zoning processes and procurement and implementation analysis were provided, the report did not confirm an updated budget, nor did it conclude with a recommendation for next steps. Staff described in that report that they would return in the fall of 2024 to update Council.

Project Scope and Budget Update

Over the past fourteen weeks, staff working with a large consultant team have updated the SOC project scope and budget. New estimates established that project costs were likely to

exceed the previously reported 2022 business case budget range of \$183M to \$212M. Planning activities then identified and value engineer and/ or remove the most significant cost incurring items that would not jeopardize the core functional operations areas. This resulted in a re-plan of the site that considers:

- maximizing surface parking for staff private vehicles and removing underground and above grade structured parking for District related operations.
- A re-evaluation of the prioritization of demolition and replacement of the Fleet Services building.
- A re-evaluation of the operational benefits and necessity to move previously considered staff from their existing accommodations to the SOC site.

The new estimates provided through a peer reviewed quantity surveyor consultant have confirmed a new total project budget cost of \$172 million based on a class D estimate that has an accuracy of +/- 25%. As the IBC report confirms on page 9, there is an estimated \$30.2 million offsetting of District costs provided from Private Sector investment gained through residual land values of the non-District operations parcels of the site. The District also engaged two local real estate valuation consultants who have confirmed an estimated residual land value of \$20M and \$30M respectively. These proceeds will reduce the District's capital investment burden for the redevelopment to a new total of \$141.8 million. Factoring in the provided ranges estimated for the residual land value, **the net District capital investment would be \$142M to \$150M.**

While this refined project scope reduces the capital burden, the following should be noted:

1. This new estimate confirms viability for the project but does not define nor guarantee certainty of the three above bullets to their entirety. The private sector procurement may in fact produce a project that attains varying degrees of scope provided that the total project cost still fits within the District's affordability. Furthermore, the project scope may require further adjustments which could include a longer time horizon that incorporates a phased construction strategy meant to keep costs within sustainable budget cycles.
2. The estimated residual land value estimate of between \$20M - \$30M is truly an estimate and can only be confirmed by market forces at the time of the private sector procurement. The District could expect a maximum return should the commercial terms be met favourably by the private sector.
3. The consideration of revised project scope listed in the three above bullets were determined as having the least critical effect to public works operations through removal from the project. Many could view the changes as significant, however:
 - a. The Fleet building (built 1974) generally satisfies current operational requirements albeit that it does not conform to the current building code concerning seismic design. Future considerations for investment are likely to consider structural modifications to increase seismic capacity as well as new additions that accommodate future capacity requirements as the fleet is updated and / or needs to expand. Retention of the existing building does not hinder the conceptual site plan as it is located in almost the exact location anticipated in the original master plan. Should the District be able to consider a more extensive

renovation or replacement in the future, the remainder of the developed site would not be adversely affected operationally.

- b. While the synergies of having design, administrative and implementation staffs all co-located on the site could have provided the District with new opportunities as originally envisioned in the concept plans, their accommodation has always been recognized only as an additional benefit worth considering. With a much clearer idea of the costs required, it will proceed with strengthening the core vision of the project which is to support public works staff in their delivery of critical services to the District.

Project development through Private Sector engagement

As outlined in previous reports (the project Business Case from June 6, 2022, and the recent June 24 progress report) the path for the District's realization of a highest and best use for the property is to seek investment from the private sector. The District's engagement of external consultant Infrastructure BC has been to utilize their knowledge and extensive expertise in private sector procurement for large public sector initiatives.

Turning to the private sector marketplace is done according to District procurement principles of fairness and transparency. As such, a two-stage process involving first, a Request for Qualifications (RFQ) and second, Request for Proposals (RFP) will be issued sequentially with the goal to attract as wide a field of qualified developer teams as possible. These processes and their documents will convey the project scope, that is, *what* the District is requiring to be constructed. While *what* the District wants is important, proponents will be keen to understand *how* to work with the District. The following questions are necessary to be answered so that the private sector proponents are clear on the commercial terms of the opportunity.

1. What will be the nature of the contract in terms of invited proponents; does the District want to engage with one party, or would a multi-party contract be more suitable?
2. Once an agreement is signed, when and on what financial terms will the District both pay for services as well as be paid for the proposed non-District used lands?
3. To implement the project, what procurement structure is best suited to enable the interests of both parties and effectively transfer risk?

The attached report from Infrastructure BC details the analysis documented that supports the recommendations.

Development and Transaction Recommendations

Corresponding to the above three questions, IBC's analysis was guided by the District provided objectives of planning principles described in the OCP and environmental, social and governance initiatives (housing, sustainability, climate change, accessibility, diversity equity and inclusion). Further best practice objectives included cost certainty, asset performance, optimized risk allocation and response to market conditions and capacity.

With these objectives defined, development options analyzed were ranked through a multi-criteria analysis as to strongest conformance to these objectives.

A final test beyond the documented analysis was to conduct interviews with the marketplace with identified proponents that would help to verify assumptions and come to final conclusions with current real-world/ marketplace inputs. With the development options ranked and confirming comment and input from the private sector marketplace, the recommended options have been quantified and qualified.

The final recommendations as outlined in the IBC report are listed at the beginning of this report and further characterized below:

1. Proceed with a contract structure based on a single counterparty.
2. Require a single lump sum payment at financial close from the private partner for the non-District operations parcels; also referred to as the residual lands. Implement progress payments from the District to the private sector partner during construction of the SOC.
3. Secure a contract structure that is a Progressive Design Build, also known as ProgDB for the implementation (design and construction) of the SOC.
4. Re-setting the SOC total project budget at \$172.3 million which includes an Owner's Risk Reserve of \$25.9 million plus a one-time operating cost of \$200,000 to have a further factoring in of Residual Land Proceeds of up to \$30.3 million. The resulting net funding required for the project is \$142.0 million.

PROJECT SCHEDULE

As the schedule currently proposes site construction to begin no sooner than 2027, the next three years includes a lengthy sequence of activities that will require significant resources to complete. The following schedule reflects current plans for the project.

| | |
|---|--------------------|
| Feasibility Study Phase II: Procurement and Re-zoning | |
| Preparation of private sector procurement documents | Q3 2024 to Q4 2024 |
| Elector approval for District borrowing (AAP) | Q4 2024 to Q1 2025 |
| Re-zoning application and approval | Q4 2024 to Q1 2025 |
| Private sector procurement | Q4 2024 to Q4 2025 |
| Site planning advancement to Class C, full project implementation budget confirmed. | Q4 2025 to Q4 2026 |
| Feasibility Study Phase III | |
| Adoption of Master Development Agreement (Approval by Council) | Q4 2026 |
| Implementation | |
| Documentation completion; submission for Development and Building Permits | Q4 2026 to Q4 2027 |
| Construction | Q4 2027 to Q4 2029 |

ALTERNATIVES

1. Council receive the information provided within this report and agree to the recommendations provided within the IBC report, specifically on page 10.

2. Council provide alternate direction for staff to undertake and report back on.

FINANCIAL IMPLICATIONS

The 2024 Financial Plan includes a funding provision for the next phase of work. The five-year capital budget also incorporates the high-level projected capital costs based on the proposed implementation schedule. These numbers will be refined annually as the project moves from its current Class D estimate through to a higher level of cost certainty.

While the project team's work to revise scope and budget over the past year has resulted in a significant reduction in required capital funding, it is still anticipated that much of the funding source will come through borrowing. Further considerations to the need and opportunity in addition to the District's current reserves not being sufficient to cover the full funding costs, includes the following:

- 1) Borrowing can be characterized as the one-time upper limit that the District will seek funding and as such describes a hard ceiling that the private sector partner will be designing and constructing to, factoring in residual land values. This will be a positive effect to the project in having project participants disciplined to design within strictly managed limits.
- 2) The private sector partner's proposal requires certainty that the District has funding in place for its' Operations Centre. Their proposal results through extensive work with private financing vendors who will expect and require that the District's portion of the total project scope and funding is secured.

The District anticipates the borrowing to be secured through a public assent / voter approval process starting in Q4 2024 and extending to Q1 2025. Public information and engagement will take place prior to and during the elector approval process to ensure that public decision making is as well-informed decision as possible. Given the proposed Request for Proposals (RFP) scheduled release date of March 2025, having the District's confirmation of available funding must be made available prior to the issuance of the RFP is critical.

STRATEGIC PLAN IMPLICATIONS

This initiative aligns strongly with Council's 2023–2027 Strategic Plan goals:

- community well-being
- affordable housing, land use and infrastructure management
- organizational excellence
- economic diversification
- climate action and environmental leadership

CONCLUSION

The redevelopment of the Saanich Operations Centre reflects the District's commitment to provide critical municipal services to residents. Staff and consultants over the coming months

will be progressing the re-zoning and private sector procurement processes to advance the implementation and realization of the District's Operations Centre. While the detailed planning, design and construction procurement activities are months away, the imminent opportunity to engage the private sector through these recommendations reflects the District's leadership and responsibility towards its staff and residents.

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ADMINISTRATOR'S COMMENTS:

I endorse the recommendation from the Directors of Engineering.



Brent Reems, Chief Administrative Officer