

Lewis Farms Facility and Park

Expression of Interest

RECOMMENDATION

That Community and Public Services Committee recommend to City Council:

That Administration continues to advance the project on the basis of a City-funded, built, operated and maintained facility and complete a phasing strategy with remaining available approved funds within the 2019-2022 Capital Budget.

Report Purpose

Council decision required

Council is being asked to approve Administration's recommendation in preparing a phased plan for the completed design to allow initial development of the Lewis Farms Facility and Park project.

Previous Council/Committee Action

At the February 8, 2021, City Council meeting the following motion passed:

That Administration issue an Expression of Interest (EOI) to solicit potential interest for external partners interested in any combination of either Financing, Building, and/or Operating/Maintaining any of the planned components of the Lewis Farms District Park and Recreation Facility and return to Committee with an analysis and evaluation of the submissions.

Executive Summary

- The Lewis Farms Facility and Park design is complete.
- Administration completed internal engagement and external market consultation in preparation for the Expression of Interest.
- Analysis of market responses does not suggest any change to the project program or delivery. This aligns with the prior value-for-money analysis for a public-private partnership delivery of

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the Lewis Farms Facility and Park, as outlined in the April 21, 2017, Community and Public Services Committee report, Lewis Farms Recreation Centre Schematic Design and Funding Strategy report and in conjunction with the June 10, 2019, Executive Committee, Lewis Farms Community Recreation Centre and Library Project report that confirmed the merit of the currently approved delivery model.

- The land for the district park site is now within the City of Edmonton inventory and requires a base level of attention to address its current condition.
- Without an approved construction budget, the next step would be to complete a phasing strategy with remaining available approved funds in the 2019-2022 capital budget.
- The project will be assessed and undergo prioritization as part of the 2023-2026 capital budget process.

REPORT

Project Background

The Lewis Farms Facility and Park project was identified in the approved 2005-2015 Recreation Facility Master Plan and Medium Term Recreation Facility and Sports Field Plan. This project includes the development of a community recreation centre on Lewis Farms District Park in the west suburban growth area of the City. The design process took place from 2015 to 2021.

Lewis Farms was one of the first major facility and park project designs to advance through the City's gated Project Development and Delivery Model (PDDM) as aligned with the Capital Project Governance Policy C591. The project has focused on meeting the needs articulated through public engagement and ongoing value engineering. As part of the project, the land for the future district park and recreation facility was recently acquired and rezoned for this anticipated use. The project currently has a completed, tender-ready design without funding to carry forward to construction.

Context

At the February 8, 2021, City Council meeting directed Administration to release an Expression of Interest (EOI) for the solicitation of potential interest for external partners interested in any combination of either Financing, Building, and/or Operating/Maintaining any of the planned components of the Lewis Farms District Park and Recreation Facility (Lewis Farms). The EOI was informed by internal engagement sessions with relevant City stakeholders as well as a market consultation exercise, and was released on July 9, 2021, with a closing date of July 29, 2021. It included a detailed questionnaire about the respondents' background and experience with similar projects and delivery models, the scope and delivery model of interest to the organization, financing and funding capabilities, project considerations, and innovative ideas. Details of the EOI can be found in Attachments 1 - 5.

A third-party consultant initiated the market consultation. Information was gathered from Builders/Developers, Finance/Lender Groups, Operators and surrounding Municipalities on:

- how the various components of this opportunity might be viewed; and

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- initial levels of interest in the different components.

The information collected was used to refine and analyze the results of the EOI. Reviews with internal stakeholders gathered additional information from past experiences and identified risks and risk-based constraints to inform the analysis of the EOI.

Findings

A total of seven submissions were received in response to the EOI. The submissions included Builders/Developers, Facility Program Operators, and Maintenance and Building Operators. Submission details and areas of interest can be found in Attachment 4. A review of the submissions has identified the following common themes:

1. **Lack of interest in partial delivery of single/partial project components.** Throughout the market consultation and EOI process no respondents were interested in major changes to programming or in pursuing the programming of single/partial components of the facility and park. The respondents were largely aware of the amount of public and stakeholder engagement the City has carried out in order to establish the current scope and programming.
2. **Financing requires flexibility and different sources of funding.** Flexibility in exploring financing opportunities may be necessary. Numerous respondents brought up different methods to obtain funding through borrowing, grants, partnerships, and philanthropic donations. The cost of borrowing funds to finance this facility by a private entity would likely exceed the City's typical cost of borrowing.
3. **Proponents expect a guaranteed revenue stream and/or operating subsidy.** Many recreation centres and facilities are not known to be profit-generating as pricing includes subsidies for many users to remain affordable and accessible. Potential revenue challenges related to operation and maintenance need to be considered. The City would likely need to guarantee a certain revenue stream or operating subsidy as a part of any alternative procurement incentive which includes considerations around public access through programs such as the Leisure Access Program which provides free access for low income Edmontonians, subsidies for minor sport user groups and school groups under the Joint Use Agreement.
4. **May not need up-front capital funding against the City debt limit.** Some respondents are open to developing and owning the assets of the facility for lease to the City for use. Other respondents suggest that financing through a public-private partnership may reflect differently in the City's debt obligations and potentially would not affect the City's debt ceiling. Whether the City's borrowing limits are impacted would depend on the nature of the agreement and the ownership of the asset. The City would need to provide a market-based approach to availability payments once the facility is open to the public.
5. **Design involvement and/or redesign flexibility is desired.** The builder and developer respondents and most operator respondents expressed the desire for a level of

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involvement in the design (or redesign) of the project but did not provide specific details on how this would be achieved.

Delivery Option Analysis

Shifting to an alternative procurement model, such as a design - build - finance - operate - maintain, could provide some benefit with the addition of new perspectives on design as well as opportunities for financing as the City obtains financing at favourable rates. The benefits realized by an alternative procurement model that includes third party financing would have to be weighed against any potential increased costs that such a model may bring.

Administration's analysis identifies that the effort to shift to a new delivery model would add an additional 24 months to the construction readiness schedule following design funding approval. A previously completed value-for-money analysis for a public-private partnership delivery of the Lewis Farms Facility and Park, as outlined in the April 21, 2017, Community and Public Services Committee report, CR_3377 Lewis Farms Recreation Centre Schematic Design and Funding Strategy, did not result in a significant benefit when compared against other traditional project delivery and City financing methods.

The June 10, 2019, Executive Committee report, CR_6773 Lewis Farms Community Recreation Centre and Library Project, outlined the results of an integrated value engineering process and confirmed the merit of the current delivery model. This process included the assistance of a construction consultant retained by the City to provide expertise on specific design elements to evaluate possible opportunities which have been incorporated into the final design. With the complete design in hand, the effort and time to redesign would likely return no benefit to the City from a financial or schedule perspective.

The delivery of the project with private financing such as a build - finance - operate - maintain model may result in higher overall costs for the City. The City would need to have the resources and access to the necessary expertise to manage this kind of procurement effort, especially if a more flexible public-private partnership approach is taken. Alternative delivery methods were proposed by the respondents to the EOI which with certain contract precautions can be similarly collaborative, which may be a good approach given the complexities of the project and its current status.

The general options can be broken into three categories, in comparison to the "status quo" option, described below.

1. **Public-Private Partnership Approach.** If a design - build - finance - operate - maintain model, or similar, is chosen, financing risk would transfer to a third party but is not likely to reduce the overall cost to the City over the facility's lifecycle. There would be a significant level of preparation and cost required to pursue this type of procurement model as the City does not have existing public-private partnership style specifications for recreation facilities and could add one to two years. Additional consultant resources would be required and the expectation would be that amending the scope of work of the original design

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consultant from the owner's side would be beneficial to the City, as they know the program and the owner's needs well and can provide a level of design oversight.

Acceptance of a certain level of redesign or scope flexibility on the part of the proponent will likely also be needed to ensure design risk is transferred appropriately and that efficiencies in construction can be pursued. This option would allow the City to pursue phasing or scaling back of programming, but these activities would have to be led by the City.

2. **Third-Party Operation.** The potential for a third-party operator for recreation facilities has been explored before. This could include either building operation and maintenance or animation of the facility, or both. There is also the possibility of third-party operation of just a component of Lewis Farms, such as the arena or the aquatics facility. As stated above, this would require some level of commitment on the part of the City to assure a revenue stream, while requiring public access is still provided (e.g. minor sport allocation priority, Leisure Access Program, etc.).
3. **Phased Approach.** The Council motion places emphasis on interest in constructing and operating "any of the planned components" of the Lewis Farms District Park and Recreation Facility. The respondents did not express interest in constructing any of the planned components as a standalone facility. The original planned approach is estimated at approximately 12 months to the beginning of construction from approval of funding. The project team has identified two major approaches which may reduce the time to construction as well as the initial up-front costs; in both cases, the time to construction is about nine months. The approaches are:
 - a. **Sequential Approach.** The sequential approach involves building part of the existing design with future staging opportunities, starting with either the park, arena or the aquatics/fitness components. The sequential approach would be best suited for shorter gaps of time between different facility and park components as significant integration is needed. This would be anticipated to be staged over two budget cycles.
 - b. **Campus Model.** The campus model involves separating the building components of the existing design to accommodate future staging opportunities and easier integration, but still likely starting with the park, arena, or the aquatics/fitness components. This approach would require a redesign of the facility and park space to physically separate the components and may result in changes to the overall architectural vision as well as a reduction in green space or parking. The campus approach would allow full buildout of the different components of the facility and park to be spread over a much longer time span (multiple budget cycles). However, as this approach may require significant redesign, additional engagement and consultation with Indigenous Communities, the Edmonton Design Committee, and the public may be needed.

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Key Risks Identified in Pursuing an Alternate Delivery Method

1. If a long-term operating contract is not structured or managed well, the City could end up with a level of service below what is expected.
2. If the asset handover provisions are not adequate, the City could receive a building at the end of the public-private partnership term that is close to the end of its lifecycle.
3. Perception of the existing construction consultant as the “preferred” proponent could lead to a limited bidding pool. If a different delivery method is chosen, consideration would need to be given to the current contractual relationships and whether any mitigations need to be implemented for procurement of an alternate delivery method.
4. If the design ownership is not handled properly, there could be significant challenges later if there are design issues.
5. If proponents wish to significantly change the appearance of the design, this could lead to challenges with the public and stakeholders who prefer the previous design (e.g. Edmonton Design Committee)
6. If proponents are not able to modify the design and program sufficiently, the value for money of a public-private partnership delivery model may be compromised.
7. If a traditional public-private partnership procurement model is pursued, the additional cost to the City for support would be significant and the procurement will add up to one year and a half to the schedule, which could also impact stakeholder expectations.

Option Analysis

In developing the proposed next steps and potential options, Administration used the following as fixed criteria: (1) the project is currently unfunded; (2) there is no identified delivery time frame; (3) the current program is fixed; and (4) the integrated design also makes phasing or changing individual facility components relatively difficult without exploring a redesign.

1. **No Change and Proceed into Construction** - Advance this project through construction, netting out the currently approved funding would require an additional \$298.9 million in tax-supported debt, on the assumption that the Academic Centre (\$20 million) and offsite infrastructure (\$10 million) are City-funded. An increase in debt borrowing would require a bylaw amendment. With no adjustments to the design, the project is ready for tender, and construction could start within 9 - 12 months of funding approval and is anticipated to take 4-5 years to construct and prepare for service operations.
2. **No Change and Hold** - Administration would place the construction of the project on the current unfunded list for council consideration with the upcoming development of the 2023 - 2026 Capital Budget. If funding continues to be deferred, these cost projections would need to be re-evaluated and adjusted to address current market conditions. This would allow further time for the offsite construction to potentially be completed by area developers as well as further time to pursue options related to the Academic Centre for which the Edmonton Catholic School District has indicated there is no available funding.
3. **Change Procurement Model** - Following the EOI, Council may direct Administration to pursue procurement through a public-private partnership model to deliver the full program

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with minor adjustments to the current design. However, it is important to note that this will likely not result in an overall project cost reduction to the City and will require significant procurement effort, including higher procurement costs. Based on the EOI and market consultation, operations would also need to be subsidized through some form of assurance or guarantee by the City beyond facility generated revenues, in alignment with the City's other facilities.

4. **Scale Back or Phase Program** - One potential outcome would be to pursue scaling back or phasing the program, starting with preparing the park site for construction. Following this work, it is likely additional public engagement would be required to identify the level of prioritization and expectations from the public relating to the overall program. As an integrated facility, there will be technical constraints that would prevent this from being possible without allowing for a redesign in part or full (i.e. the aquatic program cannot be broken apart from the rest of the building).
5. **Third-Party Operator** - Finally, the City may explore the use of a third-party operator to achieve potential cost savings in operations, maintenance, and programming; this could be combined with alternative project delivery or pursued independently but would need well-written and detailed specifications and enhanced contract administration to assure success. The City would likely need to be prepared to accept different pricing and the elimination of the various user subsidies like the Leisure Access Program, if a third party operator was to succeed or offer guaranteed revenue streams or an operating subsidy paid to the third party operator.

RECOMMENDED APPROACH

Proceed to Phase Program. As funding for construction of the full project is not approved and with no timeline for when funding may become available, Administration is recommending the preparation of a phasing plan. An initial Phase 1 scope is likely to include site grading, sod, fencing and base level amenities for the park site. Phase 1 would also include any necessary offsite infrastructure outside the district park boundary. This would allow the project to move forward at a measured pace as funding may be available while preparing for future phases of development.

The development of a phasing plan, complete with the design of Phase 1, could be completed within the current approved budget. Upon completion of the design, further funding would be required to deliver the construction for this scope of work.

Unless directed otherwise by Council, Administration will continue with the development of a phasing plan within the current approved budget and return to 2023-2026 Capital Budget with an unfunded capital profile for City Council's consideration to support delivery of gated early site works to address the existing condition of the park site.

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BUDGET / FINANCIAL IMPLICATIONS

Currently, there is no funding approved in the 2019-2022 capital budget for the construction phase of this project. The project will be assessed as part of the 2023-2026 capital budget process. Estimates at the date of writing identify that additional funding of \$298.9 million is required to construct this project. This amount includes \$10 million related to offsite infrastructure and \$20 million related to the scope of the Academic Centre (no longer supported by Edmonton Catholic School District).

COMMUNITY INSIGHT

Through the course of the design process, there were four phases of public and stakeholder engagement, each including an open house, online survey, stakeholder meetings and internal staff engagement activities. This engagement directly informed the design, and participants were made aware of how their involvement shaped the evolution of the design. As the design is complete, no future engagement is planned.

GBA+

As part of the stakeholder engagement, the Lewis Farms project team created an accessibility sub-committee to better understand barriers to equity in both the design process and the design itself. This engagement directly informed the engagement and the design, as participants were consulted to enact changes to support equality of outcomes in the final design. The operational model for Lewis Farms Facility and Park also aligns with the City Plan which supports economic equity to patrons to ensure Edmontonians will have access to safe, welcoming places to socialize, be creative, play, learn, be active, and participate in desired sport or recreation activity.

RISK ASSESSMENT

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
If recommendation is approved						
Financial	The increasing likelihood that Lewis Farms Facility and Park design budget will not be sufficient to cover the cost to build, due to changing Building Codes, regulatory requirements, City policy changes and market conditions	5 - almost certain	3 - Major	15 - major	Reviewing options for initiating early work, phasing, alternative delivery methods.	Early works to provide a clear understanding of site conditions, provide infrastructure and limit future costs

If recommendation is not approved

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The Public	Continued inactivity on the Lewis Farms Facility and Park site causes growing dissatisfaction with the state of the site and lack of services	5 - almost certain	3 - Major	15 - major	Communicating with the public providing regular updates and information	Early works to provide usable open space until funding for full design is put in place, but early works are also unfunded
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ATTACHMENTS

1. Lewis Farms 2021 EOI - Submission Information Part 1
2. Lewis Farms 2021 EOI - Submission Information Part 2
3. Lewis Farms 2021 EOI - Submission Requirements
4. Lewis Farms 2021 EOI - EOI Respondents
5. Lewis Farms 2021 EOI - EOI Heat Map of Responses