

Chapter 3

Department of Transportation and Infrastructure

Centennial Building

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Department of Transportation and Infrastructure Centennial Building

Introduction

3.1 Infrastructure is a key enabler for future economic growth and stability. The Department of Transportation and Infrastructure’s mandate is “to contribute to New Brunswick’s economy and quality of life by providing and supporting sustainable infrastructure (...).”

3.2 Several recent Auditor General Reports have looked at the government’s management of the Province’s critical infrastructure assets. This has included reports on highway maintenance, bridges and schools. From this work some common themes or findings have emerged such as government’s short term approach to the management of long lived assets, failure to plan and budget for full life cycle cost, and an inability to rationalize non-essential assets.

3.3 The government report, “Government Renewal Project #8: Space Utilization and Sharing Arrangements, Final Report October 28, 2011”, states: “After staffing salaries, office space typically accounts for the largest expense in most office based organizations”. This report also stated that the “footprint of government office space has increased continually in the Province for over 44 years.”

Background

3.4 The Centennial Building located at 670 King Street in Fredericton was built in 1966 and opened for Canada’s centennial in 1967. It was one of a number of capital projects across the country completed in partnership with the Federal Government. At the time it was intended to “streamline the efficiency” of government. The building is located in downtown Fredericton adjacent to the Legislature. It centralized government functions and departments in close

proximity to the legislature.

3.5 It was our understanding that Chancery Place at 675 King Street was built to replace Centennial Building or allow it to be fully refurbished. However, after Chancery Place opened we noted that the Centennial Building continued to be partially occupied by government employees and no demolition or refurbishment of the building took place. Images of Centennial Building and Chancery Place are found in Appendix I.

Objective

3.6 Our objective for the work was to report on government infrastructure planning for the Centennial Building in Fredericton, associated financial impact on provincial taxpayers, and the current status of the facility.

Results in Brief

Objective	
To report on government infrastructure planning for the Centennial Building in Fredericton, associated financial impact on provincial taxpayers, and the current status of the facility.	
Questions	Our Findings
1. <i>What is the status of Centennial Building?</i>	<ul style="list-style-type: none"> • Past its useful life and in need of major refurbishment or demolition. • Must be fully vacated for refurbishment to occur. • As of August 2015 the building was partially occupied with no firm decision or plan for its future.
2. <i>Was a comprehensive plan done and did it align with an overall strategy?</i>	Yes, since 2004 the Department of Transportation and Infrastructure drafted several options for the Centennial Building, and included a proposed overall office space strategy for provincial government offices in Fredericton.
3. <i>Did the Department consider economy (optimize costs to save money overall)?</i>	Yes, part of the proposed 2010-11 strategy involved ways to consolidate office space and save money over the long term.
4. <i>Were all options presented (i.e. the option and potential cost of deferring a decision) and was a recommendation made?</i>	No, plan scenarios did not include a status quo option (i.e. doing nothing or the financial risks in delaying a decision.)
5. <i>What actions and decisions have taken place?</i>	<ul style="list-style-type: none"> • 2007 - Decision to have the City of Fredericton construct Chancery Place. • 2011 - New office building (Chancery Place) purchased. Change from temporary space to a permanent move. • 2013 - Centennial Building partially vacated. • 2014 - Centennial Building used as a temporary location for new downtown health clinic. • 2015 - No final decision on the future of the Centennial Building.

Results in Brief - (continued)

6. <i>Did the decision and commitment to build and then purchase Chancery Place include a decision and commitment on Centennial Building?</i>	No, the Department approach throughout has been to get approval for short term “next step”.	
7. <i>What has been the financial impact?</i>	Capital cost of Chancery Place	\$54 million
	Estimated capital cost to refurbish Centennial Building	\$60 million
	Operating costs of Centennial Building	\$1 million/yr
	Opportunity cost of vacant space	\$3.2 million/yr
	Renovation cost to temporarily house health clinic	\$218,000
	Estimated savings over a 40 year useful life upon renovating Centennial Building (not being achieved)	\$176 million/40 years
8. <i>Why was Centennial Building not completely vacated?</i>	<ul style="list-style-type: none"> • Chancery Place had insufficient space for all occupants of Centennial Building. • The Department was not given the funds required (\$2.4 million) for relocation costs and to renovate suitable office space to accommodate staff not moved to Chancery Place. 	
9. <i>Why were new occupants allowed to move in after Centennial Building was supposed to be vacated?</i>	Because Centennial Building was still partially occupied with no definite plan or timeline for its future, it became the logical choice to satisfy any urgent provincial government space requirements in downtown Fredericton.	
10. <i>What other impacts have there been in the continued operation of Centennial Building?</i>	Expansion of government’s office space footprint and continued operation of an inefficient building in contravention of the government’s own climate change action plan.	
Conclusion		
- Government has not followed a long term infrastructure plan in management of government office space.		
- Government focused on short-term decisions		
- There have been nine years of government indecision on the future of the Centennial Building. It continues to cost millions of taxpayer dollars.		

Scope and Approach

- 3.7** In conducting this work we:
- interviewed Department staff;
 - conducted on site walkthroughs; and,
 - examined internal Department documentation as well as government decisions pertaining to the infrastructure management of the Centennial Building.
- 3.8** We did not audit the Department's plans and financial analysis. We looked to ensure the plans and analysis existed and were reasonably prepared. For information relating to the condition of the building and its components, we relied on information provided to us by Department representatives based on their technical knowledge, including third party expert reports.
- 3.9** Certain financial and statistical information presented in this chapter was compiled from information provided by the Department of Transportation and Infrastructure. It has not been audited or otherwise verified. Readers are cautioned that this financial and statistical information may not be appropriate for their purposes.
- 3.10** We completed our work in August 2015. We did not conduct our standard performance audit with objectives and audit criteria in this situation where our line of inquiry was very specific to the Centennial Building. Instead we sought to obtain answers to a series of questions relating to the capital asset management of the Centennial Building. The answers we found appear in the sections that follow.
- Recommendations** **3.11** A summary of our recommendations can be found in Exhibit 3.1.

Exhibit 3.1 – Summary of Recommendations

Recommendation	Department's response	Target date for implementation
<p>3.57 To facilitate a government decision on the future of the Centennial Building, we recommend the Department present government with an updated cost analysis of potential options for the facility, including the “do nothing” option.</p>	<p><i>Following presentation of a MEC in September 2015, the Department was asked to return to Board of Management with updated options for the Centennial Building. The Department is working [with] the Department of Finance to have these options to present to Board of Management by December 31, 2015.</i></p>	<p><i>December 31, 2015</i></p>
<p>3.58 We also recommend the Department implement a moratorium on new modifications, fit-ups and new occupants in the Centennial Building until a decision on its future has been made.</p>	<p><i>This moratorium has been in place since early 2015.</i></p>	<p><i>Implemented</i></p>
<p>3.59 We further recommend the Department proceed immediately to implement government's chosen option for the facility.</p>	<p><i>Please see response to 3.57. The Department is including in its Capital Budget submission this fall, funding to complete emptying the Centennial Building and [commence] work associated with the selected option.</i></p>	<p><i>Pending approval of 2016-2017 Capital Budget</i></p>
<p>3.60 We recommend one central authority within government be assigned control over the provision and management of all government office space, with the mandate and authority to fully enforce office space allocation and acquisition policies.</p>	<p><i>The Department agrees with the recommendation and intends to bring forward recommendations to Board of Management by March 31, 2016 that would strengthen the Space Allocation Policy and the Space Acquisition Policy in the AD Policy Manual by authorizing DTI to fully enforce compliance to these policies.</i></p>	<p><i>MEC by March 31, 2016</i></p>
<p>3.61 We recommend, for future infrastructure projects, the Department request comprehensive approval from government, including any removal from service, disposal and or demolition of surplus infrastructure rather than having a piecemeal approval process not supported by the original business case.</p>	<p><i>The Disposal of Real Property policy [AD-6204] in the AD Administrative Manual has been presented to and approved by Board of Management. The amended policy includes provision to reduce holding costs associated with disposing these assets through the use of a cost-benefit threshold tool which helps determine the optimal approach for dealing with surplus properties containing a building or buildings.</i> <i>The cost to dispose of redundant assets is also now included in the Capital Budget Submission when replacements are being recommended.</i></p>	<p><i>Partially implemented</i></p>

What is the status of Centennial Building?

3.12 The Centennial Building in its current condition is past the point of its useful life. It requires complete renovation in order to serve as a safe, secure location for government employees.

3.13 As of August 2015 the Centennial Building had the following deficiencies:

- The building contains significant quantities of asbestos. The remaining asbestos does not pose an immediate hazard to occupants if left undisturbed. It cannot be removed while the building is occupied because this would create a serious health risk for staff;
- Mechanical systems are past their useful life and are at risk of breaking down causing expensive emergency repairs or expensive last minute relocation of occupants. Many of these systems are original equipment (Appendix II);
- The cooling unit and boiler have been replaced but are again at the end of their useful lives and need to be replaced;
- It is not energy efficient. The exterior wall has air and water leakage. This causes condensation and water damage on the interior window sills; and,
- Centennial Building does not meet current building code standards. This does not pose an immediate threat to the remaining occupants but like many older buildings any renovation work would require Centennial Building to be brought up to current building code standards. This includes upgrades to the life safety systems, which includes the sprinkler system and modifications to the building's load structure.

3.14 The Centennial Building remains open and partially (32% see Appendix III) occupied. However, it must be completely vacated before needed renovations can be performed.

3.15 Air quality assessments have been done in response to concerns and complaints about indoor air quality. Tests conducted in 2013 and again in 2015 indicated air quality was within acceptable standards.

3.16 Centennial Building is heated from a centralized steam heat plant which is adjacent to the building. This heating plant uses an oil fired boiler with in ground oil storage tanks. Further complicating the situation, a number of other buildings rely on

the Centennial Building heat plant for their own steam heating. These include: the Beaverbrook Art Gallery, the Crowne Plaza hotel and the Legislature. The Crowne Plaza pays/reimburses the Department for their own usage.

3.17 The Centennial Building is located in zone B of the City of Fredericton's well field protection zone. This places restrictions on in ground oil storage tanks. The Province has received an exemption and must continue to apply for this exemption while Centennial Building has the in ground oil storage tanks.

Was a comprehensive plan done and did it align with an overall strategy?

3.18 Yes. Over the last ten years there have been numerous reports, briefings and memorandums and several versions of a plan produced.

3.19 The following points summarize the main themes from these documents:

- The Centennial Building is at the end of its useful life;
- A decision on whether to refurbish it or demolish it is required;
- The building must be vacated whether it is decided to demolish or refurbish it; and,
- Net cost savings can be realized from replacing office space leased from the private sector with government owned office space.

3.20 We reviewed documentation that indicated the Department began planning and first made government aware of the issues in 2004.

3.21 During the initial planning in 2004 to 2006, an analysis of the available office space in Fredericton was done. It found there was insufficient leased space available to accommodate all occupants of Centennial Building. A recommendation was made that a new office building be constructed or purchased in partnership with the City's conference center development. This new office building was to be used as swing space to temporarily house staff from Centennial Building while Centennial Building was refurbished.

3.22 In 2006 the government was presented with a high level plan and options. It included a proposed time line:

- 2006-2008: build a new building;
- 2008: empty Centennial Building;

- 2008-2010: refurbish Centennial Building; and,
 - 2010: move occupants into Centennial Building as private sector office space leases expired in Fredericton.
- 3.23** However, the plan and timeline were not adopted and the decision was deferred.
- 3.24** Government has not adopted an overall strategy for office space in the City of Fredericton although a draft policy was put forward by the Department in 2010. It included specific objectives for the construction of Chancery Place, vacating Centennial Building, and a plan to reduce the overall cost of government office space. The strategy also sought to address a number of issues the Department was facing that included:
- aging infrastructure and deferred capital maintenance requirements;
 - use of government premises by non-government and non-profit organizations;
 - disposal of surplus properties;
 - future space needs of government;
 - own versus lease policy for government office space; and
 - sustainable development.
- 3.25** The strategy was not adopted by government. An updated five year strategy was recently put forward but was amended by government to focus on the short term (one year).

Did the Department consider economy (optimize costs to save money overall)?

- 3.26** Yes, the Department repeatedly sought to find cost efficiencies by attempting to coordinate and consolidate office space requirements in Fredericton and find the most cost efficient allocation of owned and leased space.
- 3.27** A comprehensive business case involving the future of Centennial Building and leased office space in Fredericton was prepared in 2010-2011.
- 3.28** It covered the financial impact of six potential courses of action ranging from demolition to a full refurbishment of Centennial Building. Analysis included potential net cost savings from consolidating some leased space into newly constructed/renovated government owned space.
- 3.29** The business case option that predicted the highest net benefit financially was to fully renovate Centennial Building and then move government offices out of old converted

residential buildings and other leased space in downtown Fredericton into the newly renovated Centennial Building. The business case projected \$176 million in savings over the 40 year useful life of the newly refurbished Centennial Building.

3.30 Due to delays in completing Chancery Place and relocating Centennial Building offices and staff, along with lack of a firm decision from government, none of the projected savings have been realized to date. In the plan, timing was critical and construction and completion times were initially designed to coincide with the natural expiry date of privately leased office space. Because the timing of the original plan was not adhered to these leases were renewed and the window of opportunity for those projected savings closed.

Was the opportunity cost of delay considered?

3.31 No. Plans presented to government over the last ten years related to the future of Centennial Building and government office space in Fredericton. None of the plans analyzed the risks and opportunity costs of the “do nothing” option. This was effectively the chosen option due to government indecision.

3.32 The longer the Centennial Building continues to be occupied without refurbishment, the greater the likelihood that a critical building system will fail. For instance failure in a component of the air handler system, which is required for both heating and cooling, would mean either expensive emergency repairs or equally expensive emergency relocation of staff. There would be no residual value to such a repair when the building is subsequently refurbished or demolished.

3.33 In addition, part of the bottom floor of Centennial Building has been renovated to house, on a temporary basis, a new downtown Fredericton health clinic at a cost of \$218,000. Should the Centennial Building be fully refurbished, or when the health clinic moves to its new location in 2016, the \$218,000 renovation costs will be sunk costs with little, if any, future value.

What actions and decisions have taken place?

3.34 Government made a final decision late in 2007 to construct a new office building in partnership with the City of Fredericton. The building, Chancery Place, formed part of the downtown conference center development. It was to be leased

by government with an option to purchase it from the city and was to serve as swing space to allow the Centennial Building to be vacated.

3.35 However, the Department did not obtain a long term capital plan approval for work on the Centennial Building site at the same time. The result was that no final decision was made on the future of Centennial Building even though a capital commitment had been made for Chancery Place.

3.36 In 2010, the government confirmed that “Chancery will be designed as swing space until the refurbishment of the Centennial Building is completed”. This inferred that a decision had been made to refurbish the Centennial Building although the Department could provide no record or reference of such a decision.

3.37 Subsequently, government decided that staff to be relocated to Chancery Place from the Centennial Building would stay there permanently. This change in plan after the building was substantially completed caused a further delay in completion of Chancery Place.

3.38 In March 2011, government decided to purchase Chancery Place.

3.39 In 2013, Chancery Place opened allowing Centennial Building to be partially vacated.

3.40 In 2014, a downtown health clinic opened in the bottom floor of Centennial Building.

3.41 In 2015, government authorized \$2.4 million over two years for relocation costs and for renovations to existing vacant and underutilized government space to allow the remaining occupants (excluding the health clinic) to vacate Centennial Building. The health clinic was excluded from the \$2.4 million as there is a separate plan to relocate the clinic to its permanent location in a newly constructed building.

3.42 However, as of the completion of our work in August 2015, no final decision has been made on the future of the Centennial Building.

What has been the financial impact?

3.43 For over two years the government has owned and operated two large office buildings in downtown Fredericton. There has been no accompanying reduction in the amount of private leased space to offset the increase in building operating costs or

the capital cost of the new building. There has been a \$300,000 or 23% decrease in Centennial Building's annual operating costs to \$1 million (excluding heating plant oil costs of \$442,000 attributed to heat the Art Gallery, Legislature and Crowne Plaza).

3.44 The vacant office space in the Centennial Building has a market value of about \$3.2 million per year based on the cost of private office space leased by government. Over the two years since the Centennial Building was partially vacated, government indecision has cost tax payers \$6.4 million in foregone savings.

3.45 The capital cost of Chancery Place was initially authorized to be \$39 million plus \$5 million for fit-up costs, \$44 million in total. As a result of the change in use and the delays in completing its construction, the actual capitalized fit-up costs were \$14.6 million for a total capital cost of \$53.6 million.

3.46 Further delays in making a decision may increase the cost to fully refurbish Centennial Building, which is now estimated to be \$60 million. These increases result from changes to building codes and increases in the cost of labour and materials.

Why was the building not completely vacated?

3.47 The replacement office building, Chancery Place, at 140,000 sq. ft. is smaller than the Centennial Building. The shortfall was to be made up in part by asking Departments to pare down their own space requirements, eliminating a cafeteria and numerous meeting rooms and a press gallery. The rest of the difference was going to be made from securing alternative locations for the remaining occupants that weren't going into Chancery Place. This was known in advance and planned for by the Department.

3.48 However, until 2015 the Department did not receive the funding (\$2.4 million) to renovate alternative space and relocate those remaining occupants who could not be accommodated in Chancery Place.

Why were new occupants allowed to move in after the Centennial Building was supposed to be vacated?

3.49 Because it was still partially occupied with no definite plan or timeline for its future, Centennial Building became the logical choice to satisfy any urgent provincial government

space requirements in downtown Fredericton.

3.50 For example, shortly after the move to Chancery Place, government was searching for a temporary location in downtown Fredericton for a health clinic. Centennial Building had vacant space and was government owned and controlled making it the most expedient option. Consequently part of the bottom floor of Centennial Building was fitted up at a cost of \$218,000 as the temporary location of the new downtown health clinic. This decision was made at an interdepartmental level and not solely by the Department of Transportation and Infrastructure.

3.51 It is our observation the Department is accountable for but lacks control over government office space. It develops strategies and is tasked with managing the infrastructure to achieve efficiency and cost reductions but it does not have the authority to enforce those strategies. A recurring issue faced by the Department has involved groups or departments moving into vacant space created by rationalization, contradictory to Department plans.

3.52 A similar point was raised in the 2011 report on Space Utilization and Sharing Arrangements. In it a recommendation related to governance was made that the “governance structure should clearly identify one organization which is responsible for the management of space used by the Province of New Brunswick”. The report went on to say the organization responsible “must be empowered with the tools to enforce the overall plan of government as it relates to space usage.”

What other impacts have there been in the continued operation of Centennial Building?

3.53 By constructing a new building and failing to do anything with the old building the Department is not fulfilling parts of its commitment to its climate change action plan. For example:

- Government committed to enforce space standards with a view to reducing the footprint of government in the area of total space requirements and associated amenities;
- Government also committed to switch from burning oil to heat public sector buildings to using cleaner fuels such as natural gas and renewables. The Centennial Building continues to be heated through an oil-fired heating plant.

Conclusion

3.54 Government has not followed a long term infrastructure plan in managing government office space.

3.55 A business case was developed to support capital spending and rationalize associated assets and lease costs. However, government failed to fully implement a long term plan and instead focused on short-term decisions.

3.56 There have been nine years of government indecision on the future of the Centennial Building. It continues to cost millions of taxpayer dollars.

Recommendations

3.57 To facilitate a government decision on the future of the Centennial Building, we recommend the Department present government with an updated cost analysis of potential options for the facility, including the “do nothing” option.

3.58 We also recommend the Department implement a moratorium on new modifications, fit-ups and new occupants in the Centennial Building until a decision on its future has been made.

3.59 We further recommend the Department proceed immediately to implement government’s chosen option for the facility.

3.60 We recommend one central authority within government be assigned control over the provision and management of all government office space, with the mandate and authority to fully enforce office space allocation and acquisition policies.

3.61 We recommend, for future infrastructure projects, the Department request comprehensive approval from government, including any removal from service, disposal and or demolition of surplus infrastructure rather than having a piecemeal approval process not supported by the original business case.

Appendix I: Images of Centennial Building and Chancery Place

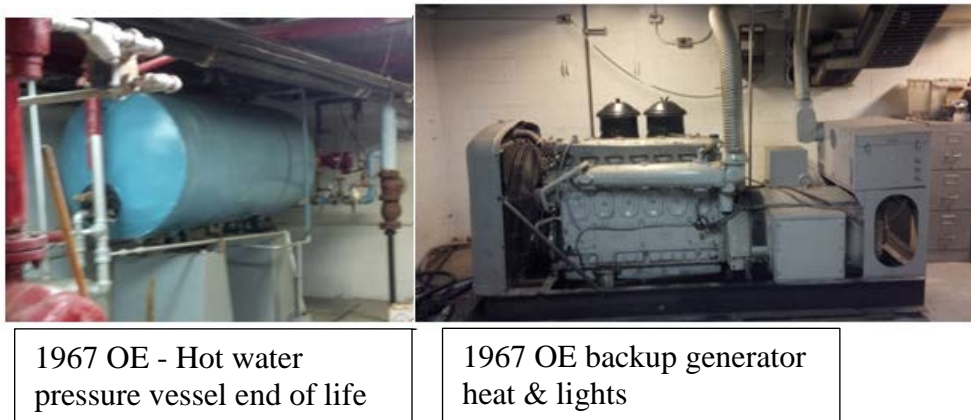
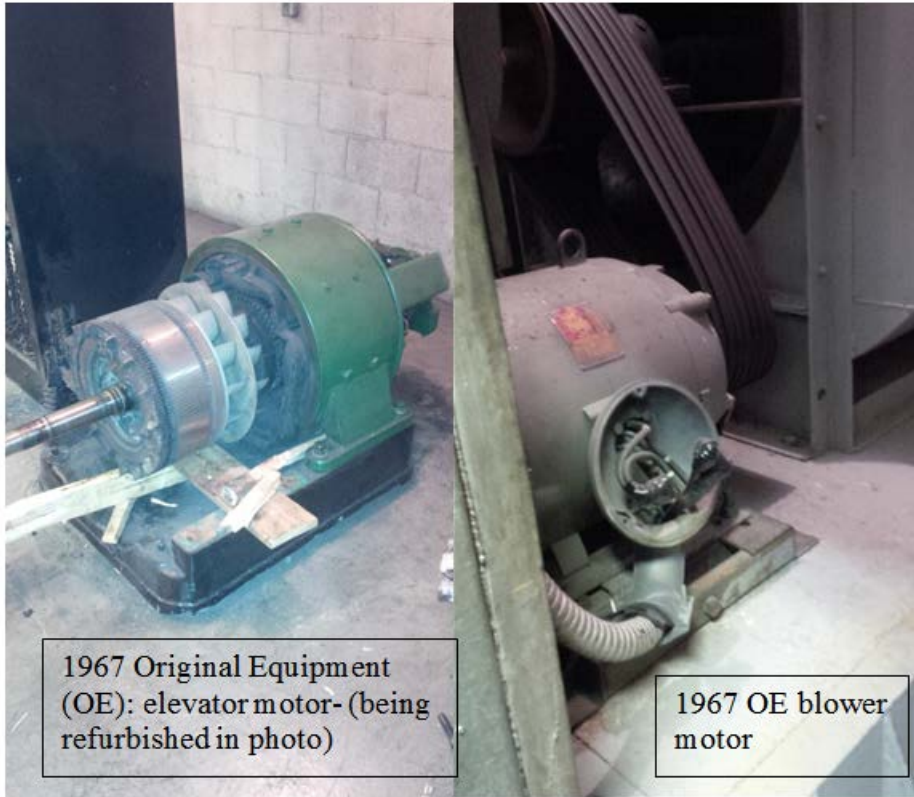


Centennial Building

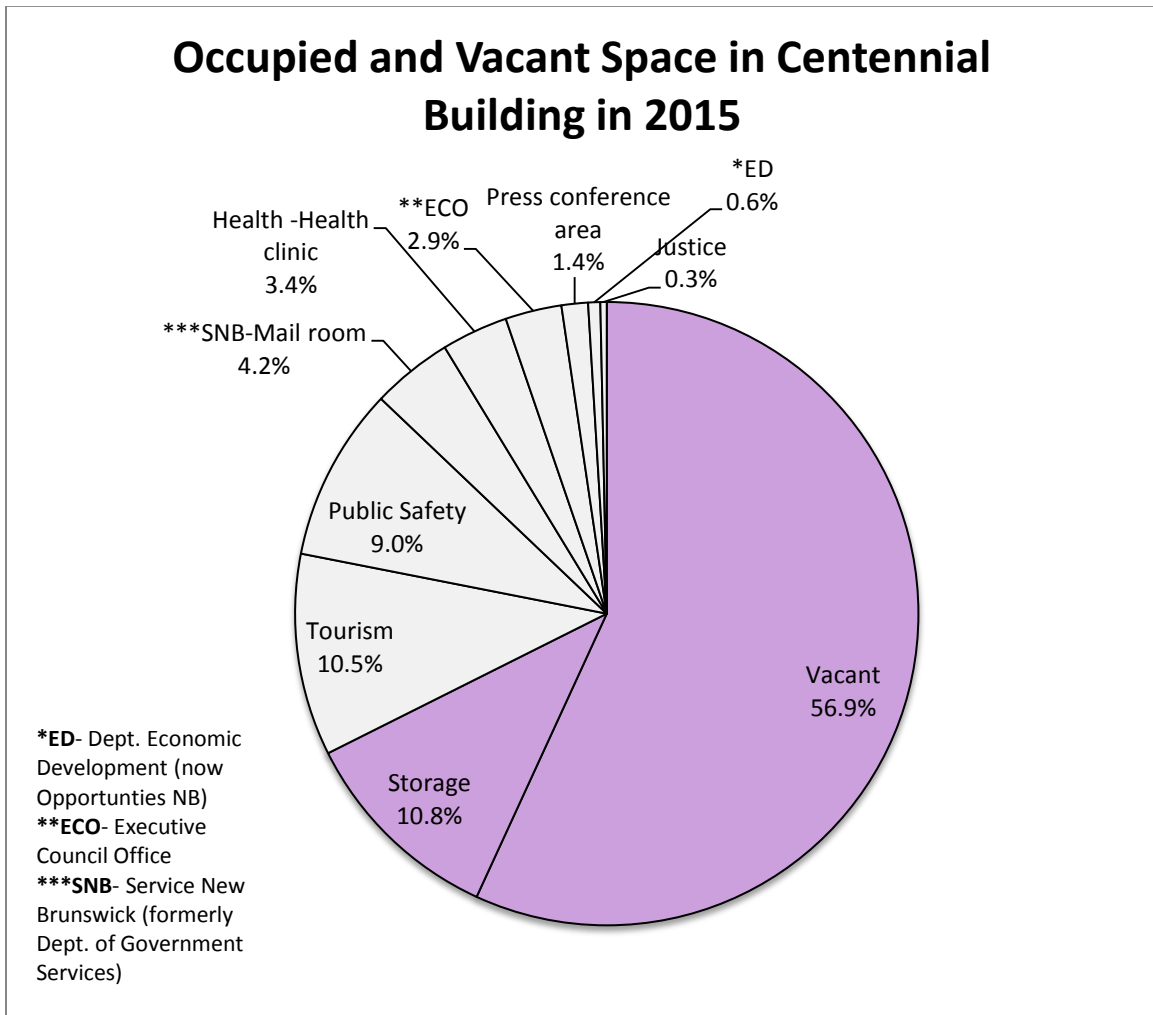


Chancery Place

Appendix II: Examples of Centennial Building Original Mechanical Equipment



Appendix III: Breakdown of Occupied and Vacant Space in Centennial Building in 2015



Source: Exhibit prepared by AGNB from the Department of Transportation and Infrastructure Centennial Building floor plans