SUMMARY REPORT

BUILDING KNOWLEDGE

BC HOUSING
RESEARCH CENTRE

This case study series highlights what worked, challenges, lessons learned, and outcomes, regarding several key components of the SRO Renewal Initiative (SRORI). Series topics include: heritage restorations, tenant relocation during renovation, hazmat issues and exploring Public Private Partnership (P3 model). This information may be used to help improve processes for those considering P3 or renovation projects.

SROs provide single-room accommodation, usually with shared bathrooms and kitchens. In partnership with non-profit operators, provincially-owned SROs offer on-site supports such as 24-hour staffing and referrals to community support services to help residents maintain their housing and, as appropriate, move along the housing continuum. Rent in provincially-owned SROs is typically the shelter allowance portion provided by income assistance.

SRO Renewal Initiative Series:

Public Private Partnerships

Since 2007, the provincial government has purchased or leased 24 Single Room Occupancy hotels (SROs) in the Downtown Eastside (DTES) and surrounding area to preserve affordable housing for low-income people at risk of homelessness. At time of purchase, many SRO hotels were approximately 100 years old, needing substantial repairs. In 2011 BC Housing announced SRORI to begin renovation and restoration of 13 provincially-owned SRO hotels starting in 2012.

Case Study Purpose

This case study examines BC Housing's first experience using the P3 model. This study highlights what was achieved as a result of using the P3 model rather than a traditional procurement model, and the learnings are also captured.

NOTE: A more detailed report outlining specific SRORI challenges amplified by the P3 model, mitigation strategies, and lessons learned is also available online at www.bchousing.org.

SRORI Objectives

- **Support and facilitate revitalization of Vancouver's DTES through job creation, safer streets, healthy communities and improved living conditions**
- **Provide satisfactory accommodation for 900 people within the next 10 years**
- **Provide flexibility to meet future demand and to reduce the number of people at risk of homelessness in DTES**
- **Reduce BC Housing's unfunded liabilities and increase the useable life of the SROs by more than 25 years**

This initiative was the first P3 project through the P3 Canada Fund under the Brownfield Redevelopment infrastructure category. According to P3 Canada[1] , P3s are a long-term, performance-based approach to procuring public infrastructure, where the risk associated with the development (e.g. over-runs, schedule delays, unexpected maintenance and latent defects) are taken on by the private sector. The private sector assumes the risk because they are engaged in a bundled contract for the life of the asset and are responsible for ongoing operations and maintenance to ensure the quality of the original construction. Governments do not pay for the asset until it is built and operational. A substantial portion of the contract is paid over the long term, and only if the asset is properly maintained and performs well. The lifetime cost of the asset is known upfront, so taxpayers are not responsible for costs that arise unexpectedly during the contract period.

The Government of Canada contributed up to $29.1 million through the P3 Canada Fund towards eligible construction and implementation costs for SRORI. The Province contributed $87.3 million toward construction and implementation costs and provides additional funding over a 15-year maintenance period.

1 http://www.pppcouncil.ca/

Methods

Research was conducted by BC Housing's Research and Corporate Planning in 2017. Data was collected through:

- Key informant interviews with BC Housing staff involved in SRORI
- Key informant interviews with representatives from the private-partner consortium (Project Co) and P3 Canada
- SRORI document review

Gastown Hotel and Interior

Benefits and Positive Outcomes

All interviewees reported that the P3 model used for SRORI helped achieve SRORI goals. Interviewees pointed to benefits and positive outcomes for residents, building operators and the building owner that were specifically linked to the P3 components of SRORI.

Residents, Building Operators, and Building Owner

Many interviewees felt the SRO renovations would not have gone ahead if the P3 model had not been pursued. P3-enabled renovations to the buildings resulted in numerous positive benefits for the residents, building operators and the building owner including:

- Residents and building operators now have safe, clean, functioning buildings and units they are proud to work in and call home
- Building lay-out is more functional for residents
- Buildings are safer because of structural and seismic upgrades
- Buildings are healthier because they are hazmat and rodent-free
- Operational and maintained elevators
- Buildings have better visual lines improving security and safety for both residents and staff
- It was reported that more functional buildings led to improved relationships between residents and staff, as tension around the conditions of the buildings was reduced
- Renovated buildings are easier and more functional to work in with more appropriate space for on-site supports (such as nursing and programming spaces)
- No subsidized units were lost and building life was extended, ensuring continued subsidized housing for those in need. In fact, the number of subsidized units increased because two of the buildings that temporarily housed residents while units were being renovated, were later renovated and are now operated by non-profit societies as subsidized housing
- Available funding keeps the buildings in good repair. As part of the P3 model, maintenance funding is set aside based on a maintenance plan

Stakeholder Roles

BC HOUSING	• Building owner • Organized RFP/Q • Selected contractor • Managed contract • Liaised with non-profit operators • Liaised with resident relocation consultant • Provided technical support
PROVINCE OF BC	• Funder • Set initiative goals
FORUM	• Funder relations • Contractor management • Funder
P3 CANADA/ PARTNERSHIPS BC	• Funder • Provided advice on setting up contracts and risk transfer
AMERESCO	• Contractor selected for project design and construction
BLACK AND MCDONALD	• On-going facility maintenance
NON-PROFIT OPERATORS	• Building operations • Resident relations • Providing input from building user perspective
RESIDENT RELOCATION CONSULTANT	• Resident relations

Financial Benefits

- The Province accessed 25% of the overall funds needed during construction funds needed from P3 Canada ($29 million)
- Risk is transferred to the private partner creating a fixed cost for taxpayers
- Economies of scale related to the bundling of numerous buildings into one project result, including the following:
  - Reduced administrative costs related to procurement and contracting were achieved compared to putting each project out through an individual RFP
  - Early project development learnings from earlier in the project can be applied to building scheduled later in the project because the private partner was responsible for managing multiple building renovations, rather than having separate project teams manage the renovations of each building

Beacon Hotel

- Incentivizes the private partner to be proactive about reducing long-term maintenance costs
- Being responsible for ongoing facility maintenance incentivizes the private partner to consider long-term maintenance of the buildings
- The facility maintenance contract provides building owners with mostly fixed costs for building maintenance over the contract period (NOTE: Building owners are still responsible for supervening events beyond the scope of the facility maintenance contract)

Factors of Success

Interviewees reported the P3 model enabled many of the benefits and positive outcomes of the SRORI because the P3 model involves:

- Mandated risk transfer to the private partner
- Key requirements, challenges, and issues were identified up front, ensuring a clear process for addressing unanticipated issues
- Assistance and expertise from P3 Canada and Partnerships BC
- Contracting with only one private partner rather than multiple suppliers (with the P3, all involved suppliers are sub-contractors of the private-partner entity facilitating communication and reducing administrative costs)
- Having maintenance pre-funded and planned because long-term facility maintenance is considered in the design phase

Interviewees identified strategies that contributed to the success of the P3 model:

- Had open communication amongst stakeholders for clarification
- Held frequent and regular stakeholder meetings
- Had a strong BC Housing technical team that knew the project requirements well, and were able to quickly resolve technical issues around design and construction processes

- Identified clear project goals and stakeholder commitments to help keep discussions focused when resolving issues
- Ensured additional swing space procured by the project partner, beyond what BC Housing secured
- Consulted with non-profit building operators in the design phase
- Invited non-profit building operators to all meetings regarding their buildings to ensure they were updated on schedules and renovation plans
- Hired resident relocation consultants to look after resident communications to help residents understand the process and the relocation schedule
- Ensured the project team met regularly with the resident relocation consultant to provide updates on moving schedules and delays
- Allowed residents and non-profit building operators to walk through buildings as construction completes to see what it looks like and to generate excitement about returning to the building
- Developed a working group with the City of Vancouver to gain a better understanding of municipal requirements and to facilitate permitting and rezoning.

Challenges, Mitigation Strategies and Lessons Learned

There were challenges that were both anticipated and unanticipated during SRORI. Many of these related to construction issues rather than the P3 model. However, certain aspects of the P3 model amplified challenges that emerged during SRORI, including the risk transfer component, the high volume of building renovations with accelerated timelines and managing multiple stakeholders.

Risk Transfer: As risk is transferred to the private partner under the P3 model, the cost of unknown renovation issues can result in the private partner losing money. P3 projects typically involve new construction, with fewer unanticipated issues compared to renovation projects (especially the renovation of 100-year-old buildings). Project delays and other unanticipated construction issues can make it difficult for bidders to accurately estimate costs and schedules, as well as properly assess risk going into the project. Because of the risk transfer component, some private partners may find the project too risky to bid on, especially if they feel there are too many project unknowns.

Bundling of Building Renovations: Unanticipated construction delays have a costly domino effect on schedules when buildings are bundled under the P3 model. Also, there can be supervening events as buildings wait their turn for renovations that can lead to additional costs for the government or to private partners.

High Volume of Building Renovations with Accelerated Timelines: To meet funder requirements, P3 models typically involve tighter timelines compared to traditional procurement projects. As well, because the P3 model involves the bundling of building renovations, there is a higher volume of renovation work in a shorter time period. This higher volume of renovation work can overwhelm municipal permitting departments which can lead to costly project delays.

Multiple Stakeholders: A P3 project typically involves more stakeholders than a traditional procurement model. More stakeholders involves more project communication updates and more meetings compared to a traditional procurement model. In the case of SRORI, these meetings were needed to keep everyone on the same page, especially since each stakeholder brought their own set of expertise to the project. Municipal governing authorities and their review jurisdictions may need to be considered when planning for a project of this size. Multiple departments and branches may be required to review the work and coordination may impact the project schedule and costs.

Cordova Residence

Conclusions

Based on the learnings of the SRORI experience with the P3 model, interviewees identified the following considerations for future P3 projects:

- There is good value for money for government and tax payers using the P3 model and it could be pursued again as appropriate
- It is more difficult to do a P3 project with renovations than with new construction, as there are more unanticipated costs and risk transfer is challenging to manage
  - This can lead to innovative solutions, but can also result in financial losses for the private and government partners
- The facility maintenance component of the project is greatly beneficial, as it incentivizes high-quality construction, the use of durable materials, and sets out a mostly fixed-price maintenance plan to ensure buildings remain in good condition
- For future projects, could consider longer facility maintenance contracts
- Funding may still be required to cover wear and tear beyond the scope of the facility maintenance contract
- Although the P3 model involves additional up-front administration to get a robust contract in place, it is well worth it if there are a critical mass of buildings involved in the project, as only one contract needs to be set up and it can be used as a guide to address unanticipated issues and disputes that arise
- The bundling of projects under the P3 model means one team does the work on all project buildings, which allows the project team to apply learnings and best practices from earlier projects making later projects more cost and time efficient
- The condition of the buildings needs to be thoroughly investigated in advance of the procurement process to allow bidders to properly assess the risks and develop budgets, as well as ensure the language in the contract transfers risk as clearly as possible to the private partner, avoiding additional charge-backs to the owner
- Buildings need to be maintained while waiting for renovations to avoid additional charges to the owner
- Working groups with the municipality and utilities help ensure requirements are clear and projects are not delayed due to scheduling difficulties with inspections, permits and utilities set-up.
- Frequent, regular and honest communication with all stake-holders is essential to resolve disputes and keep the project on schedule
- Cash allowances could be used to help reduce the risk for the private partner and make it more appealing for teams to bid, especially on older building renovation projects where there is more likely to be unanticipated costs

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