

Minutes - Standing Policy Committee on Finance - June 24, 2016

REPORTS

**Item No. 5 Southwest Rapid Transitway (Stage 2) and Pembina Highway
Underpass – Financial Status (Project No. 4230010514) Report No. 6
for the Period Ending March 31, 2016**

STANDING COMMITTEE DECISION:

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

Minutes - Standing Policy Committee on Finance - June 24, 2016

DECISION MAKING HISTORY:

Moved by Councillor Lukes,

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

Carried

ADMINISTRATIVE REPORT

Title: Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass – Financial Status (Project No. 4230010514) Report No. 6 for the Period Ending March 31, 2016

Critical Path: Standing Policy Committee on Finance

AUTHORIZATION

| Author | Department Head | CFO | CAO |
|----------|-----------------|---------|-----------|
| S. Payne | D. Wardrop | M. Ruta | D. McNeil |

RECOMMENDATIONS

That the financial status of the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project (“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.

EXECUTIVE SUMMARY

The Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Public-Private Partnership Project (P3) is comprised of significant infrastructure components in the southwest quadrant of Winnipeg including: the completion of Stage 2 of the Southwest Transitway, the addition of active transportation infrastructure, the renewal and expansion of the Pembina Underpass, and connections to the University of Manitoba and Investors Group Field.

The project will help accommodate anticipated population growth in southwest Winnipeg that is expected to lead to an estimated 40 percent traffic increase on Pembina Highway by 2030. Once completed, the project improvements, which are consistent with the Council-approved Transportation Master Plan (2011), will allow for transportation options (buses, active transportation, cars, and trucks) to operate in a more sustainable and integrated manner. These benefits will begin upon project completion and last well into the future.

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, 2013, 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 Chief Administrative Officer was authorized to approve, issue and award the Request for Qualifications (RFQ) and the Request for Proposals (RFP) for the Project.

Project funding is 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.

On July 15, 2015, Council approved additional borrowing authority of up to \$112 million to ensure sufficient funds are available at substantial completion to make the required payments.

On October 28, 2015, Council approved the report submitted by the Transit Department entitled *Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass – Project Authority* in which:

- The City of Winnipeg enter into agreements with the University of Manitoba, Triple B Stadium Inc. and the Winnipeg Football Club for the implementation of proposed works related to the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass project, and

- The authority be delegated to the CAO to negotiate and approve the terms and conditions of the agreements.

On January 27, 2016, Council approved the report submitted by the Standing Policy Committee on Property and Development, Heritage and Downtown Development entitled *Expropriation of Lands - Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass*, in which:

- The expropriation of lands for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project, approved at the February 25, 2015 Council Meeting, be confirmed as outlined in the Declaration of Expropriation submitted on March 25, 2015 with the exception of Holdings #15, #16, #17 which will be removed from the expropriation and Holdings #22 and #23 which have had the required takings reduced in size.
- The four recommendations proposed by the Inquiry Report not be endorsed.
- That Council acknowledge sections 354, 356 and 357 of the Inquiry Report.
- That the Director of Legal Services/City Solicitor be instructed to initiate Manitoba Court of Queen's Bench proceedings, if necessary, to obtain an order extending the time under The Expropriation Act for Council to confirm the expropriation.
- That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

On March 22, 2016, Council approved:

- That Recommendation two of the report entitled "Capital Integration Project – Southwest Transitway (Stage 2) and Pembina Highway Underpass" dated May 9, 2014, approved by Council on June 25, 2014, be amended to add the following language at the end of such recommendation:
 - "and that such delegation to the Chief Administrative Officer include all necessary power and authority to:
 - i. identify the Preferred Proponent in accordance with the Request for Proposal (RFP No. 201-2014 B); and
 - ii. award the Project to the Preferred Proponent."
- That the City execute, deliver and perform the agreement to Design, Build, Finance, (Operate) and Maintain the City of Winnipeg's Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass (the "Project Agreement") and all such other agreements ancillary to the Project Agreement as deemed necessary by the Director of Legal Services and City Solicitor (the "Ancillary Agreements"), and that authority be delegated to the Chief Administrative Officer to approve the terms and conditions of, and deliver, the Project Agreement and all Ancillary Agreements.
- That the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass capital project be updated to reflect confirmed P3 Canada funding of up to \$137.3 million.
- That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

MAJOR CAPITAL PROJECT STEERING COMMITTEE

Administrative policy for projects with capital costs exceeding \$20 million requires formation of a Major Capital Project Steering Committee. This threshold was approved by Council on October 28, 2015. Any project reporting to SPC Finance under the previous \$10 million threshold will continue to report. The Committee has been formed and its members are:

Michael Ruta, Chief Financial Officer
Michael Jack, Chief Operating Officer
Lester Deane, Director of Public Works
John Kiernan, Director of Planning, Property and Development
Dave Wardrop, Director of Transit
Jason Ruby, Manager of Capital Projects, Corporate Finance
Moirra Geer, Acting Director of Water and Waste
Scott Payne, Manager of Major Projects, 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 Highway and Jubilee Avenue to the University of Manitoba and Markham Road. The alignment of Stage 2 will extend westward through the Parker Lands, then southeast along a Manitoba Hydro right-of-way, crossing McGillivray Boulevard, Clarence Avenue, and Chevrier Boulevard before passing under the CN Letellier Subdivision. The transitway will then run parallel to the CN railway as it crosses Bishop Grandin Boulevard and Chancellor Drive. 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 Road, 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 Avenue
- an overpass of McGillivray Boulevard
- a grade separation at the CN Letellier Subdivision south of Chevrier Boulevard
- an overpass of Bishop Grandin Boulevard

To make way for the construction of the Transitway, the existing CN rail bridge over Bishop Grandin Boulevard will be relocated west of its current location. Furthermore, track relocations of the CN Letellier Subdivision and CN Rivers Subdivision will be necessary in the vicinity of Jubilee Avenue. Relocation of the CN Letellier Subdivision track 5.6 metres to the west, between Plaza Drive and Markham Road, 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 Boulevard, 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 accommodate the widening of the Pembina Highway underpass, associated railway works will include the relocation of the existing CN rail bridge over Pembina Highway and track relocation on the CN Letellier Subdivision and the CN Rivers Subdivision near Jubilee Avenue.

Project Re-Scoping Price Adjustment

To ensure the City is able to maintain the annual service payments to the P3 proponent at \$22.05 million or less, a re-scoping price adjustment mechanism was introduced into the RFP. If all submitted bids are unable to meet the predetermined affordability cap, \$22.05 million, the re-scoping price adjustment will remove certain items from the project scope to reduce cost and meet the cap. The re-scoping list is identified in advance, and proponents must provide revised bids based on each item on the re-scoping list.

PROJECT SCHEDULE

Project Timeline

Construction is proposed to begin in summer 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 2014, the RFQ was released with responses received in November 2014.

In February 2015, three shortlisted proponents from the RFQ were approved by the Chief Administrative Officer. The following three shortlisted proponents will be responding to the RFP that was issued on July 17, 2015;

- Red River Infrastructure Group
- WinnCity Transportation Partners
- Plenary Roads Winnipeg

On July 17, 2015, the CAO approved the release of RFP 201-2014B to the three shortlisted pre-qualified parties. The RFP open period will be approximately six months, with an award to the successful proponent expected in mid-2016.

On February 25, 2015, the Administrative report titled *Expropriation of Lands – Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project* was approved by Council. Expropriation hearings to acquire the necessary project lands (referred to as the “Parker Lands”) were held between August 4, 2015 and September 4, 2015.

RISK AND MITIGATION STRATEGIES

Manitoba Hydro has been contracted to relocate the existing Hydro transmission towers within the proposed transitway alignment in advance of the Southwest Rapid Transitway (Stage 2) project. These relocations need to be complete before June 2016 to allow construction by the successful proponent to begin on time. The Manitoba Hydro transmission tower relocation project is currently on schedule.

In addition, construction agreements with Manitoba Hydro and CN have been executed. The land negotiations between the City, CN, the University of Manitoba and Manitoba Hydro are ongoing. Failure to successfully negotiate the land acquisition agreement between the City and its partners (Manitoba Hydro, CN and the University of Manitoba) could delay the start of the project.

In April 2014, the City made application for, and received, an Environmental Act License for the Project, from the Province of Manitoba. In April 2015, the Province requested, as part of the appeals process for the Environmental Act License, that the City provide additional information and their drainage management plan for the effects of the Project on the Parker Lands. On June 18, 2015, the City reported back to the Environmental Approvals Office with the requested information. On June 10, 2016 the City received, from the Environmental Approvals Office, approval of the City’s report dated June 18, 2015.

Delays in receiving the Provincial funding details delayed the RFP release; this may result in additional schedule risks to the project completion date.

The City was working with the Province of Manitoba to finalize the Provincial capital funding agreement. Completion of this agreement was achieved on May 12, 2016 and was a priority to ensure the City can adopt a borrowing by-law to temporarily finance the Provincial portion of the Project. The borrowing by-law was passed by Council on May 18, 2016, this was a condition precedent required for Financial and Commercial Close deadlines in June 2016.

The City will continue to finalize land values for the expropriated properties and other project lands as the project proceeds.

To reduce the risk of interest rate fluctuations during the RFP process the City has included a predefined interest rate adjustment process, whereby interest rates embedded in the Preferred Proponent financial bid submission get adjusted for market movements in interest rates between Financial Submission and Financial Close. JCRA Financial has been engaged as the City’s Capital Market Advisor to conduct due diligence on submitted interest rate information from the Preferred Proponent.

PROJECT FUNDING

On February 9, 2015, 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 of \$225 million was originally announced in 2014 and the details regarding the timing and method of this funding were agreed upon on July 9, 2015. The Province will provide a combination of \$18 million toward upfront costs, \$95 million at substantial completion, and \$112 million post construction.

On March 23, 2015, Council approved \$31 million of interim financing. 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 \$41.55 million.

On July 15, 2015, Council approved additional borrowing authority of up to \$112 million to ensure sufficient funds are available at substantial completion to make required payments to the P3 Proponent. This additional borrowing authority is part of an agreement with the Province of Manitoba to bridge the Province's financial contribution to the project. The interest costs associated with the additional borrowing authority will be fully funded by the Province of Manitoba.

The City is currently working with the Province of Manitoba and the Federal Government on finalizing the project funding agreements. Completion of these agreements is a priority to ensure the agreement is in place prior to the award of the contract.

PROJECT DETAIL

Total contracts awarded including all change orders and excluding applicable taxes to March 31, 2016.

| Sub-Project | Description | Contract Awards to Date | Estimated Completion Date | Total Contract Amount |
|--------------------|--|--------------------------------|----------------------------------|------------------------------|
| 1 | Technical & Procurement Advisor | Dillon Consulting Limited | March 2016 | \$2,617,870 |
| 2 | Fairness Monitor | P1 Consulting Inc. | March 2016 | \$67,500 |
| 3 | Legal Advisor | Blakes, Cassels, Graydon LLP | March 2016 | \$740,624 |
| 4 | Environmental Act Licence | Manitoba Hydro | December 2015 | \$200,000 |
| 5 | Hydro Early Works Geotechnical Studies & Design Work | Manitoba Hydro | January 2015 | \$300,000 |
| 6 | Hydro Early Works Construction | Manitoba Hydro | February 2016 | \$6,255,000 |
| 7 | Capital Markets Advisor | JCRA Financial LLC | March 2016 | \$314,799 |
| 8 | Tree Removal at University of Manitoba | Green Drop Ltd. | March 2016 | \$35,000 |
| | Total Issued Contract Value | | | \$10,530,793 |

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 | \$11,306,366 | (\$1,693,634) | - |
| Property and Utilities | 23,000,000 | 23,000,000 | - | - |
| Other | 5,550,000 | 7,243,634 | 1,693,634 | - |
| Total ^a | \$41,550,000 | \$41,550,000 | - | - |

- a. 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.

'Other' costs have been updated to include interim financing costs. This adjustment can be accommodated by reducing the budget for Professional Services with no overall change to the project budget.

Summary

| | |
|---------------------------------------|--------------|
| Contracts Issued to Date | \$10,530,793 |
| Unawarded Amounts: | \$31,019,207 |
| Budget for Upfront Costs: | \$41,550,000 |
| 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

| Cost Estimates are in \$ millions | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 and Beyond | Total |
|--------------------------------------|--------|---------|--------|--------|----------|-----------------|-----------------|
| Federal Government (all cash) | | | | | | | |
| - PPP Canada, Completion Payment | | | | | \$ 137.3 | | \$ 137.3 |
| Province of Manitoba | | | | | | | |
| - Upfront Cost & Project Payments | \$ 3.0 | \$ 6.2 | \$ 1.6 | \$ 1.6 | \$ 99.3 | \$ 113.3 | \$ 225.0 |
| City of Winnipeg | | | | | | | |
| - Cash to Project | \$ 4.2 | | | | | | \$ 4.2 |
| - Interim Financing | \$ - | \$ 18.2 | \$ 1.7 | \$ 1.8 | \$ 91.0 | -\$ 112.7 | \$ - |
| -Debt to P3 Proponent | | | | | \$ 220.8 | | \$ 220.8 |
| Total Estimated Project Costs | | | | | | | \$ 587.3 |

- * P3 Lease Payment for 2020 is estimated to be \$22.05 million, with the City share of \$19.7 million.
- * On July 15, 2015 Council approved additional borrowing authority of up to \$112 million.
- * Operation and Maintenance P3 Payments 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 (attached).

FINANCIAL IMPACT

Financial Impact Statement

Date: June 15, 2016

Project Name:

Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass – Financial Status
(Project No. 4230010514) Report No. 6 for the Period Ending March 31, 2016

Comments:

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

Original signed by:

Tanis Yanchishyn, CPA, CA
Manager of Finance & Administration

CONSULTATION

In preparing this Report there was consultation with:

None

OURWINNIPEG POLICY ALIGNMENT

02-2 Environment

“Our environment is the foundation for our economic and social health, and collectively, we need to continue to take responsibility for it. Our actions should contribute to the protection of the natural environment locally, regionally and globally, both for our own well-being and for future generations.”

Key Direction > Reduce the environmental impact of our activities, through strategies such as planning for sustainable energy use and greenhouse gas reduction.

05-1 Public Transit System

“Winnipeg has a high quality and efficient public transit system characterized by its focus on key corridors and incremental improvements to service. Sustainable Transportation will take these improvements to the next level, providing improved transit access across the city. We envision that public transit in Winnipeg will be structured into a hierarchy of three main categories: Rapid Transit, Transit Quality Corridors and Conventional Transit Service.”

Key Direction > The inclusion of rapid transit in this vision is necessary, since only rapid transit, with its high levels of service frequency and absence of congestion delays, can make public transit fast and convenient enough to compete with the private automobile. In a balanced transportation system, public transit should be an easy and convenient option for moving people.

SUBMITTED BY

| | |
|--------------|--|
| Department: | Transit |
| Division: | Major Projects |
| Prepared by: | Scott Payne, Manager of Major Projects |
| Date: | June 15, 2016 |
| File No. | TR_SWRT (Stage 2)_4230010514_2015QR4 |

Appendix I

SOUTHWEST RAPID TRANSITWAY (STAGE 2) & PEMBINA HIGHWAY UNDERPASS
TRANSIT DEPARTMENT
As of March 31, 2016

| Project Component | Capital Budget | Capital Expenditure Forecast | | | | | | | | Surplus (Deficit) | Variance Last Report | Change in Variance |
|--------------------------------|----------------------|------------------------------|----------------------|---------------------|---------------------|---------------------|-------------------|-------------------------|----------------------|-------------------|----------------------|--------------------|
| | | Actual Costs | Forecast | | | | | | Total | | | |
| | Original | To March 31 2016 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 to End of Contract | Forecast | From Revised | | |
| UPFRONT COSTS | | | | | | | | | | | | |
| PROFESSIONAL SERVICES | \$ 13,000,000 | \$ 2,465,843 | \$ 4,135,523 | \$ 1,568,333 | \$ 1,568,333 | \$ 1,568,334 | | | \$ 11,306,366 | 1,693,634 | 1,693,634 | (0) |
| PROPERTY AND UTILITIES | 23,000,000 | 6,770,893 | 16,229,107 | | | | | | \$ 23,000,000 | - | - | - |
| OTHER | 5,550,000 | 583,243 | 1,382,556 | \$ 1,688,688 | \$ 1,754,254 | \$ 945,340 | \$ 889,554 | | \$ 7,243,635 | (1,693,635) | (1,693,634) | (1) |
| TOTAL UPFRONT COSTS * | \$ 41,550,000 | \$ 9,819,979 | \$ 21,747,186 | \$ 3,257,021 | \$ 3,322,587 | \$ 2,513,674 | \$ 889,554 | | \$ 41,550,001 | (1) | | |
| ANNUAL SERVICE PAYMENTS | 719,547,000 | | | | | | | 22,050,000 | 697,479,000 | \$ 719,529,000 | | |

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.