

Minutes - Standing Policy Committee on Finance - April 9, 2015

REPORTS

**Item No. 2 Southwest Rapid Transitway (Stage 2) and Pembina Highway
Underpass – Financial Status Report No. 1 for the Period Ending
December 31, 2014**

STANDING COMMITTEE DECISION:

The Standing Policy Committee on Finance concurred in the recommendation of the Winnipeg Public Service that the financial status of the Capital Integration Project - Southwest Transitway (Stage 2) and Pembina Highway Underpass (“the Project”) as contained in the report, be received as information.

Minutes - Standing Policy Committee on Finance - April 9, 2015

DECISION MAKING HISTORY:

Moved by Councillor Pagtakhan,

That the recommendation of the Winnipeg Public Service be concurred in.

Carried

David Sanders submitted a communication dated April 9, 2015, with respect to Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass – Financial Status Report No. 1 for the Period Ending December 31, 2014

ADMINISTRATIVE REPORT

Title: SOUTHWEST RAPID TRANSITWAY (STAGE 2) AND PEMBINA HIGHWAY UNDERPASS – FINANCIAL STATUS REPORT NO. 1 FOR THE PERIOD ENDING DECEMBER 31, 2014

Critical Path: STANDING POLICY COMMITTEE ON FINANCE

AUTHORIZATION

| Author | Department Head | CFO | CAO |
|---------------|-----------------|-----|-----|
| T. Yanchishyn | D. Wardrop | | |

RECOMMENDATIONS

That the financial status of the Capital Integration Project - Southwest Transitway (Stage 2) and Pembina Highway Underpass (“the Project”), as contained in the report, be received as information.

REASON FOR THE REPORT

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

IMPLICATIONS OF THE RECOMMENDATIONS

None

HISTORY

In October 2004, the Mayor appointed the Rapid Transit Task Force. It commenced its work in December 2004 and completed its final report in September 2005.

On February 22, 2006, Council adopted an administrative report entitled “*Implementation Plan for Rapid Transit Task Force Recommendations*” which outlined a transit improvement plan to be implemented over subsequent years. This plan included the completion of design work for Stage 1 of the Southwest Rapid Transit Corridor.

On October 22, 2008, Council adopted the plan for the Southwest Rapid Transit Corridor – Stage 1 in the amount of \$138,000,000 which was commissioned in April 2012.

On November 16, 2011, Council adopted the Transportation Master Plan, which includes the provision for the expansion of the Pembina Highway Underpass and five new transit corridors, the first being the southwest corridor.

On December 14, 2012, preliminary design for the Pembina Highway Underpass was completed.

On March 20, 2012, Council approved an amendment to the Transportation Master Plan which identifies Alignment 1B (through the Parker Lands and the Manitoba Hydro corridor) as the preferred alignment.

On June 25, 2014, Council approved the report submitted by the Transit Department entitled Capital Integration Project – Southwest Transitway (Stage 2) and Pembina Highway Underpass in which:

- A 2014 capital project was approved in the amount of \$590 million, subject to confirmation of Federal and provincial funding.
- The Project was authorized to proceed based on a Design-Build-Finance-(Operate)-Maintain (DBF(O)M) Public-Private Partnership delivery model.

The Project has a total budget of \$590 million with funding being provided by all three levels of government. A portion of the funding will be financed through the private partner and paid back over 30 years. Annual service payments are expected to commence in 2020 for both the financing and maintenance of the project.

MAJOR CAPITAL PROJECT STEERING COMMITTEE

Administrative policy for projects with capital costs exceeding \$10 million requires formation of a Major Capital Project Steering Committee. The Committee has been formed and its members are:

Chief Administrative Officer
Chief Financial Officer
Chief Operating Officer
Director of Public Works
Director of Planning, Property and Development
Director of Transit
Director of Water and Waste
Manager of Capital Projects, Corporate Finance
Project Manager, Transit

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

OVERALL PROJECT STATUS

The project is within budget and on time.

DESCRIPTION OF PROJECT

Southwest Transitway Stage 2 – Project Overview

Stage 2 of the Southwest Transitway (SWT) will be a dedicated corridor that will extend from Pembina & Jubilee to the University of Manitoba and to Markham Road. Stage 2 will extend westward through the Parker Lands, then southeast along a Manitoba Hydro right-of-way, crossing McGillivray, Clarence and Chevrier before crossing under the CN Letellier subdivision. The transitway will then run parallel to the CN railway as it crosses Bishop Grandin and Chancellor. An access to Southpark Drive will allow some routes to enter the University of Manitoba/Investors Group Field via the Southwood Lands. The transitway will extend as far south as Markham, where routes serving Waverley West, Fort Richmond, Richmond West and St. Norbert will enter/exit the transitway.

In addition to nine new Rapid Transit stations, the Project is proposed to include the following new Transitway grade separations:

- an overpass of Pembina Highway
- an underpass of the CN Letellier Subdivision rail lines near Jubilee
- an overpass of McGillivray Boulevard
- a tunnel beneath the CN Letellier Subdivision south of Chevrier
- an overpass of Bishop Grandin Boulevard

To make way for the construction of the Transitway, a new CN rail bridge over Bishop Grandin Boulevard is required. Furthermore, track relocations of the CN Letellier Subdivision and CN Rivers

Subdivision will be necessary in the vicinity of Jubilee. Relocation of the CN Letellier Subdivision track 5.6 m to the west, between approximately Plaza and Markham, is also required to construct the Transitway alignment. Reconstruction of the track bed, upgraded rail, ties, and ballast, and construction of a noise attenuation wall on the west side of the CN Letellier Subdivision south of Bishop Grandin are expected to reduce railway noise and vibrations below existing levels for adjacent residents.

Pembina Highway Underpass Widening – Project Overview

Combined with the construction of the Transitway will be the widening of the Pembina Highway Underpass which will include the following roadway improvements: addition of third northbound traffic lane to allow for three lanes in each direction; increased lane width; improved left turn lane; and the construction of bicycle and pedestrian facilities on both sides of Pembina Highway through the Pembina Highway Underpass.

To make way for the widening of the Pembina Highway Underpass, associated railway works will include a new CN rail bridge over Pembina Highway and track relocation on the CN Letellier Subdivision and the CN Rivers Subdivision near Jubilee.

Project Scope Ladder

To ensure the City is able to maintain the annual service payments to the P3 proponent at \$22.05 million or less, a scope ladder will be introduced into the Request for Proposal. A scope ladder will be a mechanism to delete certain items from the project scope in a pre-determined order so that proponents can bid to them in advance. Therefore, if bids received result in an annual payment in excess of \$22.05 million the scope ladder will be utilized to remove items

from the bids by each of the proponents and the pricing adjusted. The scope ladder has not yet been finalized.

PROJECT SCHEDULE

Project Timeline

Construction is proposed to begin in the Spring of 2016 and conclude in late 2019. The Transitway would then be introduced into service in early 2020, following a brief period of commissioning and training.

In September 2013, under Bid Opportunity 685-2013, a contract for \$1,894,000 was awarded to Dillon Consulting Limited for Phase I (Functional Design) and Phase II (P3 Business Case and VFM Analysis). Phase I and Phase II of this contract award were paid out of a previous capital project budget and are not part of the costs of this project. In July 2014, a contract for \$2,380,000 was awarded to Dillon Consulting for Phase III (Procurement), which commenced the development of the Request for Qualification.

In August 2014, under Request for Proposal 471-2014, a contract for \$67,500 (\$72,900 including PST) was awarded to P1 Consulting Inc. A fairness monitor has been appointed to ensure that the procurement process is conducted with openness, transparency, integrity and accountability. This is also a requirement of The Public-Private Partnerships Transparency and Accountability Act.

In September 2014, the Request for Qualification was released with responses received in November 2014. The evaluation process is currently underway with the expectation that three shortlisted proponents will be announced shortly. The three shortlisted proponents will be invited to respond to the Request for Proposal (RFP) for the Project expected to be released in Spring 2015.

In October 2014, under Request for Proposal 601-2014, a contract for \$301,784 was awarded to Blake, Cassels & Graydon LLP for legal advisory services.

In October 2014, under Materials Management Reference 981-2014, a contract for \$200,000 was awarded to Manitoba Hydro for consulting services related to an environmental assessment for the Manitoba Hydro early works.

In February 2015, three shortlisted proponents from the Request for Qualification were approved by the Chief Administrative Officer. The three shortlisted proponents will be responding to the Request for Proposal.

The RFP open period will be approximately six to nine months, with an award to the successful proponent expected in early 2016.

RISK AND MITIGATION STRATEGIES

Schedule is currently the biggest risk to ensure the RFP is released in sufficient time to allow an award in early 2016. One risk that is impacting schedule is determining details with respect to timing and amounts of provincial funding. The Province has agreed to fund up to \$225 million of the project but the definition of when their contribution will be cashed flowed and based on what criteria still needs to be agreed to. The RFP cannot be released without this agreement. A

working group made up of City and Provincial representatives is currently negotiating these items.

Also, Manitoba Hydro needs to ensure their work on the new towers is complete before 2016 to allow construction by the successful proponent to begin on time. Project teams from the City and Manitoba Hydro are working diligently toward this goal.

In addition, land agreements with Manitoba Hydro and CN also need to be finalized which is not a critical element at this point in the project but need to be finalized before construction can commence.

PROJECT FUNDING

Subsequent to the December 31, 2014 reporting period, the Federal Government through PPP Canada announced its commitment to the project in the amount of \$137.3 million to be provided at substantial completion.

Provincial funding was announced earlier in 2014, however, the timing and method of this funding still needs to be determined. Due to the timing uncertainty of this funding, the project will require interim financing for upfront project costs until cash is advanced from the Province. A recommendation for \$31 million of interim financing was approved with the 2015 Budget. The project currently has a total of \$10.55 million in cash, contributed from the Southwest Rapid Transit Corridor Reserve and the Province of Manitoba. Combined with the \$31 million of interim financing, sufficient authority exists to fund the upfront costs estimated at \$41.5 million.

PROJECT DETAIL

Total contracts awarded to December 31, 2014

| Sub-Project | Description | Contract Awards to Date | Estimated Completion Date | Total Contract Amount |
|-------------|------------------------------------|------------------------------|---------------------------|-----------------------|
| 1 | Technical & Procurement Advisor | Dillon Consulting Limited | March 2016 | \$2,380,000 |
| 2 | Fairness Monitor | P1 Consulting Inc. | March 2016 | \$72,900 |
| 3 | Legal Advisor | Blakes, Cassels, Graydon LLP | March 2016 | \$301,784 |
| 4 | Environmental Act Licence | Manitoba Hydro | December 2015 | \$200,000 |
| | Total Issued Contract Value | | | \$2,954,684 |

FINANCIAL ANALYSIS

| Project Component | Budget | Value/Cost Estimate | Variance Budget to Contract Value/Cost Estimate | Change in Variance from Last Report |
|-------------------|--------|---------------------|---|-------------------------------------|
| | | | | |

| | | | | |
|------------------------|---------------------|---------------------|----------|----------|
| Upfront Costs | | | | |
| Professional Services | \$13,000,000 | \$13,000,000 | - | - |
| Property and Utilities | 23,000,000 | 23,000,000 | - | - |
| Other | 5,500,000 | 5,500,000 | - | - |
| Total * | \$41,500,000 | \$41,500,000 | - | - |

* In addition, cash payments of \$225 million from the Province of Manitoba and \$137.3 million from the federal government will be made. The rest of the consideration towards project capital will be made by the City as \$4.2 million of cash and \$220.8 million of debt to be assumed by the City. The total stated value of the project is \$587.3 million which includes the upfront costs of \$41.5 million. This is down from the previously budgeted amount of \$590 million due to the amount of the federal contribution being slightly less than the \$140 million budgeted.

Summary

Contracts Issued to Date
\$2,954,684

Unawarded Amounts:
\$38,545,316

Budget for Upfront Costs:

\$41,500,000

Budget for Operating Period Payments:

\$22,050,000

Note: Operating Period Payments are in place for 30 years and will be determined through the RFP Process. A component of the operating period payment is subject to annual inflation.

FUNDING SOURCES

| Costs Estimates are in \$ millions | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|--------|-------|-------|--------|----------|----------------|
| Federal Government (all Cash) - PPP Canada, Completion Payment | | | | | \$137.3 | \$137.3 |
| Province of Manitoba (all Cash) - Milestone Payments - Upfront Cost & Project Payments | | | | \$82.6 | \$82.6 | \$225.0 |
| | \$10.0 | \$5.8 | | | \$44.0 | |
| City of Winnipeg - Cash to Project - Interim Financing - Debt to P3 Proponent | \$4.2 | | | | | \$4.2 |
| | \$8.4 | \$4.5 | \$2.7 | \$2.8 | (\$18.4) | \$0.0 |
| | | | | | \$220.8 | \$220.8 |
| Total Estimated Project Costs | | | | | | \$587.3 |

P3 Lease Payment for 2020 is estimated to be \$22.05 million, with City share of \$19.7 million.

Operation and Maintenance P3 Payment increase with inflation.

Province expected to cost share 50% of Transit related Operation and Maintenance P3 Payments.

P3 Lease Payments are for 30 Years

The project cash flow is included in Appendix 1.

FINANCIAL IMPACT

Financial Impact Statement

Date: **March 27, 2015**

Project Name:

First Year of Program **2014**

Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass - Financial Status Report No. 1 for the Period Ending December 31, 2014

Comments:

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

original signed by:

Tanis Yanchishyn, CA
Manager of Finance and Administration

CONSULTATION

In preparing this report there was consultation with:

None

SUBMITTED BY

Department: Transit
Division: Finance and Administration
Prepared by: Tanis Yanchishyn, Manager of Finance and Administration
Date: March 27, 2015
File No.

Appendix I

SOUTHWEST RAPID TRANSITWAY (STAGE 2) & PEMBINA HIGHWAY UNDERPASS
TRANSIT DEPARTMENT
As of December 31, 2014

| Project Component | Capital Budget | Capital Expenditure Forecast | | | | | | | | | Surplus (Deficit) From Revised | Variance Last Report | Change in Variance |
|--------------------------------|--------------------|------------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|-------------------|-------------------------|-------------|-----------------------------------|----------------------|--------------------|
| | Original | Actual Costs | Forecast | | | | | | | Total | | | |
| | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 to End of Contract | Forecast | | | |
| UPFRONT COSTS | | | | | | | | | | | | | |
| PROFESSIONAL SERVICES | \$ 13,000,000 | \$ 720,411 | 3,526,817 | \$ 3,794,692 | \$ 1,827,580 | \$ 1,827,580 | \$ 1,302,920 | | | | \$ 13,000,000 | - | - |
| PROPERTY AND UTILITIES | 23,000,000 | 369 | 17,423,216 | 5,576,415 | \$ - | | | | | | \$ 23,000,000 | - | - |
| OTHER | 5,500,000 | 31,265 | 936,298 | 902,853 | \$ 919,204 | \$ 932,160 | \$ 945,340 | \$ 832,880 | | | \$ 5,500,000 | - | - |
| TOTAL UPFRONT COSTS * | 41,500,000 | 752,045 | 21,886,331 | 10,273,960 | \$ 2,746,784 | \$ 2,759,740 | \$ 2,248,260 | \$ 832,880 | | | \$ 41,500,000 | - | |
| ANNUAL SERVICE PAYMENTS | 719,547,000 | | | | | | | | 22,050,000 | 697,497,000 | \$ 719,547,000 | | |

Explanatory Notes

- In addition to the upfront costs, cash payments of \$225 million from the Province of Manitoba and \$137.3 million from the federal government (P3 Canada) will be made. The remainder of the consideration towards project capital will be made by the City as \$4.2 million of cash and \$220.8 million of debt to be assumed by the City. The total stated capital value of the project is \$587.3 million which includes the upfront costs of \$41.5 million. This is down from the previously budgeted amount of \$590 million due to the amount of the federal contribution being slightly less than the \$140 million budgeted.
- Annual service payments on debt for 30 years starting in 2020. The Annual Service Payments will be funded by the City of Winnipeg for the amount related to debt repayment and jointly by the City and Province of Manitoba for the amount related to operation and maintenance. The budget for the Annual Service Payments in 2020 is \$22.05 million for both debt service and operation and maintenance.
- Of the total budget for Annual Service Payments of \$719.5 million, \$495.6 million relates to debt service payments and \$223.9 million relates to operation and maintenance of the corridor over the 30 years.