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**SUBJECT PUBLIC WORKS YARD UPDATES PROJECT:  
OPTIONS FOR NEXT STEPS**

## **OVERVIEW**

### **Purpose of Report**

To provide Council with options to progress the Public Works Yard Updates project and seek direction to implement Council's preferred option.

### **Recommendation**

That Council direct Staff to proceed with Detailed Design and Costing and allocate \$1,800,000 funded by \$1,314,000 from the General Asset Management Reserve Fund, \$162,000 from the Sewer Operating Reserve, and \$324,000 from the Water Operating Reserve to undertake the work. (Option 4 in the report).

## **SUMMARY**

At its meeting of December 2, 2024, Council requested that Staff report back on alternative approaches to complete the Public Works Yard project. From Council direction arising from the June 24, 2024, report (Appendix B), this report considers the 'highest priorities in a single phase' approach (the Fleet Maintenance Facility and the Crew/Admin Building), conceptually costed at \$90 million.

The financial options presented are based on the full project. Should Council elect to proceed with a Fleet Maintenance Facility only, the costs shown would be roughly 50% of the full option, although the timeline could be shorter. In this case, future investment would be required in the near term to address the deficient Crew/Admin Building. Splitting the project into two phases loses the cost and operational efficiencies of a single project.

The suggested approach is intended to lead to better accuracy of projected costs, reducing the uncertainty associated with the current concept-only design. This will have the effect of reducing the accompanying contingency. It's also an opportunity to engage a contractor as part of the project team and build better confidence in costs, noting the impending uncertainty in the global economic situation.

Funding options could then be considered with a higher degree of confidence, or a general Council direction could be established now. Council could consider a combination of options presented here which can be considered as scope is refined.

## **BACKGROUND**

Conceptual level plans to improve the Public Works Yard were completed in 2021 following several years of analyses and consultation. Those plans were refined to include phased implementation in 2022 and a value engineering review in 2023 but have remained at a conceptual level since 2021.

Council's original direction was to fund both detailed design and construction fully through long-term borrowing and as Council is aware, elector assent for borrowing was unsuccessful.

At the 2024-DEC-02 Council meeting, Council directed Staff to report back on options for alternative ways to complete the Public Works Yard Updates project.

Beyond the Public Works Yard updates there are a number of significant capital projects on the horizon that are also anticipated to be funded through long term borrowing. As previously directed by Council Staff will be returning with updates and options for the South End Community Centre, Waterfront Walkway, RCMP detachment and Beban Park.

## **DISCUSSION**

The options presented in this report are:

1. Proceed with long-term borrowing with approval of the electorate
2. Fund by increasing property taxes and user rates
3. Fund by increasing property taxes and user rates and deferring other projects to use reserves
4. Detailed design and costing

The funding options presented in the report reflect a change in the cost distribution from previous reports. Previously, all costs including the debt servicing related to borrowing were funded by the General Fund; however, the Public Works Yard also supports sewer and water operations. A distribution of project costs now includes the Sewer Fund and Water Fund providing a portion of funding. Detailed calculations for financial figures presented in the report reflect this change and can be found in Appendix A – Financial Projections.

### **Option 1: Long Term Borrowing with Electorate Approval**

Council could borrow over the long term for the \$90M (or \$45M Fleet-only) option, based on the conceptual-level designs. Until further work is completed on detailed design, there is no new information to share with the community which has not already previously been presented. Through past electoral assent processes, Staff engaged in a high level of communication and engagement with the community about the Public Works Yard project.

Under the *Community Charter* and Council's Debt Management Policy, there is limited ability to borrow either short or long term without the approval of the electorate. Electorate approval could be through either referendum or alternative approval process. Long-term borrowing for projects allocates the cost amongst current and future taxpayers who will all benefit from the service (provides generational equity). Borrowing over the long term is the least impactful to ratepayers.

Attachment A contains a breakdown of the updated impact to the typical home of borrowing the full \$90 million based on Municipal Finance Authority rates at January 29, 2025. The June 2024

Report (Appendix B) provided potential scenarios for funding debt servicing from various sources – either fully from property taxes or a combination of property taxes and reserves.

Should Council wish to proceed with long term borrowing, direction on Council's preferred method of attaining electoral assent and timing will enable preparation of a new borrowing bylaw, and an assent process to support that bylaw.

### **Option 2: Fund by Increasing Property Taxes and User Rates**

The City could fund this project without borrowing by increasing property taxes and user rates to generate the funding required in each year of the project. This would remove the generational equity element of borrowing but would provide an immediate path forward for this project.

Based on the current projected cash flow for the project, property taxes and user fees would be adjusted from 2026 up to and including 2030 to generate the required project funding. The estimated total cost of the project to the typical home totals \$1,686 over five years. Attachment A provides a breakdown by year on the impact to the typical home and the projected impact to the 2025 – 2029 Provisional Financial Plan. This amount would no longer be required following project completion.

This option is not considered desirable but is provided for illustrative purposes. Should Council select this option, Staff would add the project to the 2025 – 2029 Final Financial Plan. It should be noted that the projected cash flow requirements extend beyond the current approved Financial Plan so the full project would not be reflected in the City's Financial Plan until the 2026 – 2030 Financial Plan is adopted by Council.

### **Option 3: Fund from Reserves, Increasing Property Taxes and User Rates and Deferring Other Projects to Use Reserves**

As an alternative to Option 2, the City could fund this project from reserves by deferring other projects along with increasing property taxes and user rates.

Funding for the project could be a combination of approaches of taxation, reserves, and project deferral, along with long term borrowing. For example:

- \$5 million per year in deferred capital projects, which would free up Reserve funding – allocated 73% to General, 9% to Sewer and 10% to Water.
- Portion funded from a lesser amount of long term borrowing.

With respect to deferral, the natural question is “which projects?”. This has not yet been considered, but Staff could complete a detailed review of the City's project plan to create a comprehensive list of projects that could be deferred and the risks associated with each of those deferrals. Staff would then report the findings to Council along with the associated projected tax and user rate impacts.

This would be a less dramatic increase to taxes and user rates than Option 2 and would similarly be a short-term adjustment. However, the 20 Year Investment Plan presented in June 2023 identified that the City had an approx.\$1.0 billion infrastructure funding gap. Recommendations to help address the gap included funding the Public Works Yard Upgrades from long term borrowing. Allocating reserves to the project will increase the infrastructure funding gap and will result in the delaying of other desirable and critical projects. This

contributes to lower service levels, higher risk of infrastructure failure and a delay in supporting growth or other projects that have a high community development value.

Should Council select this option, direction on the project option (i.e. full \$90M or partial \$45M Fleet only). Staff would appreciate discussion around a total value of deferrals that should be worked towards during the review of the City's project plan. Ideally, this direction would be a percentage of the total value of the project. Staff would then present this information to Council at a later date. Staff would complete a detailed review of the City's project plan to create a comprehensive list of projects that could be deferred and the risks associated with each of those deferrals.

#### **Option 4: Detailed Design and Costing**

The suggested next step is to advance the project's design to gain greater certainty of costs. The conceptual level plans for this project were completed in 2021 and have not significantly advanced since then. Previous direction was to fund both design and construction costs exclusively through borrowing. This would see a change in that direction and have this project proceed into detailed design now and secure more accurate cost estimating.

Whether the Public Works Updates project proceeds in the short or long term, the design work needs to be completed and is an investment which will hold its value.

More details in design will illustrate that the buildings are no-frills and 'fit for purpose' spaces for operational teams to work out of and provide additional clarity about exactly what is being proposed and the associated costs. A mature design will enable the City to lessen the contingency and inflation costs included in budget recommendations. Given the magnitude of the project, a 25% contingency, plus allowance for inflation/escalation is a significant component dollar value, but prudent at the current concept-level design. As design is brought further along, the proportion of contingency can also be reduced to 10% due to greater level of details being known.

Staff are considering an Integrated Project Delivery (IPD) approach as the means of delivering the detailed design and construction of the project. The IPD process brings contractors, designers, and owners together at the start of the design process to collaboratively solve problems with the benefit of real-time pricing and constructability feedback. When used on major projects like the Public Works Yard Updates, this methodology can reduce overall costs, waste, and prevent surprises during construction, and the process results in a firm cost to build not a cost estimate or projection.

The proposed funding to support this process is \$1.8M. This represents a general average cost to fund a project of this nature to completion of the validation stage of maturity.

The recommended funding sources are:

General Asset Management Reserve Fund: \$1,314,000  
Sewer Operating Reserve: \$162,000  
Water Operating Reserve: \$324,000

If this option proceeds, Staff will resume intensive work on this project with the goal reporting progress to Council by the end of 2025. Staff would continue to maintain a project page on the City's website and Get Involved Nanaimo to help inform the public about progress.

### **Other Considerations**

During the recent electorate assent process, Council received a number of suggestions to fund the project, including the sale of 2020 Labieux Road for housing development and rebuild the Public Works Yard elsewhere. The property holds the Public Works Yard, a B.C. Housing site, the Vancouver Island Emergency Response Academy (VIERA), and Nanaimo Fire Rescue Station 2. Assuming this suggestion only applies to the land occupied by the Public Works Yard and none of the other facilities, the property would require subdivision.

Following subdivision and rezoning the newly created parcel, selling it, and buying new land to house Operations, it is unlikely enough profit could be generated to offset even a moderate amount of the required project budget. When coupled with the following considerations, this option does not appear feasible:

- 2020 Labieux Road is centrally located in an industrial area, ideally situated to be able to efficiently service the entirety of Nanaimo.
- A large plot of industrial land is in limited supply in areas that are well situated to service the entirety of Nanaimo. The current site occupies 6.2 Ha (15 acres). Industrial land is reportedly worth \$1 – 1.5 million per acre and is highly needed in Nanaimo to support its economic base.
- Servicing a new site with municipal infrastructure is potentially very expensive. The planned updates for the current location include re-use or less expensive upgrades of underground utilities and some facilities, as opposed to 'from scratch' installation.
- Demolition costs would negatively impact sale price.
- Live fire training generates smoke which is likely to generate conflict if located immediately adjacent to residential development.
- This would delay the project by several years, inflation is likely to offset a portion of any revenue which the City could make by selling this land.

### **OPTIONS**

1. That Council direct Staff to proceed with Long Term Borrowing with Electorate Approval.
  - The advantages of this option: This option would allow the decision to fully fund this project through borrowing to proceed. Long-term borrowing helps fund major capital projects that have a long life span, allocates the cost amongst current and future taxpayers that will all benefit from the project, and is the least impact to taxpayers.
  - The disadvantages of this option: Undertaking a fourth attempt at seeking electorate approval may be poorly perceived. Communications materials from the previous efforts will be re-used and issues with misinformation being shared are expected to remain.
  - Financial Implications: Appendix A provides the updated impact to the typical home for borrowing based on current interest rates and current 2025 1% of taxes.
2. That Council direct Staff to proceed with Funding by Increasing Property Taxes and User Rates.

- The advantages of this option: This would allow the project to be fully funded and would allow the City to avoid financing costs and restrictions.
  - The disadvantages of this option: This will remove the generational equity benefits of financing this project through borrowing. This would be a large increase in property taxes and user rates for 2026 up to and including 2030.
  - Financial Implications: Property taxes and user rates will be adjusted to generate the required cash flow for the project from 2026 and up to and including 2030. Attachment A provides the projected impact on the 2025 – 2029 Provisional Financial Plan and the projected impact to the typical home over the project period 2026 – 2030. The 2026 – 2030 Draft Financial Plan will include all five years of the required cash flow for the project.
3. That Council direct Staff to proceed with Funding by Increasing Property Taxes and User Rates and Deferring Other Projects to use reserves, and provide Staff with the desired target level of project deferrals.
- The advantages of this option: This would allow the project to be fully funded. It will maintain an element of the generational equity in financing through borrowing while also lessening the financing costs. This would be a smaller increase in property taxes and user rates versus Option 2.
  - The disadvantages of this option: This will remove the generational equity benefits of financing this project through borrowing. This will also result in many desired and required initiatives being delayed and service levels dropping.
  - Financial Implications: The 20 Year Investment Plan recommendations were based on funding several larger capital projects including the Public Works Yard Upgrades from borrowing. Funding a portion of the project from reserves will negatively impact the City's infrastructure funding deficit. The impact on Property Taxes and User Rates can not be determined until Staff receives direction on the desired level of project deferrals.
4. That Council direct Staff to proceed with Detailed Design and Costing and allocate \$1,800,000 funded by \$1,314,000 from the General Asset Management Reserve Fund, \$162,000 from the Sewer Operating Reserve, and \$324,000 from the Water Operating Reserve to undertake the work.
- The advantages of this option: This option will allow the project to immediately proceed and demonstrate the City's commitment to creating a no-frills and fit for purpose facility from which Operations Staff can delivery services to the community. Advancing the design will provide greater focus to the project's scope, allow for more precise costing, and will contribute to better public understanding of what is being proposed to be built.
  - The disadvantages of this option: Directing funding to support this option will result in less reserves available to fund other City initiatives.
  - Financial Implications: Based on the 2025 – 2029 Provisional Financial Plan the revised projected closing balances of the reserves are \$14.5M for the General Asset Management Reserve Fund with a minimum reserve balance requirement of \$6.1M, \$12.0M for the Sewer Operating Reserve and \$7.1M for the Water Operating Reserve. The 2025 – 2029 Financial Plan will be revised for final to reflect the funding allocation.

5. That Council provide Staff with alternative direction.

**SUMMARY POINTS**

- The Public Works Yard is no longer able to support and sustain the services to a growing community of 110,000.
- The Public Works Updates project has been at a conceptual level of development since 2021. Allowing it to advance into detailed design will allow for more accurate cost forecasting and clarity around what specifically is going to be built.
- The purpose of the Public Works Updates project remains focused on creating a functional place for City crews to work out of as they deliver services to the community.
- There are numerous funding strategies that can be explored for construction; each comes with its own pros and cons and a decision does not necessarily need to be made at this time.

**ATTACHMENTS:**

Appendix A – Financial Projections

Appendix B – June 24, 2024, Governance and Priorities Committee Report, “Nanaimo Operations Centre / Public Works Yard Project Update”

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