

February 6, 2012/ For Immediate Release

Capital budget report - Fire Halls

AIRDRIE, ALBERTA – At the City Council meeting on Monday, February 6, 2012, city manager Paul Schulz presented a report with details of budget and cost projection errors in the combined capital project to build two fire halls – Kings Heights and Chinook Winds locations. The report also outlined how the shortfall in funds can be covered with no impact on the tax base.

“When overages in project costs were identified through financial controls already in place, we immediately undertook a detailed investigation of all aspects of project management, budget, financial reporting and procurement processes,” said city manager Paul Schulz. “Although this is a significant oversight, the error confirmed that our financial controls do work and gave us the ability to track the error back to the point of origin.”

Through the process of review, it was determined that a significant error was made regarding cost projections used in the May 2010 Council report.

- \$756,000 - cost of the site work done by City crews (which otherwise would have been part of the construction contract cost)
- \$216,000 - cost of fibre installation for Main Fire Hall (separate approved budget did not exist)
- \$300,000 - future engineering costs (estimated cost)

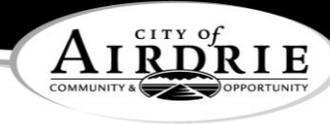
The report recommends that the \$1.2MM in additional costs included on the Kings Heights and Chinook Winds capital budget be funded with AMIP grant dollars. Savings in 2011 capital projects, switching grant funding for roadway projects and earned grant interest have worked towards freeing up the necessary dollars.

Five contributing factors were identified in the review including the budget manager, project team, change order management system, procurement system triggers and budget adjustments. Recommendations include eight administrative controls and four project status and financial reporting items.

Both fire stations were built as Leadership in Energy and Efficiency Design (LEED®) Silver shadow projects, which means that they are built using the principles of LEED design and construction but don't follow the formal certification process. Sustainable features include:

- Daylight harvesting through Sola Tube interior light system
- Low watt fluorescent interior lights
- LED exterior lights
- Low VOC (volatile organic compound) finishes
- Operable windows for fresh air and to decrease the use of air conditioning
- Lots of windows to decrease daytime use of artificial lighting

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- Rain Water harvesting for exterior irrigation
- Low water use plantings
- Solar Heated Water as the primary source of hot water
- Additional insulation to prevent heat/cold transfer
- Low E glass to prevent heat build up

“The Chinook Winds location is our new fire headquarters and has a few extra features like space for training and the ability to house the Emergency Operations Centre in crisis or disaster response situations,” says Kevin Weinberger, Fire Chief, Airdrie Fire Department. “We are very proud of this facility and look forward to inviting the community to the grand opening in the spring.”

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Backgrounder

Review Recommendations

The error in determining the required budget amount is recognized as the primary factor in the situation. Other factors contributed to the error such as the lack of internal controls over the construction change order process. A standard form for detail reporting for major construction projects will greatly assist in providing assurance levels to the project team, Directors, Procurement and Financial Services.

As a result of the review, eight administrative controls and four project status and financial reporting recommendations will be implemented.

Administrative Controls

1. **Major construction project control sheet** – A standard control sheet will be required for all major capital projects (constructions projects and/or span multiple budget years). The control sheet will ensure actual costs are captured, purchase orders are managed and cost projections are made for all projects elements. Financial data included on this standardized form will be reviewed by the Project Team regularly.
2. **Change order process** - Formal procedures for issuing, approving and processing Change Orders will be established and communicated to all budget managers. If required, the Procurement Policy will be revised to address Change Orders.
3. **Change orders** - An internal change order approval document will be developed. Project Managers will be responsible for preparing the document. All change orders must be approved by the Director responsible for the capital project. Documents will be forwarded at the time of approval to Procurement for inclusion in purchase order.
4. **Review the budget warning process** – the review will include exploring options available around the financial system functionality as well as the process used when the warning is received.
5. **Budget adjustments** – Finance will ensure that budget adjustments between projects are completed when the expectation exists that overages in one will be covered by another. Council resolutions will clearly include this requirement.
6. **GL Accounts** - Finance will inactivate all general ledger accounts for completed capital projects.
7. **Training** - Finance will provide additional training for buyers regarding general ledger accounts and budgets. This will allow Procurement to verify the account code entered on the purchase order and confirm that the expenditure is being coded to the correct budget account.

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- 8. **Personnel Performance Measures** – appropriate performance management measures have been initiated in accordance with City of Airdrie human resources policy.

Project Status & Financial Reporting

- 9. **Project team responsibility** - The Project Manager will provide regular financial updates to the Project Team comparing projected costs to budget.
- 10. **Monthly status updates forwarded to CPT** – On a monthly basis, CPT will receive an update on all major capital projects. It is the responsibility of the project manager to prepare this information for CPT. The new project control sheet will assist with this process.
- 11. **Enhance quarterly reporting** – Finance will begin using committed balances within quarterly reporting. A method of holding a month end commit amount will need to be determined. Finance will develop a more comprehensive quarterly variance reporting system for capital projects.
- 12. **Monthly exception reporting** – More frequent financial reviews would have resulted in bringing this problem to light earlier. Finance Services will explore preparing monthly exception reports in addition to quarterly budget reviews.

Budget Timelines

	Council Approved Budget	
Main Fire Hall		
January 2007	400,000	Design
January 2008	10,400,000	Construction
May 2010	-1,000,000	Budget Reduction – dollars moved to fund 23 East Lake Hill project
January 2011	400,000	Furniture and equipment (both halls)
Total Budget	10,200,000	
Kings Heights		
January 2009	3,150,000	Design and construction
January 2009	208,000	Fibre
November 2011	11,000	Fibre cost increase – approved budget adjustment covered by savings from server replacement
Total Budget	3,369,000	
Combined Projects	13,569,000	

Funding Recommendations

Administration is recommending that the \$1.2MM in additional costs included on the Kings Heights and Main Fire Hall capital budget be funded with AMIP grant dollars.

Savings in 2011 capital projects, switching grant funding for roadway projects and earned grant interest have worked towards freeing up the necessary dollars.

- The primary source of funding for these two projects is AMIP grant dollars
- Roadway projects can be funded with either AMIP or Basic Municipal Transportation Grant (BMTG) dollars
- The 2012 capital budget calls for MSI funding for the 23 East Lake Hill project. A 2012 MSI Grant application can be prepared and submitted to cover funds previously planned through AMIP.
- AMIP grant funding ceased in 2010 and according to the grant agreement needs to be fully expended prior to 2015.

AMIP Grant Funding	
Uncommitted balance in AMIP grant (interest revenue)	\$200,000
Fund carry-forward roadway projects through BMTG	231,910
Savings - Platform Aerial Truck	138,000
Move funding for -2011 carry-forward for 23 East Lake Hill capital budget to MSI grant stream	706,000
Total Available AMIP funding	\$1,275,910

MSI Funding – (cover cost of 23 East Lake Hill)	
Savings –Yankee Valley Sound Wall –under budget plus additional interest from north interchange grant	\$63,000
Savings – Replacement of Fire Pumper	23,000
Savings – Plainsmen	
• Under budget	120,000
• Reduced scope	510,000
• Additional RinC grant	<u>110,000</u>
○ Total	<u>740,000</u>
Total Available MSI funding	\$826,000

The recommendation has no impact on the 2012 approved capital projects nor does it have any impact on the tax base.

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