Mariners Center Expansion Board	Item: Considerations for project cost contingency – Date: August 7, 2024

Project Leader Recommendation:

This report outlines the potential for tender price overruns, and the requirement for Councils to understand the potential financial implications of an overrun. As you are aware, the Class A pricing is +/- 10%. The project manager recommends a commitment to cover this contingency **at the very least**.

My recommendation assumes the possibility of cost overrun to as high as 15% of the budgeted construction cost. A 10 to 15 percent cost overrun would cost the project an extra $4,000,000 to $5,630,000 respectively.

It is the project leader's recommendation that the MCEB request each of the three councils assume the worst (15% cost overrun) and do the following to eliminate undue delay and protect the bid validity. Please note that this recommendation to councils does **not** apply if the tender cost overrun exceeds 15%.

1. To approve a **conditional grant** of up to $1,630,000 to ensure the project does not go through unnecessary delays, and to confirm the municipalities intent to ensure the project goes to tender.

   Recommendations are as follows:

Town of Yarmouth	Conditional grant of up to $500,000 (30.67%)
Municipality of Argyle	Conditional grant of up to $500,000 (30.67%)
Municipality of Yarmouth	Conditional grant of up to $630,000 (38.66%)

2. Approve that they will temporarily finance the tender the cash flow needs up to $2,000,000. The bridge financing for a cost overrun is expected to match the fundraising commitment of $2,000,000. Please note that additional cashflow requirements may be necessary for the project, and the amount will depend on the timing of the receipt of donations over time.

   Recommendation for proportion are as follows

Town of Yarmouth	Temporary loan of up to $613,400 (30.67%)
Municipality of Argyle	Temporary loan of up to $613,400 (30.67%)
Municipality of Yarmouth	Temporary loan of up to $773,200 (38.66%)

Suggested Council motions (in public session):

That Council approve a conditional grant, for the Mariners Center expansion project for contingency purposes, **up to ________ (insert municipal proportion here)**. The grant shall be conditional on a tender bid cost overrun exceeding 10%.

That Councils approve a temporary financing commitment of up to $2,000,000 (with the council portion being ________, to support potential cost overruns on the Mariners Center expansion project, to be reimbursed by fundraising funds as received.

Reference Material:

Most recent Altus estimates for the Mariners Center expansion (attached)
Development Agreement (resource, unattached)
Most recent fundraising update (verbal) – confirmation of 6.9 million in secured funds, confidence in meeting their 10 million dollar stretch goal.
In camera discussions on third party funding, not disclosed in public venue

Background:

On August 1, 2024, MCEB authorized the go-ahead to issue tender for the Mariners Center expansion. We are in the final stages of the process, with a tender likely to be issued by the end of this month. We would allow 4-8 weeks for contractors to submit a bid. Ideal conditions would have three competitive bids for the work. A bid is only valid for 30 days, meaning approval will be time sensitive. Just to highlight the importance of the last sentence, the lowest bidder commits to their price for 30 days and can remove its price if no decision is made by that time. **If the MCEB is too slow, we could theoretically lose the best bid**.

With each design stage, there have been contingencies built into the estimates. At the 99% stage, a Class A estimate is prepared by an independent cost estimator. That estimate warns us that the pricing could be +/- 10% of the figure. As Councilors are aware, a projected price is not a tender bid.

Everything about this process has contingencies, except for our budgeted figure. There is no wiggle room presently on the 38-million-dollar price tag. The MCEB has no authority to approve a tender award beyond the budget, and the timing will bring the decision near, or after a municipal election. **We are asking councils to consider the benefits of a municipal contingency amount earlier to avoid delays.**

The purpose of this document s to highlight the need for bridge financing for the entirety of the project, and the consequences of a project cost overrun to cash flow. Secondly, it is to illustrate potential cost overrun scenarios, the financial impact to councils, and the request to authorize the MCEB to address project cost overruns if (when) this happens. It is clear from the Development Agreement (DA) that councils agreed to support this project under set conditions on project scope and project cost. If either change, Councils are not obligated to agree to it according to the DA.

Council decisions outside of the DA must be done through individual motions, and these motions should align for solidarity purposes. We are at the final stages of the design and tendering with an impending municipal election. Elections often mean fresh and positive faces, but in the case of this project, it means a long debriefing. Delay is not in the interest of the project, and the MCEB would seek to avoid unnecessary delays. It is not likely that the new councils will be in a position to respect the 30-day validity period, which places financial risk on the project. These Councils are briefed and immersed in this project and have an opportunity to plan for a less desirable tender outcome. The following is the fiscal breakdown of a potential negative outcome.

Financial proposal:

It is important for Councillors to understand that for the MCEB to accept a tender that exceeds the budget, it must have access to the available funds to do so. Here are the major financial realities of the project.

1. Councils have committed 10 million dollars to this project, and need to be prepared to disburse that money when the project requires it.
2. Expected municipal grants are not expected to be paid out until early 2026 based on cash flow projections. Other cash includes fundraising, GICB federal funding and provincial funding. Interest will be earned on those funds, which will first be used to offset the fundraising operating costs. We expect net interest profits, and a decision on how to apply those profits is yet to be made.
3. Over and above the grant commitment, Councils will have to bridge finance the project, in an amount that is not yet known. Fundraising money will be received over time, and the project costs will have to be paid before the donations arrive. Councils need to be prepared to **also** lend money to the project. While the principal shall be reimbursed by donations as they are received, interest costs are likely to remain with Councils.
4. Councils may be required to commit additional grant money in the case where tender process exceed budget.

Project assumptions and details can be found in appendix A, in short, the municipal requirement is approximately as follows:

	10% cost overrun	**15% cost overrun**
Municipal grant requirement	nil	$ 1,630,000
Municipal finance cost requirement	$ 100,000	$ 100,000

This commitment is for a facility with a considerable life span, up to 30 years without significant reinvestment.

Another consideration to the financial commitment of this project is that while the fundraising efforts are incredible, the timing of cash flow will not match the requirement to pay the bills. There is a requirement for municipalities to consider **financing the cost overrun** until fundraising funds are received, and a need for councils to agree on who pays the interest, and how any net interest income on other grants are to be used, potentially offsetting this cost.

To agree to financing the fundraising portion of a project overrun, is to agree that both the third-party funding and fundraising dollars (2 million each) will be received.

Alternate considerations

Councils do have the option to choose a lesser percentage as a contingency or refuse a contingency outright. The consequences of that would be a delay in a decision to issue a tender. In making such a decision, councils could retain more control over the project. Councils would have to measure this decision against the tender delay and risk of financial loss. With the combination of partners and the success of fundraising, this project has become, with respect, larger than just councils.

It is therefore recommended that control on the project should be imposed by Councils only if the tender price overrun exceeds 15%.

The project leader recommends to the MCEB to request that Councils approve, collectively, an additional 1.63 million in conditional grants for the Mariners Center expansion. This commitment shall serve as a contingency in the likelihood that project overruns amount to 15% of the construction budget.

The project leader recommends that MCEB request Councils approve bridge financing for the cost overruns of the project of up to $2,000,000, until such time as the fundraising donations is received by the Mariners Center.

Appendix A – Detailed projections and assumptions – potential tender cost overruns

Here are the assumptions used. Changes to assumptions will change fiscal impact.

1. Municipalities will **not** be the only party to increase their contribution to support a project cost overrun.
2. The probability that fundraising can reach its stretch goal of 10 million is strong. Confirmed funding has reached 7 million effective August 1, 2024, with a signature sponsor yet to be confirmed. We comfortably assume an additional 2-million-dollar commitment from the community.
3. There is a potential grant of up to $2,000,000 from an external party, with the probability of this occurring shall likely depend on a tender cost overrun.
4. Regardless of fundraising commitments, there will be a requirement for municipalities to bridge finance cost overruns, with estimated interest rates at 5%. Term of loan is not known, repayment from the fundraising committee is also unknown.
5. Budgeted construction costs are set at $33,700,000, plus estimated cost of solar panels at $500,000. It includes 1.9 million in change order contingency.
6. Our Class A pricing has a contingency of +/- 10%. It is therefore prudent to assume the construction cost could be 10% higher than estimated.
7. Maximum cost overrun shall be set at 15% of budgeted construction costs.
8. Any tender price exceeding 15% would result in negotiations or project amendments to bring the tender price within 15% of the budgeted construction costs.
9. Assumed that financing costs would be absorbed by municipalities, as there are no known alternative funders at this time.

Calculation	**Scenario 1 10% overrun**	**Scenario 2 15% overrun**
Tender overruns	$ 3,920,000	$ 5,630,000
Fundraising and 3rd party funding	$ 4,000,000	$ 4,000,000
Potential additional Municipal grant	-	$ 1,630,000
Annual interest cost of financing overrun	$ 100,000	$ 100,000

Note that interest on bridge financing shall reduce as donations are applied against the loan.

Per unit impact	**Financing cost**	**Potential grant**
TOY (30.67%)	$ 30,700 per year	$ 0 to $ 500,000
MODA (30.67%)	$ 30,700 per year	$ 0 to $ 500,000
MODY (38.66%)	$ 38,600 per year	$ 0 to $ 630,000

In short, based on these assumptions, the municipal councils are being asked to consider and approve their proportionate share of a contingency **grant** as high as 1.63 million. **Remember a contingency isn't a definite fiscal commitment, it is a potential fiscal commitment based on the result of a tender**. Equally as important to remember is that it would provide leg room for the MCEB when it (and the EPC) enters tender negotiation phase.