

Meeting Town Needs Responsibly
A View From Outside Town Hall

**Public Works/Parks Facility
Development Proposal
Building 7
Northam Industrial Park**

A Submission By

Paul Pagnuelo and Warren McCarthy
Cobourg Citizens

To

Cobourg Town Council

April 7, 2015
Meeting

INDEX

	Page(s)
The Authors	1-3
Executive Summary	4-6
Introduction	7
Background Documentation	7
Operating Costs and Workforce Count	7
Business Case	7
Financial Projections	8
Our Analysis	
• Space Requirements	8
• Health & Safety Issues	8-9
• Barriers to Efficient Operations	9-10
• Environmental Concerns	10
• Engineering Department	10
• Repurposing of Existing Facility	10
• Lost Opportunity Costs - Building 7	10-11
• Options	11
• Life Expectancy	11
• Financial Costs	11-12
• Cost/Benefit Justification	12
• Timing of Request	12
Appendices	
• 2013 Workforce	Appendix 1
• 2013 Public Works and Parks Expenses	Appendix 2

The Authors

Paul Pagnuelo

My wife and I moved to Cobourg in the summer of 2009 and we are pleased and honoured to call Cobourg home.

I retired in 2008 following a distinguished 43 year career with Bank of Montreal.

My early years with BMO involved numerous branch positions and postings. I subsequently transferred into very diverse disciplines including divisional and credit administration, loan portfolio analysis, legislation and government, risk management policy and the Canadian payments system. From 1994 until my retirement, I was Senior Manager and Policy Advisor responsible for providing counsel to senior executives and through the Canadian Bankers Association and the Canadian Payments Association, negotiating strategic policy initiatives with financial institutions and government.

Following my retirement, I acted as a consultant and expert witness to one of Canada's leading business law firms, conducted detailed research and analysis and provided expert opinion, advice and recommendations on wire transfers and anti-money laundering practices and legislation involving a major international case.

After moving to Cobourg, I served for four year as a Director and Treasurer for a small Condominium Corporation in town.

From March 2009 until November 2012, I served as a Director and Treasurer for a large Homeowners Association in Florida and on the Board of Managers for its real estate brokerage subsidiary.

In the 1990s, I served in a voluntary capacity as the Ontario spokesperson for the Canadian Taxpayers Federation (CTF), Canada's largest non-partisan taxpayer advocacy group and until recently was a member of the CTF's board of directors.

In 1989 I was President of the Toronto-Peterborough-Havelock Passenger Association, we responded responsibly to the federal government's cancellation of VIA Rail service. We commissioned a feasibility study on establishing a private sector commuter rail network. The project was derailed when the Ontario government announced, the day before the positive results of our study were released, that it was extending GO service to four of the five proposed lines.

I received CTF's *Taxfighter of the Year Award* and am the proud recipient of the Queen's Jubilee Medal.

I ran unsuccessfully as a candidate for Cobourg's Deputy Mayor in the 2014 municipal election and am committed to do what I can as a citizen in rebuilding Cobourg's economic prosperity so it can be restored to the great community that it can be.

My wife Marilyn and I have been married for thirty-eight years and have two children. Daughter Stephanie lives in London and son Matthew in Calgary.

Warren McCarthy

We are regularly grateful that we moved to this fine town in the fall of 2011.

My last major career adventure was completing a full 15 year cycle of starting, growing and selling a successful business-skills training and consulting business.

Our company provided training and consulting in skills and tools for improving the quality of selling, servicing, prioritizing and managing.

We trained small businesses via 'public schools', as well as open-programs through the University of Toronto Continuing Education and the Canadian Association of Management Consultants.

We also provided in-house business skills training for larger clients including - PricewaterhouseCoopers, Royal Bank, IBM, Dell, KPMG, CIBC, NCR, Oracle.

Prior to being an entrepreneur, I enjoyed successful career intervals managing sales, service, marketing and operations in large, medium and small Information Technology businesses.

For a combined 16 years, I enjoyed volunteering with Big Brothers and Sisters and the Durham Youth Justice Committee.

Since coming to Cobourg, I have been an active volunteer with Downtown Vitalization, the Business Advisory Centre Northumberland and the Cobourg Planning Advisory Committee.

Our son, daughter and grandchildren live nearby.

Executive Summary

Having reviewed the proposal in depth we would recommend that Council not approve the \$3.75 Million cost to support a new joint Roads and Parks Garage Facility and Public Works Administration Centre to be developed at Building 7, Northam Industrial Park.

Our recommendation that Council not approve the proposal is based on the following reasons:

- The report is short on meaningful financial detail in terms of operating and capital costs.
- The current report estimates a reduction in cost from \$4 Million to \$3.75 Million but does not explain the reduction.
- Construction costs exclude HST.
- New debt financing of \$2,790,000 is nothing more than a deferred tax increase. The overall tax base in Cobourg has reached the saturation point.
- The issues identified under space requirements are not fully addressed.
- While the health and safety issues are serious matters that need to be addressed, there is no indication of remedial efforts having been made to remove the black mould and to prevent a recurrence and what control and prevention efforts have been made to deal with the rodent and pest infestation problem. Given the overall nature of the operations and the type of heavy road equipment in use and inside storage, there is no assurance that the same situation would not apply to Building 7.
- Solutions to the issues identified by the Health and Safety Committee relating to the heating and air handling systems, stairs and railings, change facilities, egress systems, as well as ongoing rodent infestation problems are said to be financially prohibitive but no corresponding costs have been provided in comparison to the \$3.75 Million price tag for a new facility.
- The arguments advanced that the existing building structure and locations are barriers to efficient operations are weak at best. The issue of efficient response across town is not fact based and there is no evidence or measurement of how response times might be improved and by how much.
- A more nimble organizational structure, cross training and job sharing do not require all staff to be housed within the same facility. The report fails to acknowledge how efficiencies can be achieved in the current era of high speed and wireless communications including email and that physical space for file storage and record keeping can be eliminated with electronic systems.
- Relocation to Building 7 would appear to simply shift the environmental hazards from the creek to storm sewers and it would appear that no emergency preparedness plan exists should an unavoidable event take place.

- The report does not address what will become of the space currently occupied by Engineering staff on the second floor of Victoria Hall.
- There is no mention of ongoing utility, maintenance and insurance (including liability insurance) costs on either a vacant or fully occupied repurposing basis of the existing King St. facility. Even on a full occupancy basis, net income is likely to be a loss. There is no mention of the various logistics of moving boats, particularly larger ones from the Marina to the existing King St. facility.
- The proposal does not factor in potential lost opportunity costs of \$161,298 plus recovery of Municipal, County and Education property taxes by removing Building 7 from available leased space at Northam Industrial Park. It also raises an important concern about the difficulty in filling the existing vacancies at Northam Industrial Park with private sector tenants and whether the Town's Economic Development strategy requires an urgent makeover.
- The report fails to examine other options, such as partial relocation, the build of a new facility either at the current location or elsewhere, competitive tendering of some or all of the Public Works and Parks service delivery or the sharing of some services and facilities with the Town of Port Hope or Hamilton Township.
- The report does not speak to the issue of the life expectancy of the building per se or the additional cost for extending life expectancy over various timeframes.
- There is no information on the amortization period, interest rate variables, debt servicing and principal repayment costs over the term of the new debt of \$2,790,000.
- No detailed breakdown is provided of how the \$2,637,000 for Building 7 refurbishment, including site work, was arrived at and what the \$120,000 in fixtures and equipment would cover.
- Between the CCC outstanding debt which is being funded by Development Charges and the \$960,000 portion of Building 7 project costs to be funded by Development Charges, the Development Charges Reserve Fund will substantially be depleted.
- No detailed operating budget for the Building 7 facility has been provided which can be compared to existing costs.
- The report does not address the potential for any additional capital costs for future repairs or replacement during the life expectancy of the facility.
- The construction contingency of \$132,000 or 5% of the estimated refurbishment costs appears low and there is no escalation allowance beyond January 2015.
- Identified savings are minimal at best and there is no cost/benefit justification for Council to approve the proposal as currently drafted.

- From outside Town Hall, it looks like there is a rush by the Public Works Director and CAO to approve this \$3.75 million project weeks before the 2015 Budget is known and the Strategic Plan is finalized.
- It appears that the previous March 24, 2014 Public Works Report has simply been recycled by staff with no compelling Business Case and little in the way of additional information
- Council should be given the opportunity to consider the magnitude of the project in terms of not only the overall 2015 Budget but also its priority and need in the context of the 2015-18 Strategic Plan and the inability and unwillingness of taxpayers to support higher taxes.

Introduction

In a report submitted to the March 3, 2015 COW meeting by the Director of Public Works and concurred in by the Chief Administrative Officer, Council is being asked to:

- Support the concept of a new joint Roads and Parks Garage Facility and Public Works Administration Centre to be developed at Building 7, Northam Industrial Park.
- Approve funding in the 2015 Budget in the amount of \$3,750,000 for alterations and site improvements.
- Authorize Public Works to go out and tender for this renovation work.

This submission analyses the rationale and financial implications in the context of today's economic environment and offers a number of observations for consideration by Council.

Background Documentation

Our review of the proposal is limited to the two Public Works reports on the subject presented to the COW. The first report dated March 24, 2014 and the second report dated March 3, 2015, which for the most part is largely a repeat of the first.

The bulk of both reports contain photos of the existing facility

Operating Costs and Workforce Count

According to Schedules 40 and 80A of the 2013 Financial Information Return filed with the Ministry of Municipal Affairs (see Appendices 1 and 2), operating expenditures for Transportation, Recreation and Cultural Services, excluding transit and the Library, amount to \$11.9 Million or 30.7% of the Town's total operating expenses of \$38.8 Million. The workforce for Public Works and Parks and Recreation, including full-time and seasonal, is 92 employees or 28% of the Town's total employee count of 329. Seasonal employees account for more than half the combined total and there are no part-time employees employed in either department.

Business Case

The report sets out the following four major categories in support of the proposal.

- Space requirements.
- Health and safety.
- Barriers to efficient operations.
- Environmental concerns.

The report is short on meaningful financial detail in terms of operating and capital costs.

Financial Projections

The first report estimated a cost of \$4 Million for the building renovations, site improvements, salt and storage facilities and fencing. The current report estimates a slightly lower cost of \$3.75 Million but does not explain the reduction.

81% of the current estimate is for construction costs, which it should be noted excludes HST. Of the remainder, \$620,000 is for site preparation, a salt storage building, fuel storage and pumps and fixtures and equipment. A \$100,000 contingency is to cover decommissioning costs for the existing facility.

\$960,000 or 26% of the funding will be from Development Charges, while the remaining \$2,790,000 or 74% will require new debt financing.

It should be noted that debt financing is nothing more than a deferred tax increase. As the Deputy Mayor noted during the Strategic Planning Session, the residential tax base has gotten to the saturation point.

Our Analysis

Space Requirements

Page 2 of the report states that Parks staff has settled into a part of Building 7. It does not say how many have been relocated, where they have been relocated from, whether they are utility, supervisory, managerial or support staff, if related Parks equipment has also been moved and the square footage currently occupied.

The issue of inadequate salt storage resulting in six or seven deliveries annually does not say what “other operations” have to cease and for how long during delivery and whether staff involved in these “other operations” are redeployed in other duties during the delivery period. In itself, this does not appear to be financial justification for the acquisition of a new \$220,000 salt storage building.

The report does not indicate the reason or frequency of public access to the current facility, nor does it quantify to what degree there is inadequate space for staff, change room, lunchroom and meeting rooms. Presumably the majority of staff are working offsite most days and the amount of time spent at the existing King St. facility is limited.

The Building 7 sketches do not indicate where the Brine Station will be located indoors and the report does not address whether there is a solution to the existing problem of it freezing during cold weather and how the existing unit is thawed and how long it takes.

Health and Safety Issues

The report does not provide any costs for purchasing and installing new above ground tanks. Presumably the cost would be the same (i.e. \$130,000) as that indicated for the Building 7 proposal.

As noted above, the report does not indicate the reason or frequency of public access to the current facility. Obviously, this situation has existed since 1958 and in the absence of any reported accidents, to say that it is very impractical, potentially dangerous and an unacceptable liability may simply be an overstatement of the true risk, if any.

The report does not indicate the number of trailers that currently are utilized, their general overall condition, what efforts and costs, if any, have been made to rectify the entry door problems and what the costs would be to replace them with either new trailers on a permanent foundation or with a building(s) on the space the trailers currently occupy.

We view the health and safety issues of ventilation, black mould, rodent and pest infestations as serious matters that need to be addressed. While not all species of black mould is dangerous, it thrives in wet and humid environments and the only way to prevent it is to remove the critical ingredient – moisture by dehumidifying the area. The report does not address whether it is the works garage, trailers or both where the mould exists and what remedial efforts have been made to remove it and to prevent a recurrence. The overall nature of the operations and the type of heavy road equipment in use and inside storage all lend themselves to an environment that invites the potential for mould. There is no assurance in the report that the same situation would not apply to Building 7 or whether, for that matter, mould currently exists in the Building 7 facility.

Rodents are carriers of several diseases and an important remedy is to improve the sanitary condition of the surrounding environment, thus depriving them of food, harbourage and passages. Similar to the mould situation, large industrial buildings are generally susceptible to rodent and pest infestations. The report does not address what control and prevention efforts have been made at the King St. facility to deal with the problem and how the same situation would not apply at the Building 7 facility.

The report indicates that the Health and Safety Committee has identified a number of issues relating to the heating and air handling systems, stairs and railings, change facilities, egress systems, as well as ongoing rodent infestation problems that are financially prohibitive. It does not, however, identify how these issues might successfully be addressed and how the corresponding costs compare to the \$3.75 Million price tag for a new facility.

Barriers to Efficient Operations

The arguments advanced in the report that the existing building structure and locations are barriers to efficient operations are weak at best. The current Public Works yard and building have existed since 1958 and the report fails to highlight any instances where flooding has resulted in equipment being inoperable or unreachable. The fact that the yard is adjacent to a residential area has existed since Day 1.

The suggestion that the current building is not centrally located for efficient response across town is not fact based and offers no evidence or measurement of how response times might be improved and by how much to various locations within the Town.

Location should not be an issue where Public Works and Parks share support or administrative staff in the current era of high speed and wireless communications

including email, while the physical space for file storage and record keeping can be eliminated with electronic systems.

A more nimble organizational structure does not require all staff to be housed within the same facility. Cross training and job sharing between Public Works and Park staff should, for the most part, involve offsite duties.

Environmental Concerns

Not to downplay the environmental issues of the proximity of the salt shed, salt brine tanks, fuel storage and runoff from trucks and equipment to the creek, relocation to Building 7 would appear to simply shift the hazards from the creek to storm sewers.

It also would appear that no detailed risk assessment and mitigation study has been conducted and that no emergency preparedness plan exists should an unavoidable event take place.

Engineering Department

Page 2 of the report mentions that Building 7 has "...the added benefit of sufficient available office space to accommodate staff from the Engineering section as well."

It does not address what will become of the space currently occupied by Engineering staff on the second floor of Victoria Hall.

Repurposing of Existing Facility

The report states that the existing Public Works yard can be transferred to the control of the Marina for use as boat storage with additional uses such as heated rentable shop space with an income projection for full occupancy in excess of \$70,000. However, it makes no mention of ongoing utility, maintenance and insurance (including liability insurance) costs on either a vacant or fully occupied basis. Even on a full occupancy basis, net income is likely to be a loss.

Furthermore, it makes no mention of the various logistics of moving boats, particularly larger ones from the Marina to the existing King St. facility.

Lost Opportunity Costs - Building 7

A map of the Northam Industrial Park indicates that Building 7 is a 35,844 sq. ft. facility. While the property has sat empty for approximately five or more years, the proposal does not factor in potential lost opportunity costs by removing it from available leased space at Northam Industrial Park. Based on lease costs of, say, \$4.50 sq. ft. net, net, net, the annual lost opportunity cost is \$161,298 plus recovery of Municipal, County and Education property taxes.

It is noteworthy that Building 7 is not included in the Town of Cobourg's Inventory of Available Lands and Buildings.

The issue of the Building 7 vacancy raises a separate, important concern about the difficulty in filling the existing vacancies at Northam Industrial Park with private sector tenants and the future financial implications for taxpayers should vacancies continue to increase over the next several years. It also raises the question of whether the Town's Economic Development strategy requires an urgent makeover.

Options

The report is focused exclusively on a joint operations facility at Building 7. It does not even attempt to examine other options, such as partial relocation, the build of a new facility either at the current location or elsewhere, competitive tendering of some or all of the Public Works and Parks service delivery or the sharing of some services and facilities with the Town of Port Hope or Hamilton Township.

Life Expectancy

At the March 24, 2014 meeting when then Councillor Miriam Mutton asked about the expected life of the Building 7 facility, the Director of Public Works indicated they were planning for a period of 10 years.

On the other hand, page 7 of the current report says that Building 7 will provide a well-functioning facility that can serve the combined operations an estimated 15 – 20 years without significant additions. Our interpretation is that while the Building 7 facility will be adequate for staff and equipment storage needs for a 15 – 20 year period, this does not speak to the issue of the life expectancy of the building per se or the additional cost for extending life expectancy over various timeframes.

Financial Costs

The report does not provide any information on the amortization period, interest rate variables, debt servicing and principal repayment costs over the term of the new debt of \$2,790,000.

Nor is there a detailed breakdown of how the \$2,637,000 for Building 7 refurbishment, including site work, is arrived at and what the \$120,000 in fixtures and equipment (over and above the total construction estimate of \$3,033,000) specifically would cover. A breakdown would allow Council to review the cost of each component

Schedule 61 of the 2013 Financial Information Return indicates a closing balance of \$5,790,173 in the Development Charges Reserve Fund. Schedule 74 attributes outstanding long-term outstanding debt of \$4,158,444 to Parks (presumably all or most of this amount relates to the CCC), which is being funded through Development Charges.

This suggests that between the CCC and the \$960,000 portion of the Building 7 project cost to be funded through Development Charges, the Development Charges Reserve Fund will substantially be depleted.

No detailed operating budget for the Building 7 facility has been provided which can be compared to existing costs, nor does the report address the potential for any additional capital costs for future repairs or replacement during the life expectancy of the facility

The construction contingency of \$132,000 or 5% of the estimated refurbishment costs appears low and the estimate provides no escalation allowance beyond January 2015.

Cost/Benefit Justification

Identified savings are minimal at best. While staff projects an annual savings of \$65,000, they appear to be nothing more than guesstimates and are not supported by any detailed analysis. In fact, the report acknowledges that “efficiencies that are expected to result from the project would be difficult to project in financial terms.”

We fail to see any cost/benefit justification for Council to approve the proposal as currently drafted.

Timing of Request

From outside Town Hall, it looks like there is a rush by the Public Works Director and CAO to approve this \$3.75 million project weeks before the 2015 Budget is known and the Strategic Plan is finalized.

In the previous March 24, 2014 Public Works Report staff recommended that Council move forward with this project immediately to avoid future cost should any of the identified risks and liabilities occur which could easily overshadow the costs involved in developing the new facility. Here we are a year later and the earlier report has simply been recycled with no compelling Business Case and little in the way of additional information.

Council needs to consider the magnitude of the project in terms of not only the overall 2015 Budget but also its priority and need in the context of the 2015-18 Strategic Plan and the inability and unwillingness of taxpayers to support higher taxes.

2013 Workforce Count

2013 Municipal Workforce Profile	Full-Time Funded Positions	Part-Time Funded Positions	Seasonal Employees	Total
	1	2	3	4
	Employees of the Municipality	#	#	#
Public Works	21		7	28
Parks and Recreation	22		42	64
Total	43	0	49	92
Total Municipal Workforce	154	95	80	329
% of Total	27.92%	0.00%	61.25%	27.96%

