

DATE: July 6, 2018

FILE: 0890-20/Integrated Admin Bldg

TO: Chair and Directors
Committee of the Whole

FROM: Russell Dyson
Chief Administrative Officer

Supported by Russell Dyson
Chief Administrative Officer

R. Dyson

RE: Comox Valley Regional Office Building Tender Results

Purpose

The purpose of this report is to provide the Board with an update on the tender results and next steps as well as analysis on the operations and maintenance for the Comox Valley Regional Office (CVRD) building.

Recommendation from the Chief Administrative Officer:

This report is for information purposes only

Executive Summary

The corporate offices are an extremely important aspect of CVRD operations as the centre of activity for governance in the region with meeting facilities for the Board, its committees, commissions and the greater Comox Strathcona Regional Hospital District (CSRHD) and Comox Strathcona Waste Management (CSWM) service. It houses key assets including information technology infrastructure, fleet vehicles and corporate records. As the central office for staff it is a critical aspect of providing ongoing reliable services to stakeholders and the public.

- The CVRD leases office space, at a current annual lease cost of approximately \$330,000.
- The construction of a regional office building is included in the Board's strategic priorities chart as a "Now" priority.
- An Invitation to Tender (ITT) was released on May 26th, 2018. At the close of the ITT on July 4, 2018 five tenders were received with the lowest compliant bid at a value of \$10,693,000 excluding GST.
- This tender result, when combined with the other project soft costs (e.g. contingencies, DCCs, consulting, utility connections, offsite works) exceeds the overall project funding.
- The design team has initiated negotiations with the low bidder to identify further opportunities to reduce the project costs.
- Should these negotiations result in the project falling within an affordability threshold, a report will be brought to the board on July 24, 2018 for consideration of contract award and a financial plan amendment.
- Fletcher Pettis Consultants has completed an analysis of the costs to operate and maintain (O&M) the Comox Valley Regional Office building, including asset management. O&M costs are projected to increase for the new corporate office due to the additional square footage and the CVRD's assumption of costs that are currently included in the lease rate.
- The analysis undertaken by Fletcher Pettis indicates that annual costs may increase by approximately \$100,000.

- While O&M costs are expected to increase, a new office provides a significant improvement over the current location and also addresses lease cost and term risks associated with a leased premise.

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Background/Current Situation

The corporate offices are an extremely important aspect of regional district operations as the centre of activity for staff and elected officials on the CVRD Board, CSRHD and CSWM Boards, as well as the North Island 9-1-1 Corporation, in housing key assets including information technology infrastructure, fleet vehicles and corporate records in order to provide ongoing reliable services to stakeholders and the public.

The current leased premises are located in the floodplain and since 2014 have been subject to several flooding threats and, at times, evacuation has been required and access by staff has been restricted by high flood waters. As a provider of local government services, it is not in the best interest of the taxpayer to have their service provider unavailable at such critical times. By moving to a location away from significant flood risks CVRD will also be mitigating the impacts of flooding on critical corporate infrastructure that are necessary for CVRD services.

In May 2016, the CVRD, in collaboration with the City of Courtenay and School District 71 (SD71), entered into a land purchase and exchange agreement for a site located on Harmston Avenue between 6th Street and Cumberland Road with the intent to construct a regional office building on the property.

KMBR Architects were retained to develop the design of the new building and have completed the design according to CVRD’s operational needs and public input. Staff have worked closely with the project’s design team to keep project costs down while still meeting CVRD’s needs. This has been accomplished through the use of cost effective materials, systems and building techniques and to undertake a value analysis process on the project design. In addition, the building has been designed to be energy efficient in order to reduce utility costs such as electricity and natural gas. CVRD worked with stakeholders such as the City of Courtenay and SD71 to explore space sharing synergies. While the City has confirmed an interest in sharing the Emergency Operations Centre and boardroom/council chambers, SD71 are not in a position to commit to the project at this time. Project funding of approximately \$11.7 million was identified as part of the project’s financing strategy in 2017 and has been used to develop the 2018-2022 financial plan

An Invitation to Tender (ITT) was released on May 26, 2018. At the close of the ITT on July 4, 2018 five tenders were received with the lowest compliant bid at a value of \$10,693,000 excluding GST. Table 1 summarizes the bids.

Table 1: Summary of compliant bids.

Name of Firm	Tender Pricing (excluding GST)
Knappett Projects Inc.	\$10,693,000
Yellowridge Construction Ltd.	\$11,238,500
Kinetic Construction Ltd.	\$11,318,497
AFC Industries Ltd.	\$11,963,000
Knappett Industries (2006) Ltd.	\$12,515,000

This tender result, when combined with the other project soft costs (e.g. contingencies, Development Cost Charge's, consulting, utility connections, offsite works) exceeds the overall project funding. According to Fletcher Pettis Consultants, the low bid reflects a number of cost escalation challenges including an extremely busy construction market and recent international trade and tariff uncertainties (e.g. steel, softwood lumber). The design team has initiated negotiations with Knappett Projects Ltd. to identify further opportunities to reduce the project construction costs and CVRD staff are reviewing other financial strategies that may be available. Should these negotiations and financial analysis result in the project falling within budget a report will be brought to the board for consideration of contract award and a financial plan amendment.

In addition to the project construction budget there are other financial factors associated with this project that the Board should consider. Fletcher Pettis Consultants has completed an analysis of the costs to O&M the Comox Valley Regional Office building, including asset management. O&M costs are projected to increase for the new corporate office due to the additional square footage and the CVRD's assumption of costs that are currently included in the lease rate. The analysis undertaken by Fletcher Pettis indicates that during the first 10 years annual costs may increase by approximately \$100,000. While the building has been designed to be energy efficient and easy to maintain, it is approximately 7,000 square feet larger than the current leased facility to account for improved functionality (e.g. front counter/reception, server room) and additional features such as the post disaster boardroom, EOC and meeting rooms. The CVRD will also assume responsibility for various operating costs that are currently covered by the lease agreement such as landscape maintenance and replacing mechanical systems (e.g. HVAC units) as part of a building asset management program. Many of the larger asset management/replacement costs such as the latter would not be required for approximately 30 years at which time the debt servicing will be retired.

The current lease rate, which covers some of the current building's O&M, is forecasted to increase over time but the extent of these increases is unknown (a conservative estimate would be approximately three (3) per cent per year). A CVRD owned building provides more certainty of costs. The new office design has also factored in some growth potential which just cannot be met with the existing offices as it is at full capacity. Any further growth in the organization would require additional leased space elsewhere in the Comox Valley and/or extensive renovations. Leased space equivalent in size to the proposed office space amounts to \$460,000 per year (based on current lease rates), without the benefit of post disaster construction and improved office design. There is also no certainty that CVRD will be able to remain at the current location in the future, for example if the landlord chooses to sell the building. A CVRD owned building provides stability in this regard.

While O&M costs are expected to increase, a new office provides a significant improvement over the current location and also addresses lease cost and term risks associated with a leased premise. Corporate office O&M costs are recovered, along with the other general administration costs of executive services, finance, human resources and information technology, from the various CVRD services as part of the support services fee. The Support Services and Other Cost Allocation Policy uses a square footage allocation to apportion the corporate office space costs to the various CVRD services.

Should the Board not proceed with this project, staff will need to undertake a thorough review of alternate options. Preliminary analysis indicates that the most likely scenario would be to negotiate a lease renewal at the existing location, at least for the short term. A previous review of alternate locations did not identify any suitably sized office buildings and any other type of building would require extensive and costly renovations to convert into office space. Further, staff would need to review potential opportunities associated with the land that CVRD purchased for this project.

Policy Analysis

At their November 29, 2016 meeting the Board carried the following motions:

THAT the financial strategy for the construction of the Comox Valley civic centre-regional office building project utilize the existing lease payment amounts and existing annual reserve contribution towards the funding of the project long-term debt costs;

AND FURTHER THAT the long-term debt costs and borrowing terms be finalized upon receipt of Class C cost estimates;

AND FURTHER THAT the financial strategy be implemented through the establishment of a general administration function specific for the purpose of constructing, managing and operating a Comox Valley civic centre-regional office building;

AND FINALLY THAT an alternate approval process be conducted with respect to the establishment of a service for the Comox Valley civic centre-regional office building and required loan authorization bylaw.

At their May 30, 2017 meeting the Board carried the following motions:

THAT the Board support the schematic design, as included in Appendix B of the staff report dated May 24, 2017, to proceed to the public engagement and detailed design development process;

AND FURTHER THAT the Board send a letter to the City of Courtenay Council requesting their design feedback regarding potential interest in a shared Board room/council chambers and Emergency Operations Centre by the end of June 2017;

AND FURTHER THAT the Board send a letter to the School District 71 Board, providing an update on the current design timeline and seeking their confirmation by the end of June 2017, as to whether they are interested in pursuing the development of administration space for the School District at this time in the Comox Valley Civic Centre;

AND FURTHER THAT the long-term debt costs and borrowing terms be based upon the Class D cost estimate;

AND FINALLY THAT \$1,500,000 in Community Works Funds be committed to the Comox Valley civic centre project to be funded equally from the community works fund reserves for Electoral Area A, B and C (excluding Hornby and Denman Islands).

At their April 24, 2018 meeting the Board carried the following motions:

THAT the Comox Valley Regional District proceed with publically tendering the contract for the construction of the Comox Valley regional office building.

AND FURTHER THAT a staff report recommending contract award be brought back to the Board for consideration.

Options

This report is for information purposes only.

Financial Factors

In August 2017 the Alternate Approval Process (AAP) obtained elector approval and the Board adopted the bylaw necessary to borrow \$8.2 million. Staff have reviewed the financial strategy and using the Municipal Finance Authority's indicative interest rates for 30 year borrowing have determined that borrowing of \$8.2 million can be funded from the equivalent of the existing lease payments and building reserve contribution totalling \$505,000. The financing strategy developed in 2017 identified project funding of approximately \$11.7 million which included the \$8.2 million from long term debt, \$2 million from reserves and \$1.5 million from electoral area community works funds. CVRD staff are reviewing the financing strategy to identify any opportunities to address the project costs exceeding the project funding.

Legal Factors

While the property is zoned appropriately for "government office", variances for setbacks, landscaping and parking are required. A development variance permit and road closure/acquisition have been approved by the City of Courtenay. The project will also be subject to issuance of a building permit from the City.

Regional Growth Strategy Implications

The project has been designed to meet Leadership in Energy and Environmental Design (LEED) Gold standards, but not seek certification.

Intergovernmental Factors

The CVRD has been working closely with project partners including the City and SD71 to purchase the property, undertake the design and investigate shared space opportunities. Shared space synergies include the boardroom, multipurpose room and EOC as well as a data centre (server room).

Interdepartmental Involvement

The architect has worked closely with the CVRD's internal project team and executive management team to develop the design of the office based on departmental operational requirements.

Citizen/Public Relations

The architect has worked closely with the CVRD's communication staff to undertake public engagement during the design process in line with the engagement plan approved by the Board at their September 2016 meeting. This included open houses and surveys, print advertisements, social media posts and neighborhood letters.

The completed design takes into consideration the residents and staff feedback through the design engagement process. The feedback provided focused on a more west coast feel, adjusting the colour and striving for LEED Gold Standards.

Some feedback has also been received questioning the building's energy efficiency, especially with regards to the building envelope. The building envelope includes a lot of glazing (windows) which doesn't provide as much insulation as the wall assemblies. The building design is a balance of various requirements such as energy efficiency and the desire for natural daylight. The building's energy efficiency is also being achieved through other features such as highly efficient mechanical systems (i.e. heating and ventilation system), heat recovery from the server room, LED lighting as well as a solar energy system.

Parking in the neighbourhood has also been identified as a concern. Per the City of Courtenay's zoning bylaw, the CVRD is required to have 53 parking spaces onsite. The current design

accommodates 55 for CVRD. Staff recognize that the actual parking demand from its fleet, staff and public will be higher and that spillover into nearby streets will occur. Watt Consulting Group were retained to undertake a parking study for this project and estimated that this spillover would be approximately 59 based on future projections for fleet, staff and public parking. As part of this study Watt evaluated on-street parking situations for approximately 1.5 block radius of the project site. This evaluation identified 400 unrestricted public parking spaces and that during peak occupancy there would be approximately 237 available/unoccupied spaces. As such staff feel that there is significant capacity in the nearby street parking to accommodate any spillover from the CVRD offices. CVRD is also developing a transportation demand management program to encourage staff to carpool, bike, bus and walk to work in an effort to reduce staff parking demand. Staff will work with the city to monitor the situation and look at other opportunities to increase parking in the area. This could include redevelopment of the current SD71 property in the future to accommodate additional onsite parking.

Upon award of a contract further communication will be provided to residents and stakeholders regarding the next steps.