

ATTACHMENT B



Staff Report for Decision

DATE OF MEETING JUNE 24, 2024

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SUBJECT NANAIMO OPERATIONS CENTRE / PUBLIC WORKS YARD
PROJECT UPDATE

OVERVIEW

Purpose of Report

To provide Council with options to improve facilities at Public Works and seek direction to implement Council's preferred option. |

Recommendation

That Council direct Staff to proceed with one of the presented options and prepare a borrowing bylaw in support of the project.

BACKGROUND

Plans have been in development to improve the Public Works Yard for several years. At the June 19, 2023, Council meeting, Council directed Staff to conduct an Alternative Approval Process (AAP) to seek approval of the electors for adoption of "Nanaimo Operation Centre Phase One Borrowing Bylaw 2023 No. 7362". This bylaw would authorize the City to borrow up to \$48,500,000 for Phase One construction of the Nanaimo Operations Centre (NOC).

The total project budget and scope was allocated as follows:

- \$40,000,000 to construct a Fleet and Maintenance Facility, a truck wash and dump facility, and site servicing for the Public Works Yard;
- \$4,500,000 to replace failing storm water management facilities and build a retention pond in Beban Park to handle runoff water from the Public Works Yard;
- \$1,250,000 to retrofit the fire training tower located at the Vancouver Island Emergency Response Academy to facilitate the required additional use of the Public Works Yard; and,
- \$2,750,000 to construct a trail in Beban Park in lieu of frontage improvements normally associated with development.

Following this direction, two AAPs were conducted which were unfortunately not completed successfully.

At the February 12, 2024, Council Meeting, Council directed Staff to prepare funding options for presentation at a later date. The purpose of this report is to present those options to Council and seek direction to implement Council's preferred option. |

DISCUSSION

Three options for consideration are outlined in this report:
















1. Status Quo
 - Proceed with what was previously proposed with funding options.
2. Modified Status Quo
 - Proceed with what was previously proposed with scope adjustments and funding options.
3. Highest Needs in Single Phase
 - Proceed with a new plan that addresses the highest needs in a single phase, constructing the Fleet Maintenance and Administration buildings.

These options have been developed with the goal of finding a balance of the project's goals, the City's current and future needs, and feedback received from the community.

At-a-Glance Comparison – All Options

The following table is intended to provide a very high-level comparison of each option. Detailed information can be found in subsequent sub-sections of this discussion.

Table 1 – At-a-Glance Comparison

	Initial Cost	Long Term Cost	Immediate Benefit	Certainty of Service Continuity	Ease of Implementation
Option One Status Quo					
Option Two Modified Status Quo					
Option Three Highest Needs in Single Phase					

Detailed Discussion - Option One – Status Quo

The first option, 'Status Quo', would retain all scope elements previously identified.

- Phase One Fleet Maintenance Building
- Stormwater Management
- Beban Park Trail
- Fire Training Tower Fuel Conversion

This option would provide all the same benefits previously described in project documentation, including a safe and effective work environment to maintain the City's fleet, stormwater management practices meeting City standards, completion of a loop of trails around Beban Park in lieu of works and services, and elimination of wood burning at the existing Fire Training Tower.

The budget for this option is \$48.5M, however a maximum borrowing amount of \$48.0M would be required as the City has successfully secured \$500k in grant funding from the BC Active Transportation Grant for the Beban Park Trail. Borrowing repayment options include:

- Repayment funded by property taxes only, which would result in an estimated yearly cost per household for the typical Nanaimo home of \$74; or,
- Repayment funded 50% by property taxes and 50% by General Asset Management Reserve Funds, which would result in an estimated yearly cost per household for the typical Nanaimo home of \$37.

Detailed Discussion - Option Two – Modified Status Quo

The second option, 'Modified Status Quo' would include all elements of the first option minus the Beban Park Trail and Fire Training Tower Fuel Conversion.

- Phase One Fleet Maintenance Building
- Stormwater Management

The Beban Park Trail was proposed to be undertaken in lieu of works and services, nominally consisting of a sidewalk, along the Public Works Yard frontage on Labieux Road as part of the NOC Project. Under City bylaws, Council could waive the requirement for works and services and not undertake any pedestrian improvements as part of the NOC project.

Detailed design of the Beban Park Trail is nearly complete. Once the design is done, this project could be held as a 'shovel ready' project until other funding sources become available if Council wishes.

The Fire Training Tower Fuel Conversion could be funded in the near term from reserves or included as a project in the 2025-2029 Financial Plan. However, this would likely require another project to be reprioritized.

The budget for this option is \$44.5M. Borrowing repayment options include:

- Repayment funded by property taxes only, which would result in an estimated yearly cost per household for the typical Nanaimo home of \$69; or,
- Repayment funded 50% by property taxes and 50% by General Asset Management Reserve Funds, which would result in an estimated yearly cost per household for the typical Nanaimo home of \$34.

Detailed Discussion - Option Three – Highest Needs in Single Phase

Finally, the third option, 'Highest Needs in Single Phase' would represent a fundamental change in the scope of work for this project.

- Single Phase – Fleet Maintenance and Administration buildings
- Stormwater Management

Although the Fleet Maintenance building was singled out as the highest priority component of the overall upgrade to Public Works, the need for more general office and crew space is also an urgent priority.

This option would complete the two highest priority items for the Public Works Yard, the Fleet Maintenance and Administration buildings in one single phase of work. These are the two most expensive improvements to the Public Works Yard, and in order to complete either of these

improvements without extreme tax and corporate project planning adjustments, borrowing is required. Other future improvements to the Public Works Yard are both less urgent and less costly. As such, the portion of the project requiring borrowing could be completed in a single phase with this option, and additional future improvements to the Public Works Yard could be funded through regular project planning.

An urgent need for general office and crew workspaces at the Public Works Yard remains. Current facilities continue to be augmented to try and keep up with demands, but also continue to fail to address the core issues. For example, another temporary trailer is in the process of being added to provide space for Staff to work, but this is another costly and unsustainable temporary band-aid which doesn't fix the growing problems with this workspace.

Under this option, the configuration of the buildings would change from the Nanaimo Operations Centre (NOC) Master Plan. The existing master plan has the Fleet Maintenance building on the south end of the Yard and the Administration building on the north end of the Yard.

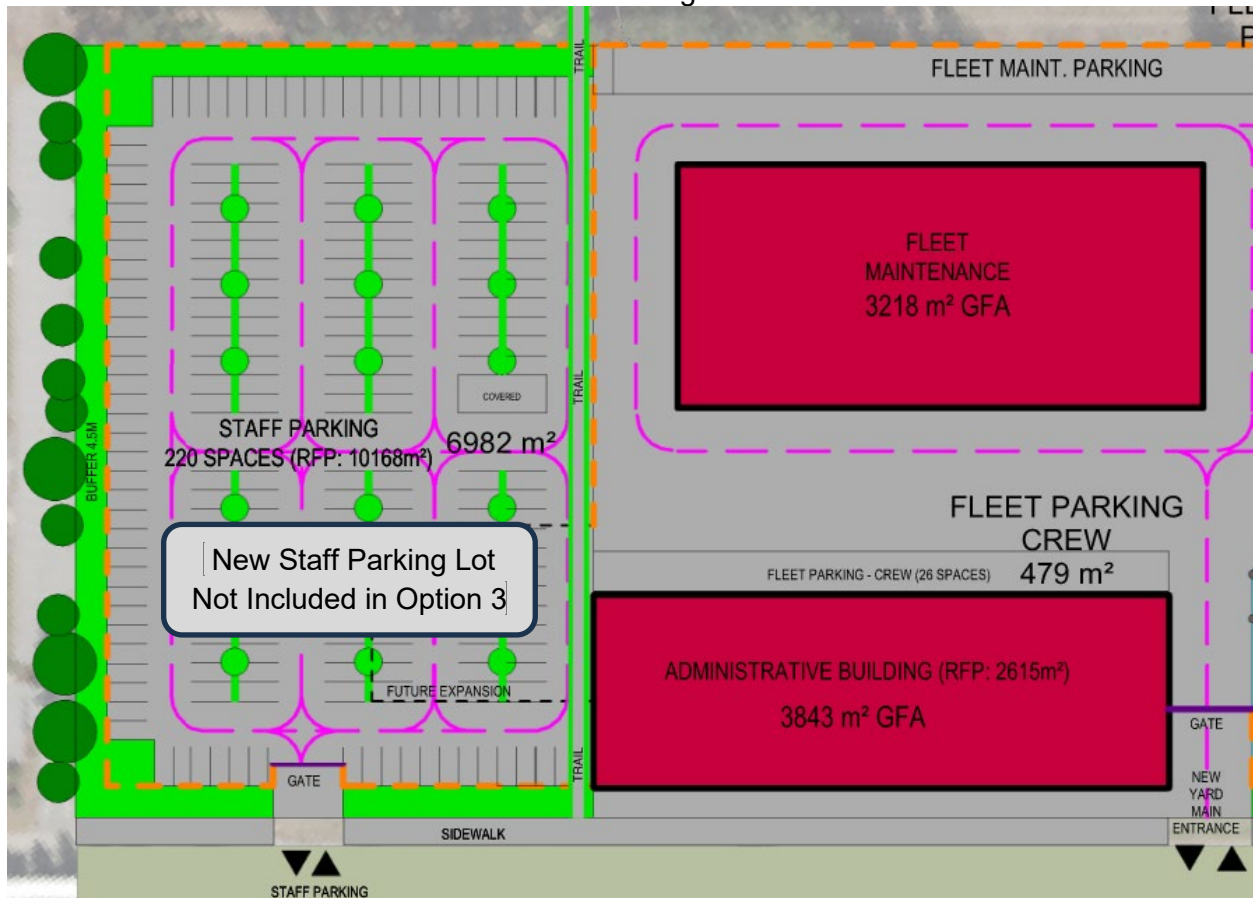


Figure 1 – Option 3

As shown in Figure 1, the Fleet Maintenance and Administration buildings would be located at the north end of the planned working areas of the NOC/Public Works Yard. Establishing these buildings at this location in the Public Works Yard would allow normal operations to continue with a minimal level of disruption during construction and would remove the immediate need to retrofit the Fire Training Tower. This option also provides significant savings in inflation costs by constructing the Administration building now, with savings projected to be approximately \$10M.

The original NOC Master Plan envisioned the implementation would occur over 4 contiguous phases. The phases were originally broken up that way to allow for continued operations of Public Works during implementation. When the decision was made to build Phase 1 first, it was never a question about the need for future phases, it was more about taking things one step at a time. Given the challenges and risks in securing funding approval for several significant capital projects, as well as some of the concerns expressed about a long-term project split into phases, it calls into question whether securing funding approval for future phases is feasible.

With the importance of additional office and crew space, there is an option to revisit the phasing and proceed with a single borrowing approval request now to address the City's most urgent needs at the Public Works Yard. Although it is more costly than just the Fleet Maintenance building, its approval would provide certainty that Public Works and Park Operations will have the capacity to continue providing the services the community is accustomed to in a safe and sustainable manner.

The downside to a combined building is the centralization of more heavy vehicle activity closer to pedestrian and light vehicle activity. There is also the concern with noise having heavy equipment shops next to office working areas. This is one of the reasons the Fleet building would ideally be separated from the Administration building; however, given the cost savings of a combined building and certainty this option provides to implement drastic improvements to the working conditions, it is believed to be worth the trade off.

The projected budget for this option is \$90M Borrowing repayment options include:

- Repayment funded by property taxes only, which would result in an estimated yearly cost per household for the typical Nanaimo home of \$139; or,
- Repayment funded 75% by property taxes and 25% by General Asset Management Reserve Funds, which would result in an estimated yearly cost per household for the typical Nanaimo home of \$104.

It must be noted that while this represents the largest initial cost of the three options presented, it also represents a significant savings versus a four-phased implementation over the projected lifecycle of the project. All four phases of NOC are preliminarily estimated to cost \$163M which would be secured through borrowing. Between the elimination of \$73M of borrowing, the associated repayment costs of those borrowed funds, and the significant escalation/inflation costs for the most expensive element of the NOC Master Plan (the Administration building) the City can save substantial costs while immediately addressing the most urgent issues at the Public Works Yard by proceeding with this option.

Next Steps

Staff have spent considerable effort reviewing possible supplementary and alternative funding avenues for this project. For instance, shortening the amortization period to reduce the cost of borrowing; however, the high impact on taxes and the lack of generational fairness makes this unfavorable. Staff have previously recommended borrowing as the most appropriate method to fund this project and continue to believe that is the case. Staff are still investigating other funding sources and expect to have clarification from the Province shortly as to whether these options are viable. Once that clarity is provided, Staff can fully update Council on the variety of options that have been considered if that is desired.

Similarly, Staff have previously recommended an AAP as the most appropriate method to gain community approval to undertake borrowing to fund this project and continue to believe that is the case. If directed by Council, Staff will return with a borrowing bylaw in support of Council's preferred option and request Council direction to begin the process of planning an AAP at that time.

FINANCIAL CONSIDERATIONS

Appendix A – Financial projections provides more detailed projections of the financial impact of borrowing for each of the above options. Each option has two funding scenarios:

- Scenario A is based on the full cost of debt servicing being funded from property taxation; and,
- Scenario B is based on a portion of debt servicing being funded from property taxation and a portion being funded from the General Asset Management Reserve Fund.

For each option, the projected impact to a typical household and the estimated cost per \$100,000 of assessed value is shown. The projected impact is based on a typical home valued at \$783,808, based on current 1% of taxes, an interest rate of 4.58% and assumes the full amount is borrowed for each option.

In addition, for each option, the revised projected property tax increases are shown. The tables show the current projected property tax increases based on the approved 2024 – 2028 Financial Plan and the revised projected property tax increases forecasts the property tax rate including the applicable debt servicing for the option. For Option Three – Highest Needs in Single Phase, the borrowing timeframe extends beyond the current Five (5) Year Financial Plan. This means in 2029 and 2030 (note principal payments on fall borrowing begin the year after the funds are borrowed) there will be an impact to property taxes to fund the debt servicing costs associated with the applicable borrowing.

The City plans to only borrow the funds required, and timing will be based on cash flow requirements for the project. Each borrowing will be for a 20-year amortization. Generally, the interest rate is fixed for the first ten years and is reset after ten years and again five years later at 15 years. The actual cost of borrowing may vary from the attached projections based on the interest rate in effect at the time of borrowing and at the reset points.

The attached projections include a conservative increase in the property tax base due to community growth. If the growth is higher or lower than the estimate, this will impact the projected property tax increase.

In June 2023, Staff presented the 20 Year Investment Plan and Asset Management Plan Update to Council along with recommendations to help address the City's infrastructure funding gap. The recommendations included funding major capital projects under development including the Nanaimo Operations Centre from borrowing. The analyses in that presentation assumed the debt servicing cost of this borrowing would be funded from property taxation. Funding a portion of the debt servicing from the General Asset Management Reserve Fund will reduce the funding available for other infrastructure projects thereby increasing the projected infrastructure funding gap and may require other projects to be reprioritized based on available funding. There may be other options for funding, such as Amenity or Development Cost

Charges, but the funding available through these options is unknown at this time and is not anticipated to be significant in comparison to the project budget. |

OPTIONS

Staff are seeking Council's direction to proceed with one of the presented options and prepare a borrowing bylaw in support of the project. The options are:

1. That Council direct Staff to proceed with the 'Status Quo' option and prepare a borrowing bylaw in support of the project.
 - The advantages of this option: This option moves forward with the upgrades for the most urgent aspect of Public Works and completes several other projects which will benefit the community.
 - The disadvantages of this option: This option only includes direction to proceed with the Fleet Maintenance building. It leaves the urgent Administrative and Crew Space needs with an uncertain future.
 - Financial Implications: The required funding for this option is \$48.5M, which would be secured by \$48.0M in borrowing and \$0.5M in grant funding. Debt servicing would be funded from property taxation or a combination of property taxation and reserve funding.

2. That Council direct Staff to proceed with the 'Modified Status Quo' option and prepare a borrowing bylaw in support of the project.
 - The advantages of this option: This option moves forward with the upgrades for the most urgent aspect of Public Works.
 - The disadvantages of this option: This option only includes direction to proceed with the Fleet Maintenance building. It leaves the urgent Administrative and Crew Space needs with an uncertain future. It doesn't include the trail which is viewed as in lieu of works and services or the Fire Training Tower Fuel Conversion which is required to ensure safe use of the future Fleet Maintenance building.
 - Financial Implications: The required budget for this option is \$44.5M, which would be secured by borrowing. Debt servicing would be funded from property taxation or a combination of property taxation and reserve funding.

3. That Council direct Staff to proceed with the 'Highest Needs in Single Phase' option and prepare a borrowing bylaw in support of the project.
 - The advantages of this option: Is that it moves forward with all the most urgent needs of Public Works including Fleet, Administration and Crew Space. There is a lower overall cost because the site is more compact, there is less delay, and hence less exposure to inflation. This would complete the works requiring borrowing in a single phase and provide certainty that the services the community relies on can continue to be delivered safely and sustainably. This option would also save the City significant costs over the lifecycle of the entire NOC project.
 - The disadvantages of this option: It has a higher initial cost. It also leads to a slightly less than ideal overall Public Works Operations Yard layout.

- Financial Implications: The required budget for this option is \$90M, which would be secured by borrowing. Debt servicing would be funded from property taxation or a combination of property taxation and reserve funding.

SUMMARY POINTS

- There are three options for consideration to move forward with upgrades to Public Works including multiple funding strategies. These options have been developed with the goal of finding a balance of the project's goals, the City's current and future needs, and feedback received from the community.
- Borrowing is still the recommended primary funding strategy.
- Electoral Approval will be required to borrow the necessary funds for whichever option is selected.
- The Alternative Approval Process (AAP) is still the recommended method to gain Elector Approval for borrowing.

ATTACHMENTS

Attachment A – Funding Scenarios Summary

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APPENDIX A

Nanaimo Operations Centre

Based on 2024 - 2028 Financial Plan

Assumptions:

- Debt servicing based on 20 year amortization at 4.58% @ June 4, 2024
- Estimated cost per household is for the typical home valued at \$783,808
- Budget excludes costs and funding allocated to date

Option #1 Status Quo

Budget: \$48.50 million

Funding: \$0.50 million BC Active Transportation Infrastructure Grant

\$48.00 million borrowing

Anticipated Borrowing: \$11.20 million 2025, \$17.28 million 2026, \$19.52 million 2027

Projected Impact to the Typical Home

Scenario A - Debt Servicing Fully Funded by Property Taxes

- Estimated cost per household for the typical home: \$ 74 ^{1,2}
- Estimated cost per \$100,000 of assessed value: \$ 9 ^{1,2}

	2024	2025	2026	2027	2028
Projected Property Tax Increases	7.7%	7.2%	4.1%	2.5%	2.7%
Revised Projected Property Tax Increases	7.7%	7.3%	4.8%	3.2%	3.5%

Scenario B - Debt Servicing Funded 50% by Property Taxes and 50% by General Asset Management Reserve Fund

- Estimated cost per household for the typical home: \$ 37 ^{1,2}
- Estimated cost per \$100,000 of assessed value: \$ 5 ^{1,2}

	2024	2025	2026	2027	2028
Projected Property Tax Increases	7.7%	7.2%	4.1%	2.5%	2.7%
Revised Projected Property Tax Increases	7.7%	7.2%	4.4%	2.8%	3.1%

Nanaimo Operations Centre
Based on 2024 - 2028 Financial Plan

Assumptions:

Debt servicing based on 20 year amortization at 4.58% @ June 4, 2024
 Estimated cost per household is for the typical home valued at \$783,808
 Budget excludes costs and funding allocated to date

Option #2 Modified Status Quo

Budget: \$44.50 million
 Funding: \$44.50 million borrowing
 Anticipated Borrowing: \$7.70 million 2025, \$17.28 million 2026, \$19.52 million 2027

Projected Impact to the Typical Home

Scenario A - Debt Servicing Fully Funded by Property Taxes

Estimated cost per household for the typical home: \$ 69 ^{1,2}
 Estimated cost per \$100,000 of assessed value: \$ 9 ^{1,2}

	2024	2025	2026	2027	2028
Projected Property Tax Increases	7.7%	7.2%	4.1%	2.5%	2.7%
Revised Projected Property Tax Increases	7.7%	7.2%	4.6%	3.2%	3.5%

Scenario B - Debt Servicing Funded 50% by Property Taxes and 50% by General Asset Management Reserve Fund

Estimated cost per household for the typical home: \$ 34 ^{1,2}
 Estimated cost per \$100,000 of assessed value: \$ 4 ^{1,2}

	2024	2025	2026	2027	2028
Projected Property Tax Increases	7.7%	7.2%	4.1%	2.5%	2.7%
Revised Projected Property Tax Increases	7.7%	7.2%	4.4%	2.8%	3.1%

Nanaimo Operations Centre
Based on 2024 - 2028 Financial Plan

Assumptions:

Debt servicing based on 20 year amortization at 4.58% @ June 4, 2024
 Estimated cost per household is for the typical home valued at \$783,808
 Budget excludes costs and funding allocated to date

Option #3 Highest Needs in Single Phase

Budget: \$90.00 million

Funding: \$90.00 million borrowing

Anticipated Borrowing: \$7.27 million 2025, \$16.635 million 2026, \$25.18 million 2027, \$24.28 million 2028, \$16.635 million 2029

Projected Impact to the Typical Home

Scenario A - Debt Servicing Fully Funded by Property Taxes

Estimated cost per household for the typical home: \$ 139 ^{1,2}
 Estimated cost per \$100,000 of assessed value: \$ 18 ^{1,2}

	2024	2025	2026	2027	2028
Projected Property Tax Increases	7.7%	7.2%	4.1%	2.5%	2.7%
Revised Projected Property Tax Increases	7.7%	7.2%	4.6%	3.2%	3.8%

Scenario B - Debt Servicing Funded 75% by Property Taxes and 25% by General Asset Management Reserve Fund

Estimated cost per household for the typical home: \$ 104 ^{1,2}
 Estimated cost per \$100,000 of assessed value: \$ 13 ^{1,2}

	2024	2025	2026	2027	2028
Projected Property Tax Increases	7.7%	7.2%	4.1%	2.5%	2.7%
Revised Projected Property Tax Increases	7.7%	7.2%	4.5%	3.0%	3.5%

¹Based on 2024 1% of taxes, average Class 1 change, and for complete borrowing

²Rounded to nearest dollar