

Southeast to West LRT – Funding for Utility Relocations and P3 Procurement Development

Recommendation:

1. That the LRT Governance Board recommend to City Council:

That funding for P3 Advisory Services and the Owner's Engineer for the P3 procurement phase, and for advancing utility relocations and building demolitions within Project Profile 11-66-1673, Southeast to West LRT, in an amount up to \$60 million be approved, with funding from the LRT Reserve (\$10 million) and tax supported debt (\$50 million)
2. That Administration bring forward to City Council an amendment to Borrowing Bylaw 15726 to increase the value by \$50 million.
3. That subject to third reading of the amendment to Borrowing Bylaw 15726, Administration be authorized to award contracts for the P3 Advisory Services, Owner's Engineer, utility relocations, and building demolitions in accordance with the February 5, 2013, Transportation Services report 2013TS2934.

Report Summary

This report outlines the funding request for advancing utility relocations and buildings demolition, and the procurement of the Public-

Private-Partnership Advisors and Owner's Engineer required to deliver the document preparation and tender of the P3 contract for Stage 1 (Mill Woods Town Centre to Centre West) of the Southeast to West LRT under Project Profile 11-66-1673.

Previous Council/Committee Action

- At the October 17, 2012, City Council meeting, the following motion was passed:
 1. That the Southeast to West LRT project funding strategy as outlined in the October 17, 2012, Financial Services and Utilities report 2012CF0446, be approved, subject to funding from the Governments of Canada and Alberta.
- At the August 29, 2012, City Council meeting, the following motion was passed:

That Part 1 of the motion passed at the May 2, 2012, City Council meeting regarding the agenda item entitled "LRT P3 Status Report" be amended as follows: Strike out the phrase "as outlined in Attachment 2 of the April 24, 2012, Transportation Services report 2012TS5858" and replace it with "as outlined in Attachment 3 of the August 29, 2012, Transportation Services report 2012TS1148rev".
- At the May 2, 2012, City Council meeting, the following motion was passed:

1. That the Southeast to Downtown LRT project be delivered as a Public-Private-Partnership (P3) as outlined in Attachment 2 of the April 24, 2012, Transportation Services report 2012TS5858.
2. That the Mayor forward a letter to the Premier of Alberta advising of the application and the need for special provincial funding to support its delivery as a P3 project.
3. That Administration make a funding application to the Federal Government under the P3 funding program and that upon approval, Project Profile 11-66-1673 (Southeast to West LRT) be revised to reflect the funding provided by P3 Canada.

Report

Project Schedule

The current Project Profile 11-66-1673 is based on completion of the Southeast to West LRT – Stage 1 (Mill Woods Town Centre to Centre West) in 2019 as approved by City Council at the May 2, 2012 meeting. Critical milestones working toward this completion date are as follow:

- P3 Advisory procurement – February/March 2013
- Preparation of P3 procurement process and tender documents – February 2013 to January 2014
- Advanced utility relocations and building demolitions – Spring 2013 to Spring 2015
- Secure full project funding – January 2014
- Procurement package out to bidders – January/February 2014
- Financial close (tender award) – February/March 2015

- Start of construction – Spring 2015
- Revenue Service – 2019

The impact of not proceeding with the recommended procurement and utility activities would delay the construction and expected opening for LRT service in 2019.

Inflation costs of such a delay have been calculated by PricewaterhouseCoopers LLP and are estimated at \$59 to \$79 million for a one-year delay, and \$120 to \$162 million for a two-year delay.

P3 Advisory Services

Delivery of Stage 1 of the Southeast to West LRT line through a P3 delivery model was approved by City Council in May, 2012 and amended in August, 2012.

P3 projects create a front-loaded requirement for an organization, which must be resourced with specialized professionals across a spectrum of disciplines. This requirement has been repeatedly identified by other government organizations experienced in P3 projects, P3 proponents and industry associations and is typically characterized as a critical success factor. The role of these specialized advisors is to assist the City with development of the P3 legal agreement, Request for Prequalification, Request for Proposal and performance specifications. They further ensure that the legal and financial terms are structured to ensure performance by the P3 contractor, while still achieving the highest value-for-money possible. The advisors also assist the City during the P3 procurement (tender) phase.

With Preliminary Engineering for Stage 1 nearing completion, Administration is developing a framework for the P3 delivery. The framework is being modeled on the Province of Alberta's "Public-Private Partnership Framework and Guideline", published by Alberta Treasury Board, and a review of other municipal transit projects of comparable scale and complexity. Accordingly, under a P3 delivery model for the Southeast to West LRT line, Administration has identified the requirement for the following P3 Advisors: Process Advisor, Financial Advisor, Legal Advisor, Fairness Advisor, Capital Markets Advisor and Owner's Engineer. Retaining P3 Advisory Services through to Financial Close of Stage 1 is estimated at \$22.5 million. Attachment 1 includes the organizational structure of the P3 Project Team. Attachment 2 includes descriptions of the various P3 Advisory Services.

It is estimated that the P3 Advisors will be required on a full time basis until financial close of the P3 agreement, and then on a retainer basis not exceeding seven years past financial close.

Owner's Engineer

The Owner's Engineer is responsible for the following during the procurement phase:

1. Prepare the P3 reference design. This work is currently underway as part of the ongoing preliminary engineering design, which is nearing completion for Stage 1. Funding for this task was approved in June, 2011 under Project Profile 11-66-1668.

2. Prepare the P3 performance specifications, which form part of the P3 agreement. These costs are included within the funds requested for P3 Advisory Services.
3. Assist Administration with technical reviews of P3 proponent submissions during the procurement process. These costs are included within the funds requested for P3 Advisory Services.

It is estimated that the Owner's Engineer will be required on a full time basis until revenue service, and then on a retainer basis not exceeding two years past revenue service.

Utility Relocates and Building Demolition

To maintain the current planned schedule of revenue service in 2019 for Stage 1 of the Southeast to West LRT, a number of utilities will require early relocation starting in 2013. City costs for utility relocations include, but are not restricted to:

1. costs for utilities not covered by a franchise agreement;
2. the City's portion of relocation costs as identified by the franchise agreement; and
3. utilities owned by the City of Edmonton.

Building demolition will be required to facilitate some of the utility relocations and to ensure a clear corridor for the P3 contractor.

Early utility relocation, building demolition and soft costs (administration

and engineering) are estimated at \$37.5 million.

The estimated costs of the P3 Advisory Services, the Owner's Engineer, utility relocations and building demolition are contained in In-Private Report 2013TS8469 in order to preserve the integrity of the contracting process.

Funding Sources

The October 17, 2012, Council report "Southeast to West LRT Funding" outlined the funding options with a shared approach between the three orders of government with the City of Edmonton funding up to \$800 million for the Southeast LRT.

The \$800 million includes \$127 million approved (for preliminary engineering \$25 million and critical land acquisition \$102 million). The remaining \$673 million funding proposal was comprised of new Tax Supported Debt \$596.6 million, capital budget allocations beyond 2014 for \$50 million and the use of the existing LRT Reserve in the amount of \$26.4 million.

To commence funding of the procurement development and advanced utility relocations and demolitions phase of the project, the \$60 million required will likely need the City to advance their share of the funding prior to receiving funding from the other orders of government.

Current funding available to the City from the \$673 million is limited to the LRT reserve at approximately \$10 million. The remainder of the funding would come from tax supported

debt commencing in 2014 coinciding with a potential tax levy increase for debt servicing as outlined in the October 17, 2012 Council report.

With debt being the primary funding source for the City, the appropriate borrowing bylaw must be in place before the procurement development commences. Therefore, the borrowing bylaw must be in place even if the financing source is not drawn upon during the early stages of the procurement development.

Staged Funding

It is recommended that funding be approved for \$60 million in February 2013 to allow Administration to undertake utility relocations and building demolitions, and to secure all P3 Advisory Services and the Owner's Engineer through to Financial Close of the concession agreement for Stage 1. This is the optimal scenario as it avoids the need for Advisory Service contract extensions during the procurement phase, and the potential requirement to issue new Requests for Proposals, should the advisors not remain available beyond their initial contract.

The balance of funding and extension of the Owner's Engineer contract to Revenue Service of Stage 1 would be obtained prior to awarding the P3 contract once full project funding is in place.

P3 Canada has advised that procuring these specialized advisors, and retaining them through the duration of the procurement development and

tendering phases is critical to the success of the project.

Timelines and funding envelopes are consistent with those that have been experienced on other P3 projects in Alberta, British Columbia and Ontario.

Policy

Private-Public-Partnership (P3) Policy C555

Corporate Outcomes

Citizens use public transit and active modes of transportation.

Budget/Financial Implications

The funding request for \$60 million could be provided by using existing LRT reserve and additional tax supported debt. Approved funding for the project would increase to \$162 million from the current approved \$102 million.

LRT reserve available at the end of 2012 is approximately \$10 million.

The balance of the funding required of \$50 million would be through tax supported debt. Presently \$102 million of debt has been approved for land purchases. The total approved debt would increase to \$152 million.

Presently, there is no budget approval for SE to West LRT other than the critical land purchases and preliminary engineering.

Justification of Recommendation

1. Approval of funding of up to \$60 million at this time allows the project to stay on schedule for completion in 2019, and avoid additional project costs due to inflation. These are available funding sources identified in the Southeast to West LRT Funding Strategy.
2. The *Municipal Government Act* (S. 254) requires a Borrowing Bylaw be in place prior to this part of the project proceeding.
3. Authorizing Administration to proceed with awarding contracts for P3 Advisory Services and the Owner's Engineer, will expedite the process of procuring these services and assist the City with its application to other funding agencies.

Attachments

1. SE-W LRT Stage 1 - P3 Procurement Organizational Chart
2. Description of P3 Advisory Roles

Others Reviewing this Report

- L. Rosen, Chief Financial Officer and Treasurer
- D. H. Edey, General Manager Corporate Services