



Committee of the Whole Report

For the Meeting of March 22, 2018

To: Committee of the Whole **Date:** March 8, 2018
From: Susanne Thompson, Director of Finance
Paul Bruce, Fire Chief
Subject: Victoria Fire Department Headquarters Replacement Budget Approval

RECOMMENDATIONS

That Council approve allocating \$35.9 million from the City's Debt Reduction Reserve, for inclusion in the 2018 – 2022 Financial Plan, for the procurement of a new Fire Department Headquarters to be located at a new parcel fronting Johnson Street, near Cook Street.

EXECUTIVE SUMMARY

Through an extensive process that began with a market sounding followed by a Request for Qualifications, the City has successfully negotiated a contract with Dalmatian Developments LP for the purchase and construction of a new post-seismic rated Fire Department Headquarters, co-located with a BC Emergency Health Services (BCEHS) facility for paramedics as part of an overall mixed use development at 1050 Yates Street (map attached as Appendix A). Dalmatian Developments LP, is the development partnership created by Jawl Residential Ltd. and Nadar Holdings Ltd.

The new public safety building, part of the first phase of the development, will replace the current fire headquarters that has served the citizens of Victoria since 1959. The new turn-key facility will house fire and rescue services and Victoria's first purpose-built Emergency Operation Centre. In addition, the space to be leased to BCEHS is designed as future expansion space for the Fire Department. The Developer is planning on constructing additional storeys above the fire hall. Although at this point, the use has not been finalized, it will be compatible with an urban fire hall.

The new building, to be built to meet the upcoming changes to the BC Building Code standards for buildings designed to remain operable post disaster, will be approximately 41,700 square feet, including the BCEHS space of approximately 3,200 square feet.

The agreement provides for a guaranteed maximum price for a fixed scope (\$33.727 million). The project budget also includes the City's costs that are outside of the agreement, including project management, equipment and offsite servicing, bringing the total to \$35.9 million. In 2016, Council approved in principle using up to \$30 million for the new facility excluding any funding required for land and any multi-use component like BCEHS. The negotiated deal includes both the parcel for the fire hall and the space for BCEHS paramedics and their response vehicles. The lease with BCEHS will recover the capital cost associated with their space over the term of the lease after which the space will serve as expansion space for City emergency services. The City's Debt Reduction Reserve, which can be used as internal borrowing, has sufficient funding for this

purchase and the repayment to the reserve can be accommodated within the existing debt principal and interest budget set aside for this purpose, which means that no increase to property taxes is necessary for the repayment.

A number of due diligence processes have been completed to provide independent assessment of the design and operational aspects of the new fire hall as well as value for money. In order to ensure that the new fire hall meets operational requirements, the City commissioned a third party independent review of the layout and specifications that form part of the contract, and recommended changes were incorporated into the design. In addition, a Value for Money assessment was completed by PricewaterhouseCoopers comparing the negotiated deal with a "shadow bid" as well as the alternate option to build on the City's existing site. The shadow bid comparison indicates this deal is fair and shows greater value for money than the alternate option. Included in the project plan, as per the City's Project Management Framework, a risk registry is in place and will be updated on an ongoing basis during the course of the project. Risks that could be mitigated through the purchase and sale agreement or through additional due diligence have been addressed.

The agreement to build the fire hall, is subject to the developer successfully bringing their overall development project through the rezoning and development permit process, which includes the construction of the new fire hall. The land use process is a separate consideration. The construction process cannot commence until after the land use process has concluded satisfactorily. It is anticipated that if the land use process results in appropriate zoning on the property, the construction of the new fire hall will take approximately 28 months after issuance of the necessary building permits.

PURPOSE

The purpose of this report is to seek formal budget approval for the purchase and construction of a new Victoria Fire Department Headquarters following the successful negotiation of a purchase and sale agreement.

BACKGROUND

The Victoria Fire Department's headquarters, also known as Fire Station No. 1, requires significant renovation or replacement. As an alternative to a traditional procurement process, the City initiated a market sounding process. This collaborative approach was designed to foster innovation and was an opportunity to connect with potential partners in the private, commercial, emergency services and non-profit sectors. The market sounding was not a procurement process but rather an informal process which enabled potential partners to learn more and initiate discussions in confidence.

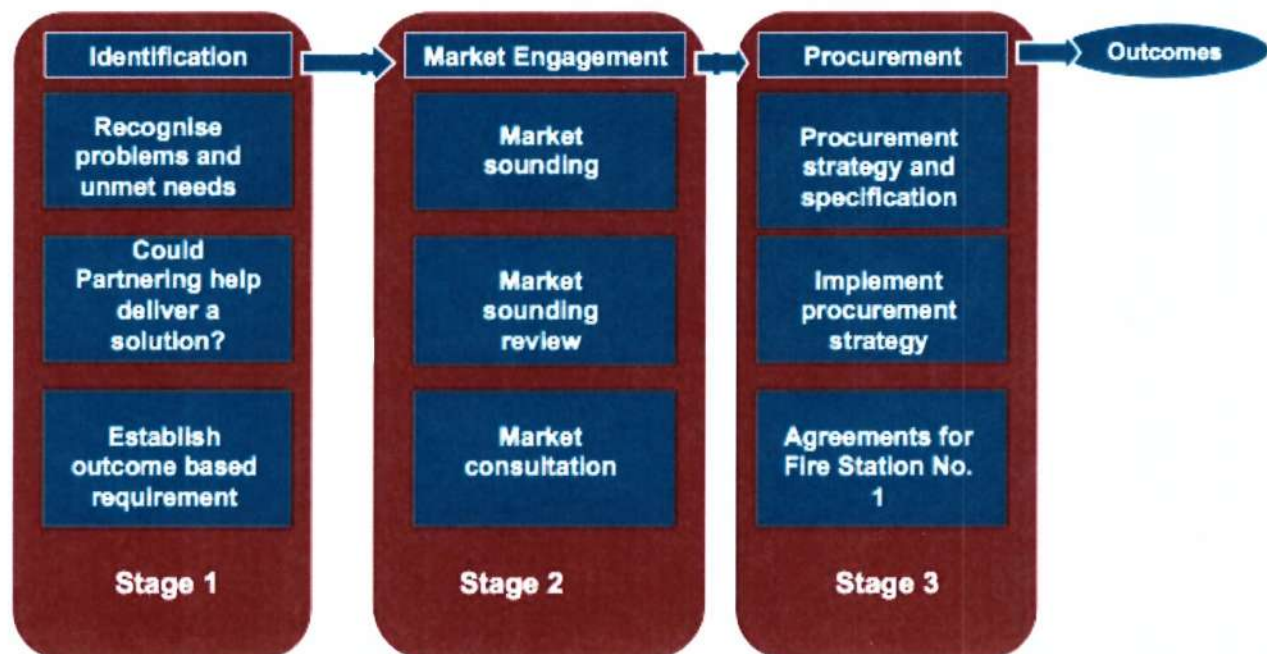
The Market Sounding Process

Market engagement offered a chance to shape the procurement plan at a very early stage, when this was relatively easy to do. When a plan is already published in formal documents there may be little opportunity to change, or for innovation to be incorporated. It also provided an opportunity for other stakeholders to have input into the procurement process to ensure the City obtains best value for money.

The City wished to assess the reaction of the marketplace to the provision of a renovation or replacement of Fire Station No.1. Particular areas of interest included:

- to more accurately estimate the required budget for the work
- to refine and further clarify the requirements and identify a full range of options
- to identify potential partners
- to develop general market knowledge

There are three key stages in this process:



Through the market sounding process, a number of parties expressed interest and after much exploration and discussion, Council directed staff to issue a Request for Qualifications, which subsequently led to the negotiations of this contract. All three stages of the market sounding process are now complete.

Council Direction To-date

Council has passed a number of motions regarding the renovation or replacement of Fire Station No. 1 including:

On October 10, 2013, Council endorsed the funding strategy to use internal borrowing from the Debt Reduction Reserve to fund the future option for Fire Hall No. 1 with amounts to be determined once the decision on which option has been made.

On November 28, 2013, Council passed a motion that in considering the replacement of Fire Hall No. 1 to look at opportunities for a mixed use development.

Council received an update report on the current status of work related to Fire Station No. 1 on April 24, 2014.

On September 11, 2014, Council received an update on the status of the No. 1 Fire Station Project. Consultants working on the project were directed at the last meeting to take a more creative approach to this project.

On January 22, 2015, Council received an update report on the market sounding process to be initiated to gauge the community's interest in collaborating with the City to renovate or replace the headquarters for the Victoria Fire Department and Council directed staff to report back at the conclusion of the market sounding process.

On February 17, 2015, the City of Victoria reached out to the market through a market sounding over a 9-week span to seek innovative ideas and potential interest in partnering with the City on opportunities for the renovation or replacement of Fire Station No. 1 located at 1234 Yates Street. The City also noted that the recently vacated adjacent property at 1240 Yates Street could potentially be part of this opportunity. The market sounding closed on April 17, 2015.

An update report was brought to Council on May 21, 2015 in closed session to outline the market sounding responses received. At that point, Council directed staff to continue discussions with a number of the interested parties and to rise and report regarding that direction.

A second update report was brought to Council on September 17, 2015 in closed session to outline the results of those further discussions. At that time, Council directed staff to complete further cost analysis to inform a proposed procurement strategy and to rise and report regarding that direction.

On February 11, 2016, Council approved a multi-stage procurement strategy beginning with the issuance of a Request for Qualifications (RFQ) as the first step in the formal, competitive procurement process. Depending on the outcome of the RFQ, the City may opt to directly negotiate with the preferred party or issue a Request for Proposals (RFP). Council also approved in principle the use of up to \$30 million from the Debt Reduction Reserve for the replacement of the fire hall, excluding any funding required for land and any multi-use component.

On September 22, 2016, Council received an update report in closed session outlining the results of the RFQ and directed staff to directly negotiate with the preferred proponent for the purchase and construction of a new Fire Department Headquarters, and explore opportunities for a multi-use components and potential co-location of BC Ambulance.

On June 8, 2017, in closed session, an update on the negotiations was provided outlining the preliminary terms negotiated and Council directed staff to prepare legal agreements for Council's consideration of approval to execute.

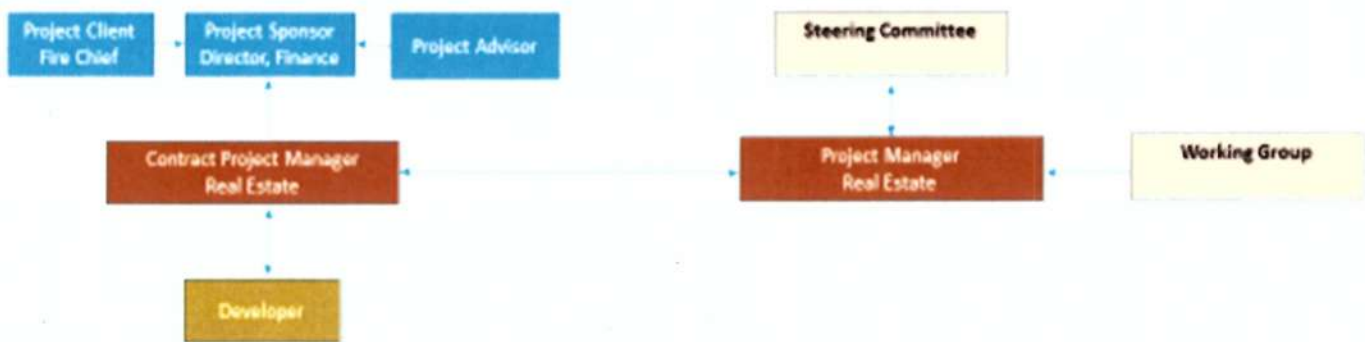
On December 14, 2017, in closed session, an update report on the development of the legal agreements was provided for Council's information.

On March 8, 2018, in closed session, Council approved the execution of the legal agreements with Dalmatian Developments LP for the purchase and construction of a new Fire Department Headquarters, as well as a lease with BCEHS for the paramedic facility co-located facility, subject to formal budget approval for the project at the March 22, 2018 Council meeting.

Project Management Framework

A project management plan has been developed using the City's Project Management Framework. The project plan articulates the project deliverables, work breakdown structure, timelines, governance, roles and responsibilities, and risks. The project plan is not intended to be a static document – as this initiative moves through the three phases (Agreement Negotiations, Site Re-Zoning, and Construction, including commissioning the new facility), the plan will be updated. The project has an assigned project manager, with support from project advisors and a working group, reporting to a steering committee on a monthly basis at a minimum. Council will be updated regularly through quarterly updates. The City's Strategic Real Estate Office will serve as project manager and the "on-the-ground" support will be provided by project advisor Jonathan Huggett.

The following depicts the governance structure for the construction phase:



ISSUES & ANALYSIS

Scope of Project

The current 26,700 square foot facility will be replaced with a 41,700 square foot facility, including the approximately 3,200 square foot space for BC Ambulance. Being mindful that the size of the building and floor plate drive the cost of construction, the project only includes those components that are necessary to be located at Fire Headquarters, and only the components that are required to be on the ground floor (the truck bays) are on that level. The needs assessment that was completed a number of years ago, which was recently updated along with cost analysis, outlines the requirements for the Fire Department operations with a view of ensuring that future anticipated needs are addressed. The approach taken to right-size the facility was to look at multi-purpose rooms for the various operational sections such as using the Emergency Operations Centre (EOC) as the training room during regular operations, and incorporating offices for Fire Prevention staff as potential “break out” rooms during emergency events.

The ground floor and second floor of the building would be the new public safety building. The Developer is planning on adding additional floors to the building for a likely mixed use development. However, at this point, the use of those has yet to be determined but will be compatible with that of an urban fire hall.

There are some functions within the current fire station that could be located elsewhere, such as the vehicle maintenance bays. Since Fire Station No. 3 does have sufficient space to house a new mechanical bays facility, this component will be relocated there allowing the reduction of the footprint at Johnson Street where land values are higher.

Seismic Code

Of significant importance is that the new fire hall will be built to the new seismic post disaster standards yet to be incorporated into the building code. This means it will be built to a seismic design load that is 50% higher than what typical commercial buildings will be required to meet under the new code’s increased seismic requirements. This will provide a post-disaster structure that will be able to be safely re-entered and used to deliver emergency services. This facility will also house the City’s Emergency Operations Centre, which currently does not exist as a purpose-built space.

Location

The new location is within the area for operational response times and provides close access to the main response route on Cook Street. Exiting on Johnson allows fire apparatus to continue north or south on Cook, which is an improvement from the current site where going against traffic on Yates is sometimes necessary. The capital program to upgrade fire pre-emption traffic controllers will be implemented over the next few years and will align with the construction of this new facility.



Co-location with BCEHS

This co-location has the potential for operational synergies between the two emergency responder functions as well as provides an opportunity for future expansion space for the Fire Department. The City and BCEHS will be entering into a lease arrangement for this space and while it has been designed to meet the needs of BCEHS, including vehicle bays for four ambulances, the design also works from a fire department perspective in that two fire apparatus can fit within those bays.

Due Diligence

It is very important to ensure that the new facility will be functional from a fire department operational perspective. While the fire hall was designed by HCMA, an architecture company with experience in fire hall design, the City also had a third-party independent functional review of the layout and specifications conducted by another architecture firm with fire hall design experience, Johnston Davidson Architecture, as part of the City's due diligence. A number of recommended changes were identified and incorporated into the final layout which forms part of the contract.

In addition, since the City negotiated directly with one proponent, to ensure that the deal offered was a fair deal, PricewaterhouseCoopers were commissioned to undertake a Value for Money (VFM) assessment. This assessment first compared the developer's offer with a "shadow bid", which essentially is an independent cost analysis of the design and layout. This analysis indicates that the deal offered is fair, as long as risks identified are managed. The second part of the VFM compared the offer to the most likely alternate option, which is to build on the existing site. This comparison showed that the City is receiving value for money. One contributing factor to this is that building a new fire hall on a new site would not require a temporary fire hall while the new one is being constructed, whereas building on the existing site would.

As part of the ongoing due diligence work, a comprehensive risk register has been established and will continue to be updated as the project moves along. Those risks that can be mitigated through the legal agreement have been addressed. Examples of some of the more material risks are:

Material Risks	Impact on: Scope/Schedule/Budget	Risk Response
Construction performance	Schedule/Budget	<ul style="list-style-type: none"> • Contract is structured to place financial risk and motivation on developer with payment upon completion and acceptance • Contract contains termination provisions for City tied to start and completion timelines • Contract provides both general and specific quality specifications • Highly experienced local construction contractor
Design and quality meet City's current and future needs	Scope/Budget	<ul style="list-style-type: none"> • Design and specifications developed through City staff and consultants working with architecture firm experienced in purpose built fire halls. • Design and specifications also reviewed by an independent third party architecture firm experienced in fire hall design • Feedback from third party review and further review sessions with staff incorporated into final designs to reduce risk of scope changes • Future expansion space provided for in design to be leased by BC Ambulance in the interim
Costs for the fire hall escalate	Budget	<ul style="list-style-type: none"> • Contract provides for guaranteed price and developer holds the risks related to cost escalation between contract signing and completion of construction

The main risks remaining are: 1) scope changes initiated by the City, and 2) regulatory approvals. Should these risks materialize, they may result in a cost increase, or, in regards to the rezoning

risk, that the agreement be terminated and the fire hall not constructed. In an effort to mitigate these risks, additional due diligence was completed and incorporated into the draft agreement as follows:

Material Residual Risks	Impact on: Scope/Schedule/Budget/Completion	Risk Response
Scope changes initiated the City	Budget/Schedule	<ul style="list-style-type: none"> • Design and specifications developed through City staff and consultants working with architecture firm experience in purpose built fire halls. • Design and specifications also reviewed by an independent third party architecture firm experienced in fire hall design • Feedback from third party review and further review sessions with staff incorporated into final designs to reduce risk of scope changes • Formal change management processes within contract as well as within City's internal project management process
Regulatory Approvals	Schedule/Completion	<ul style="list-style-type: none"> • Contract includes timelines for the rezoning application process and reinforces expectations related to the rezoning application must be consistent with existing City policies, bylaws and guidelines

Public Art

Following the City's Art in Public Spaces Policy, public art will be a component of this project. Details on this process will be provided in future updates.

Re-zoning and Complementary Uses

The required re-zoning process is completely separate from the construction and purchase of the new Fire Hall; however it is important to be aware of the additional uses being proposed for the other parts of the site. The Developer has indicated that commercial space and housing are part of the scope of the larger project the Developer is exploring. All of the potential uses are compatible with an urban fire hall.

Currently, it is expected that the proposed rezoning submission by the developer will be in-keeping

with policy direction provided by the Downtown Core Area Plan and the Official Community Plan. More detail on current policy alignment is provided in the OCP compliance section later in this report.

Next Steps

The following outlines the estimated timeline for the most immediate next steps.

Task	Estimated timeline
Signing of Purchase and Sale Agreement	Upon Council approval of budget
Developer to submit rezoning and development permit applications	Within 6 months of signing of Purchase and Sale Agreement
Land use process including public hearing	Dependent on submission of applications. Target turnaround time to get to Public Hearing within 7 months of submission.
Building permit application and construction start	If rezoning and development permits approved
Construction	28 months
Quarterly updates to Council	During construction
Fire Hall operational	After construction complete

OPTIONS & IMPACTS

Option 1: Approve allocating \$35.9 million from the City's Debt Reduction Reserve, for inclusion in the 2018 – 2022 Financial Plan, for the procurement of a new Fire Department Headquarters to be located at a new parcel fronting Johnson Street, near Cook Street (recommended)

Building on the market sounding process, the City has negotiated a contract for a new Headquarters that will meet the current and future operational needs of the fire operation. Formally approving the budget will allow the City to move ahead with signing of the contract.

Option 2 – Do not proceed with the project at this time, or provide alternate direction.

This would terminate the market sounding process and an alternate course of action for the fire station would need to be developed.

Accessibility Considerations

Structurally, the new Fire Hall will be built to the soon to be released building code (increased seismic requirements for both regular and post disaster buildings) and both the new and current code include accessibility considerations. Additionally, elevators will be incorporated for transportation between floors, and washrooms available to visitors of the Fire Hall will be gender neutral.

2015 – 2018 Strategic Plan

Building a new Fire Headquarters is aligned with Objective 12: Take Climate Action and Prepare for Emergencies and the 2016 action to "Move forward with plans for a new fire station", and achieves the 2018 outcome of "Fire Station issues are resolved".

Impacts to Financial Plan

The agreement with the developer includes a maximum guaranteed price of \$33.727 million, including the land (air space parcel), permits and DCCs, and the multi-use space to be used by BCEHS. Additional costs to be borne by the City include offsite servicing and sidewalk improvements, equipment and City project management.

Description	Amount
Hard and soft costs for the fire hall component and ambulance component, air space parcel, permits and DCCs	\$33,727,000
Offsite servicing and sidewalk improvements (estimated)	200,000
City costs and project management (estimated)	500,000
Furniture and equipment (estimated)	1,200,000
City project contingency	240,000
Total	\$35,867,000

The Value for Money evaluation conservatively estimated the land value (air space parcel) to be \$1.9 million using \$45 per buildable square foot, which is low in the current market in Victoria. As well, the lease with BC Ambulance will recover approximately \$2.6 million over the term of the lease covering the capital costs associated with their space.

In addition, the City could potentially sell the existing site which could partially offset the cost of the new fire hall construction and purchase. Given the construction timeline, a decision regarding the existing site should take place closer to the completion of the new fire hall since the existing fire hall will continue to be operational until construction is completed.

The funding strategy to use internal funding through the Debt Reduction Reserve was endorsed by Council in 2013, with the amount to be determined once an option had been selected. The Debt Reduction Reserve has an estimated 2018 ending balance of approximately \$40 million.

Internal borrowing is less expensive than external borrowing since the interest rate used is the rate equivalent to the lost investment revenue, which is lower (estimated at 1.5 - 2% rather than 3.5 - 4%). The City's current budget for debt payments can cover the cost of internal borrowing of approximately \$39 million with a 15-year repayment schedule. The annual payment to repay the borrowed funds including interest is approximately \$2.8 million. As per the City's Reserve Fund Policy, this fund is part of the City's financial stability reserves which in total have a target balance of 60 days or 16.67% of general fund operating expenses; approximately \$18 million. The estimated balance at the end of 2018 for these reserves is approximately \$50.6 million. Using \$35.9 million for the new fire hall will result in the reserve being approximately \$3.3 million below the target balance; however, it will reach the target balance again after less than 2 years of repayment.

Alternatively, property taxes could be increased. However, since the Debt Reduction Reserve has sufficient funding for this project, it remains the recommended funding option.

Official Community Plan Consistency Statement

The site proposed is located on Johnson Street near Cook Street and is within the Core Residential Urban Place Designation within the OCP. Some of the lands within the project area will require rezoning within the anticipated uses and densities within the OCP. This designation envisions a "medium- to high-density mixed-use development with high quality architecture, landscape and urban design that reflects the function of a major residential centre on the edge of the CBD in scale massing and character." The remaining lands within the project area have current zoning entitlements under the R-48 zone that allow for high-density mixed-use development.

The Downtown Core Area Plan (DCAP) encourages multi-residential development appropriate to the context along with other public amenities that help develop complete communities. It also encourages the provision of necessary services for the local community as part of the development program.

While a detailed development plan has not yet been developed, based on the policy direction provided by the OCP and the DCAP for this location, staff feel that there is adequate flexibility within policy for a high-density, mixed-use development incorporating a new fire hall facility that can contribute to current policy goals.

CONCLUSION

Building on the market sounding process, the City has negotiated a contract for the purchase and construction of a new post-seismic Fire Department Headquarters that will provide a facility that meets the current and future needs of the fire operations. In addition, co-locating with BCEHS provides an opportunity for synergies between the two operations.

Respectfully submitted,



Susanne Thompson
Director of Finance



Paul Bruce
Fire Chief



Peter Rantucci
Head of Strategic Real Estate

Report accepted and recommended by the City Manager:

Date:


March 13, 2018

List of Attachments

Appendix A: Property map