



COUNCIL REPORT

Date: November 14, 2023

To: Mayor and Council

From: Paul Gipps, CAO

Subject: **City Hall Project Update**

Report Prepared by: Paul Gipps, CAO

PURPOSE

The purpose of this report is to:

- Provide an update on the status of construction and anticipated occupancy of the City Hall/Library Building;
- To provide assurances that Council's direction that the project does not result in new tax increases to the community remains unchanged;
- To provide an update on the financial status of the project and seek Council's direction on the financial solution, and
- To outline next steps for the project.

RECOMMENDATION to Consider and Resolve:

THAT Council endorse the revised project budget and financial strategy as contained in this report.

STRATEGIC AREA(S) OF FOCUS

Invest in Infrastructure – We will invest in building, improving and maintaining infrastructure to meet the needs of, and to provide a high quality of life for, current and future generations.

BACKGROUND

Since the July 12, 2022, Report to Council, construction progress on the City Hall/Library Project has been significant; however, several factors have delayed the substantial completion and anticipated occupancy timeline noted in this report. Further, cost escalation resulting from several factors has also occurred; however, the funding strategy noted in this report confirms that no new tax increases to the community would result.

Long-duration global supply chain issues noted in the previous report have largely been overcome. However, the scheduled delivery of Tender Package 2A, Mass Timber, was

significantly delayed and, shortly after the product arrived onsite, the vendor declared bankruptcy. With a ripple effect from the delays, other project management and sub-contractors' deliverables were also affected. Delays resulting from construction market conditions, supply chain issues, labour shortages, BC Hydro delays and other factors have been largely mitigated.

Adding tenants to join the City Hall portion of the building also resulted in expanded design development and schedule changes. Council previously provided staff with direction to expand service benefits for the Greater Westside community if feasible, beyond the Provincial Member of Legislative Assembly (MLA) and the Federal Member of Parliament (MP) who are provided with fully segregated office space in the building. As a result staff are finalizing tenancy agreements with Service BC and the Insurance Corporation of BC (ICBC) with preliminary information noted later in this report.

Construction is nearing completion with the City and Okanagan Regional Library (ORL) anticipating the occupancy permit near the end of January to mid-February 2024, dependent on BC Hydro completing their work. The commissioning and consultant inspections will be the final tasks to be completed in late 2023 and early 2024. Deficiencies will be completed following occupancy, with landscaping completed in the spring. Further details are contained in this report.

STATUS OF CONSTRUCTION AND ANTICIPATED OCCUPANCY

The City Hall Project construction began in September 2021 and has progressed to near completion despite approximately nine months of delays. Tender packages were awarded, and value engineered through late 2021 to mid-2022. The construction management contract allowed the site preparation work to proceed while the other contracts were negotiated.

As anticipated in the previous update, concerns with the supply chain, escalation and delays have caused cost increases and schedule delays. Delays have been caused by various issues outlined below, including BC Hydro, mass timber manufacturing, and geotechnical issues.

Some of the main issues encountered over the course of construction have been:

- Cost escalations from the pre-construction budget. This was exasperated by trades not holding or locking in pricing at the time of tender. This was an unprecedented practice caused by the volatility of the market.
- BC Hydro design and construction delays. The routing indicated in the design was not feasible and design took an additional two to three months longer than anticipated. The construction milestones have also been pushed and the routing change caused a very significant increase in costs over budget. This remains one of our biggest risks to schedule and cost.

- The mass timber manufacturer, Structurlam, delayed material production by three months with very short notice before the initial deliveries were to be made. This caused major impacts to the schedule and cost of the project.
- Material unavailability required design updates to accommodate changes. In many cases the materials specified were not available due to shortages and long lead times. This required additional time and cost to rectify.
- Poor geotechnical conditions during the ground preparation caused a two-month delay and additional quantities of material that needed to be moved for the foundation base.
- The project suffered delays from two wildfires and the landslides between West Kelowna and Penticton. Shutdowns due to smoke and labour unavailability impacted the schedule in addition to extreme winter weather shutdowns for two seasons.
- Throughout the course of the project the team has worked to identify efficiencies and cost savings. The integrated team worked through value engineering exercises resulting in approximately one million dollars of cost reduction. The construction team worked to modify the schedule throughout the project to ensure that it was efficient as possible when dealing with various delays on critical path items.
- During construction the team has pushed to make decisions that resulted in the lowest cost to the project, including items such as changing the cladding to a lower cost product, simplifying elements such as the concrete plaza and lighting. While making these decisions we have always kept the functionality of the building and future growth in mind. The team continues to work with BSO to negotiate and demand the design consultants and contractors work to minimize the impacts of delays related to materials and labour shortages and look for further efficiencies and cost reductions.
- Additionally portions of the project have been descoped to ensure necessities are the priority. The use of some municipal speciality workers is also being used to eliminate change work orders that come in at a premium.

Structurlam

The City awarded the mass timber tender to Structurlam Mass Timber Corporation (“Structurlam”) in the summer of 2021. Based on the design process, Structurlam developed a delivery schedule that would have delivered product to the site starting in early May 2022. On April 29th, 2022, Structurlam provided notice to BSO that they would be unable to meet the schedule. The first delivery of mass timber product by Structurlam did not occur until mid-August with the final delivery occurring in December

2022. As a result of the three (3-5) month delay in receiving the mass timber product, it was not possible to complete other structural components of the project during that timeframe. The City and BSO continued to work with Structurlam until all deliveries of the mass timber were completed to ensure the construction schedule was not impacted further.

A formal delay claim against Structurlam was submitted in early 2023 after the final product was delivered. At that time, Structurlam was legally in good standing and it was anticipated that negotiations, or potentially litigation, would follow to offset the costs associated with their delay. On April 21st, 2023 Structurlam filed for bankruptcy in the United States Bankruptcy Court. The unsecured delay claim submitted by the City and BSO is now subject to Structurlam bankruptcy proceedings. It is unclear at this time what amount, if any, the City may recover from those proceedings however the City is considering all options available to ensure its legal rights are protected.

Anticipated Occupancy

Currently, the building is 85% complete and six of the eleven tender packages are substantially complete. The interior finishes are being installed including millwork and flooring. The cladding, asphalt and site works are proceeding on the exterior of the building.

The City is hoping to get an occupancy permit at the end of January to mid-February 2024 dependent upon BC Hydro completing their work. The commissioning can only begin after BC Hydro has completed their work and this is the biggest risk to the project schedule. The final finishing and consultant inspections will be undertaken towards the end of 2023 and early 2024 making way for building occupancy. This delay risk could also impact the final projected budget related to contractor extension fees. There are anticipated a few deficiencies such as delivery of dividing walls for Council Chambers (supply chain issue) along with some landscaping that will be completed following occupancy and into spring.

OKANAGAN REGIONAL LIBRARY

Equity Partner

The City and Okanagan Regional Library (“ORL”) have an equity partnership for the construction, ownership, and operation of the purpose-built building that will house City Hall and the ORL. The City has retained ownership of the land upon which the facility was built including the surrounding public amenities (i.e. Johnson Bentley Memorial Aquatic Centre and Memorial Park). Both parties will share the operational and maintenance costs associated with the facility.

The ORL generally owns one-third of the new building on the lower floor. The ORL will move from their existing location at 2484 Main Street to the new City Hall/Library building at 3731 Old Okanagan Highway when their organization is ready to move in and serve the community.

Westbank First Nation

In addition to working with our ORL as our equity partner, working with our good neighbour Westbank First Nation as our community partner also continues throughout the project. Through our partnership with Westbank First Nation, a lease agreement for a temporary access roadway off of Old Okanagan Highway into the City Hall/Library site was established in 2021. Since the outset of the project, the City has been collaborating with Westbank First Nation, including Elder Grouse Barnes blessing the site prior to construction commencing. Westbank First Nation also provided input into the new skateboard park and joined the City and the ORL to officially open the new park for locals and visitors to enjoy. Additionally, the City, ORL and Westbank First Nation are collaborating to provide art, language and cultural opportunities reflective of the traditional territory of the Syilx/Okanagan People. Expanding these culture opportunities to celebrate all Indigenous Peoples would also occur in stages following landscaping and interior finishing work.

BUILDING TENANTS

During the course of construction, staff held discussions with other government agencies who expressed an interest in leasing space within City Hall so as to provide a convenient “one-stop-shop” location for government services to the residents of West Kelowna and its neighbouring communities. The following governmental agencies have confirmed their commitment to enter into lease agreements with the City:

- Office of the local Member of the Legislative Assembly
- Office of the local Member of Parliament
- Service British Columbia; and
- The Insurance Corporation of British Columbia

The space requirements and locations for each group have been established and align with the City’s operational needs. Tenants shall pay the City the fair-market-value for their proportionate space which will include a proportional share of the City’s operational and maintenance costs.

Member of the Legislative Assembly Office

The Legislative Assembly (Government of British Columbia) local branch offices provide information and services on provincial parliamentary roles, procedures and activities of the MLA. As a tenant in the new building, the Legislative Assembly will lease segregated main-floor office space for the Kelowna-West MLA to conveniently serve its district constituents.

Member of Parliament Office

The Parliamentary Constituency Offices (Government of Canada) provide local information and service representing constituents on federal matters, such as voting on legislation, attending committee and caucus meetings and other duties. As a tenant in the new building, the Parliament of Canada will lease segregated

main-floor office space for the Central Okanagan-Similkameen-Nicola MP to serve its constituents.

Service BC

Service BC provides front line support for many programs and services that the BC Provincial Government offers to residents, businesses and visitors. As a tenant in the building, Service BC will commence an outreach pilot project to provide access to government services at this new location. As part of the outreach pilot, Service BC will evaluate the types of services and the hours of operation to the public, and more information will be provided by Service BC and the City once the details of the pilot project have been finalized.

Insurance Corporation of British Columbia

The Insurance Corporation of British Columbia (ICBC) is a Provincial Crown Corporation providing services such as insurance, driver licensing, vehicle registration and road safety initiatives. As a tenant in the building, ICBC is in the process of developing a pilot project for up to five years with the City where ICBC would provide driver licensing services. The types of services, hours of operation and other details will be provided by ICBC and the City once the details of the pilot project have been finalized.

The timing for the tenants to occupy and operate will be set after the building is occupied by the City and will be communicated out by the tenants on their schedule and also included in the City's public communications.

Transitioning Into the New Building

As construction is nearing completion, logistics to move municipal administrative services and staff teams out of several buildings into the new City Hall is also being planned. Our goal is to ensure our community is well informed about what services are permanently closing at which location and subsequently opening at the new City Hall.

Staff anticipates transitioning into the new building by way of a phased moving strategy over a period of several weeks. Our IS Department will be one of the first departments to move in to ensure technical equipment inside the building is properly tested and functioning prior to staff moving. During this time any new pieces of furniture required for the building will be assembled in preparation for the phased moving strategy.

It is important to note that most of the existing furniture is going to be relocated to the new City Hall. Staff are working with a contractor to coordinate the dismantling, relocation, and reassembling of all the furniture being relocated. Most of this work will be completed after hours or over the weekends to minimize the impact to customer service.

Those departments that have little to no day-to-day interactions with the public will be moving first. This work may be completed over the course of many days or multiple weekends.

Those departments that do have day-to-day interactions with the public will be moving last. This work has a higher impact to customer service and as a result, will be completed over the course of one weekend. Contractors and staff will work collectively starting Friday, after City Hall closes. Some work may require overnight coordination throughout the weekend to ensure that all staff are set up and ready for Monday morning.

Final schedule and moving date still to be confirmed, based on building occupancy date.

Beginning in January 2024, the City will widely communicate public information such as:

- What services at existing administrative buildings are moving to the new City Hall and when;
- What service is remaining at the Mt. Boucherie Community Centre;
- A quick reference guide about where to go in-person for what service;
- Helpful links about the Okanagan Regional Library move and their operational information; and
- Updates about City Hall tenant occupancy with their operational information and more.

We are also collaborating on a celebration to welcome our community into the City's first-ever purpose-built City Hall/Library Building. Soon after the moving bins have been removed and it is safe for the public to walk through the building, watch for our 'Save The Date' invitations to celebrate this civic centre area that will serve the Greater Westside for generations to come.

FINANCIAL STATUS UPDATE

Referring back to the original 2021 budget and funding model, for years the City of West Kelowna had been and continues to transfer \$700,000 annually into the City Hall reserve to pay for its first City Hall building. Since the City's debt at the time was below five per cent of its annual revenue total, the City was approved to obtain a loan of up to \$11 million from the Municipal Finance Authority (MFA) re-paid over 25 years through the City's annual reserve contribution. This borrowing authorization and limit remains unchanged, and the reserve currently continues to grow beyond the projected \$6.823 million at the time.

The project is nearing 85% complete and with most of the construction uncertainty behind us, with the exception of further delays, we are reasonably confident that the project costs for City Hall will come in at \$22,398,000.

Financial Solution to Ensure No New Tax Increases

In light of the projected cost escalation and delays the following table outlines the original budget funding model compared to the funding model recommended for completion of the project. The updated model continues to include a combination of savings (reserves) and borrowing.

The 2024 funding projection anticipates continued growth of the City Hall reserve to an overall contribution of \$8.71 million, as well as full use of the \$11 million borrowing, drawing on the original \$500 thousand gas tax reserve component and \$250 thousand from the equipment reserve before additional proposed contributions. These additions include over \$395,000 from Parks Development Cost Charge (DCC) reserve and an Operating Surplus reserve injection of \$1.539 million to cover the balance of the shortfall. The available balance in the Operating Surplus is currently calculated at \$5.717 million which is a reasonable amount of room to fund this allocation still leaving room for future contingencies if Council wishes to endorse the proposal. Removing \$1.539 million from the Operational Surplus will result in a balance of \$4.178 million going forward.

City Hall Project	Original 2021 Budget	Funding Projection 2024
Expected Cost	18,000,000	22,398,000
Funding:		
City Hall Reserve	6,822,574	8,714,000
Borrowing *	10,427,426	11,000,000
Gas tax	500,000	500,000
Equip reserve	250,000	250,000
Available Parks DCCs **		395,342
Shortfall to fund from Operating Surplus		1,538,658
Funding Total	18,000,000	22,398,000
*Was a balancing figure in original budget but authorization was \$11M		

** Projects contained in City Hall tender pertaining to Parks Master Plan and associated DCCs		
Extend road and parking		86,378
Drop off loop		52,470
Plaza		250,000
Drainage		6,494
Total		395,342

Operating Cost Look-ahead The City has established an operating budget for the new City Hall / Library building that will be brought forward during 2024 budget deliberations that will begin in December 2023. Staff are in the process of finalizing operating and lease agreements tenants and our equity partner. Tenants shall pay the City the fair-

market-value for their space which will include a proportional share of the City's operational and maintenance costs.

Lakeview Village Admin Office Contract Termination

Since 2017, the City has been leasing office space at the Lakeview Shopping Centre located at 879 Anders Road. Costs to lease and maintain this space is approximately \$100,000 per year.

Approximate Lease Costs: \$75,000 per year

Approximate Maintenance Costs \$25,000 per year

After the City moves into the new City Hall, operating dollars associated with this lease will be used to offset the new operational costs for the building. The lease associated with this space expires March 31, 2024.

City Hall Portables

Since 2008, the City has been using portables at the Mt Boucherie City Hall location to accommodate the temporary City space needs for both City Hall staff and Council Chambers. Three portables are owned by the City and one is leased. Costs to lease the one portable is approximately \$40,000 per year.

1. Recreation Department Portable (owned)
2. Information Services Department Portable (owned)
3. Human Resources Portable (owned)
4. Council Chambers Portable (leased)

After moving into the new City Hall, the intention is to discontinue leasing the Council Chambers Portable, unless a partnership can be found where the City is able to recover all costs and there is a community-wide benefit to keep it. If such a partnership or opportunity can be found, staff will bring it forward for Council's consideration.

The Recreation Department Portable will continue to be used by both Facilities and Recreation staff until renovations to the Mount Boucherie Community Centre (MBCC) can be completed. Both the Recreation and Facilities departments have customer and staff connections at the MBCC and as a result, these departments will continue to operate out of the MBCC.

Staff are investigating options for the Human Resources Portable and Information Services Portable. Both could be used by the community until construction and renovations for the MBCC begins. Options for Council's consideration will be brought forward at a later date.

Westbank Lions Community Centre

Another satellite facility being used, in part, by City staff is the Westbank Lions Community Centre. Currently, the Bylaw Department is occupying approximately 1,200

square feet of space in the basement of this facility. This space will also be returned to the community, after Bylaw staff has been relocated to the new City Hall.

NEXT STEPS

The primary construction focus for the next several weeks will be:

- Paving and exterior concrete works
- Interior finishing and building commissioning.
- Finalizing the relocation/transition plan
- Setting up and testing the information technology systems

Now that the McDougall Creek wildfire is over, the City Hall/Library Building project will be a monthly standing report on Regular Council Meeting Agendas through early 2024 with the next report scheduled for December 12, 2023.

Timing of the first Council meeting in the new City Hall building will be based upon the outcome of the move including the commissioning and testing of the information technology systems to ensure there are functioning as expected.

COUNCIL REPORT / RESOLUTION HISTORY

Date	Report Topic / Resolution	Resolution No.
July 12, 2022	West Kelowna City Hall/Library Project Update	

CONCLUSION

Staff priority continues to look for cost reductions through value engineering and maintain the occupancy schedule. Regular updates each month will be brought forward to Council on the status of City Hall.

REVIEWED BY

Warren Everton, Director of Financial Services/CFO

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes No

Attachments:

- 1) City Hall Project Summary Update November 2023