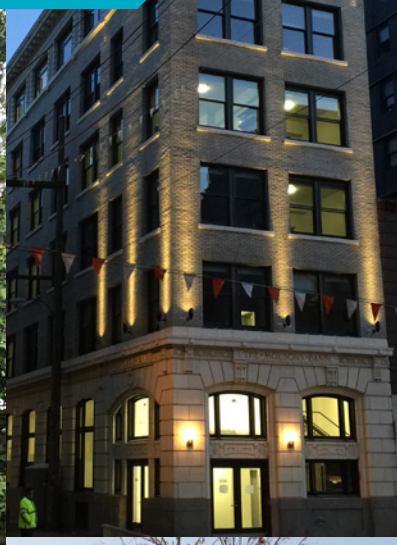
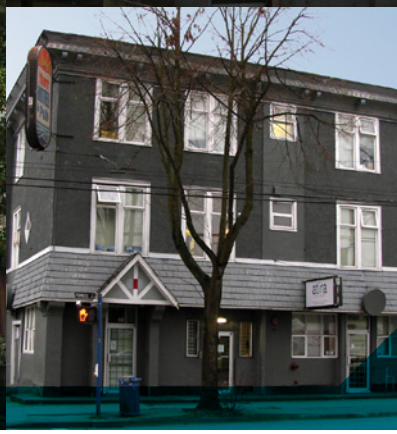
November 2018

SRO Renewal Initiative Series

Public Private Partnerships Case Study





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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.

Since 2007, the provincial government 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.

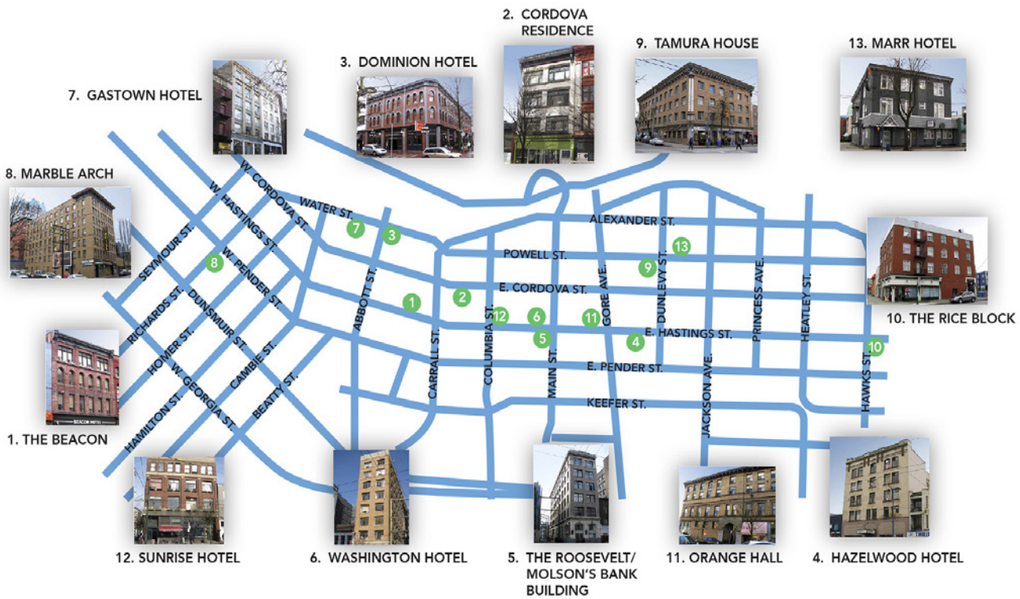
This initiative was the first P3 project through the P3 Canada Fund under the Brownfield Redevelopment infrastructure category. According to P3 Canada[1], P3s are a long-term, performance-based approach to procuring public infrastructure, where the risk associated with the development (e.g. overruns, 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. The project agreement included a social development component for skills training and employment opportunities equivalent to 60-person years for DTES and Indigenous community members over the construction period.

1 http://www.p3canada.ca/en/about-p3s/

Case Study Purpose

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



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**

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

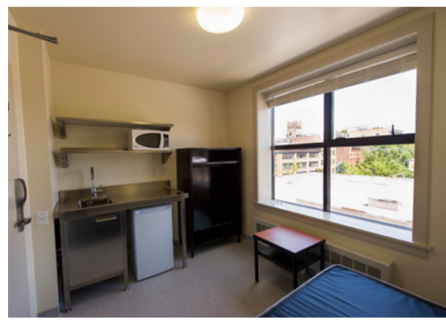
Benefits and Positive Outcomes

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



Gastown Hotel and Interior

Cordova Residence

Beacon Hotel

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 P3 model made the project financially viable because the Province accessed 25% of the overall funds needed during construction from P3 Canada ($29 million). Cost efficiencies are further achieved because project risk is transferred to the private partner creating a fixed-price for taxpayers, as well as achieving savings from economies of scale related to the bundling of buildings into one project. Also, the P3 model incentivizes the private partner to be proactive with regards to reducing long-term maintenance costs.

Access to Federal Funding: The federal government provided funding upfront through P3 Canada, a federal agency set up to contribute funding to innovative P3 projects. This contribution reduced service payments over the life of the project for the province, making the project viable within the available funding constraints. Without the P3 Canada funding, BC Housing would not have been able to leverage this contribution or access the additional $29 million to make this project feasible.

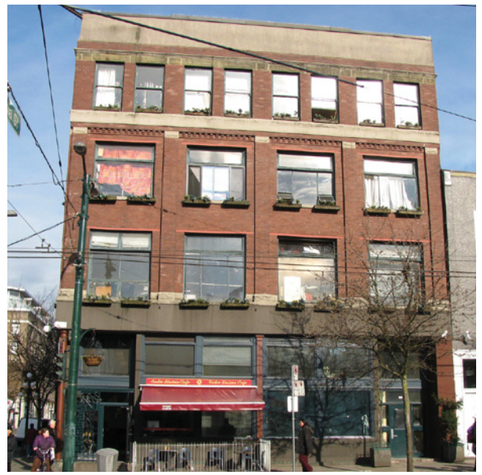
Transfer of Risk to Private Partner to Keep Project Costs Fixed: The P3 model allowed taxpayers to get strong value for money. The model transfers much of the financial risks associated with unanticipated costs to the private partner. Under a traditional procurement model, the building owner is responsible for costs related to unanticipated issues. Under the P3 model, the contract for design, construction, and maintenance is a fixed-price contract. For example, during SRORI, mosaic floors and heritage ceilings were discovered once the buildings were under renovation. These elements would have been very costly for BC Housing to restore, but under the P3 model these costs were the responsibility of the private partner. Unanticipated costs such as these are part of the risk transfer component of the P3 and the responsibility of the project partner. The private partner would not take on the fixed-price risks if not for the P3 structure, which bundles buildings into one project and awards the partner an on-going maintenance contract. The P3 model also incentivizes the private partner to deliver on time, as buildings open and became operational, this triggers a building opening payment.

Economies of Scale Due to Bundling of Buildings: The bundling of building renovations through the P3 model resulted in cost savings and time efficiencies due to economies of scale. Efficiencies were realized in upfront administrative costs related to procurement and contracting compared to putting each project through an individual RFP. As well, the private partner was responsible for managing multiple building renovations, rather than having separate project teams manage the renovations of each building. This also allows for applying learnings from buildings completed early in the schedule, saving time and money on the remaining buildings. While the RFP requested the project be completed within five years, the winning bidder proposed to complete the project in three years (it was ultimately completed in four). It is estimated that the renovations of the 13 buildings would take 10 years under a traditional procurement model.

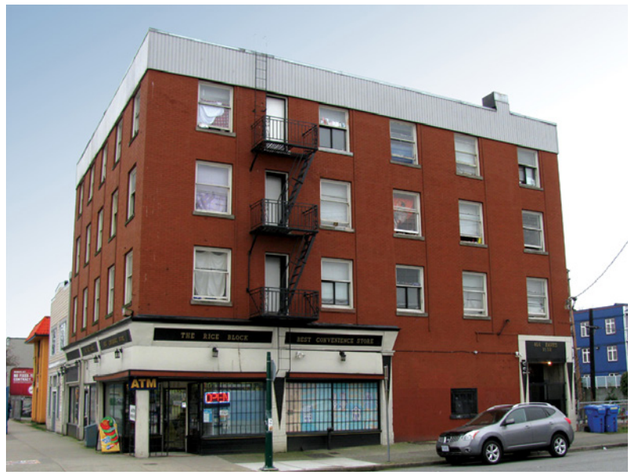
Long-Term Maintenance Costs: Being responsible for on-going facility maintenance incentivizes the private partner to consider long-term maintenance of the buildings, not just meeting building codes but also the quality of construction. The facility maintenance team was involved in the design process, and the designs and materials selected considered long-term maintenance of the building. For example, higher-quality materials were used and creative ideas were incorporated such as bringing flooring partially up the wall to limit damage in the event of flooding or pest infestations. The facility maintenance contract with the private partner means the building owner has mostly fixed costs in terms of building maintenance over the period of the contract, although they are still responsible for supervening events that are beyond the scope of the facility maintenance contract.

STAKEHOLDER GROUPS	SUCCESSES, BENEFITS AND POSITIVE OUTCOMES AS A RESULT OF P3 MODEL
Residents	• Safer homes • Sense of pride in their homes • Improved spaces for on-site supports and programming
Non-Profitsvv	• Safer workspace • Sense of pride in workspace • More functional space • Reduced tension with residents over building condition • Buildings will be well-maintained for the next 15 years
BC Housing/Taxpayers	• Helped leverage funding necessary for project to go ahead • Government got strong value for money • Could maintain same number of subsidized units and increased the number of subsidized units available • Mostly fixed-maintenance costs for next 15 years • Faster timelines for renovations

Marr Hotel



Sunrise Hotel



The Rice Block

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

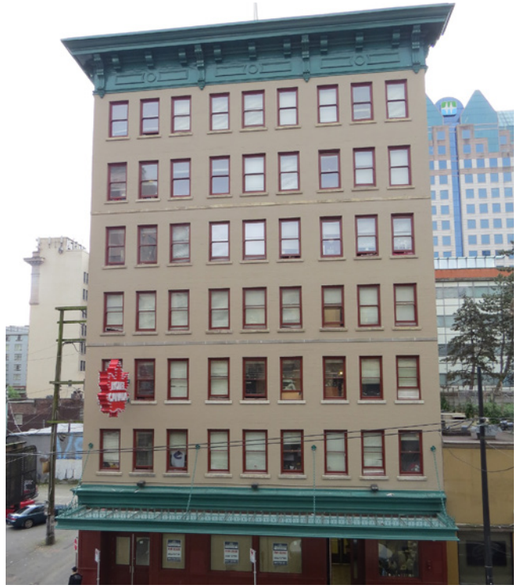
Interviewees also identified further strategies that contributed to the success of the P3 model:

- 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 project risk. 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.

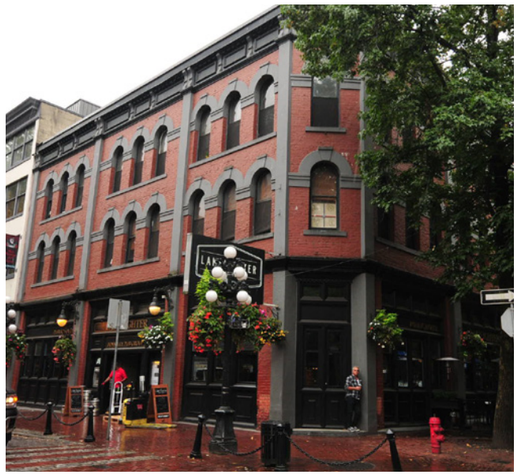


Hotel Canada

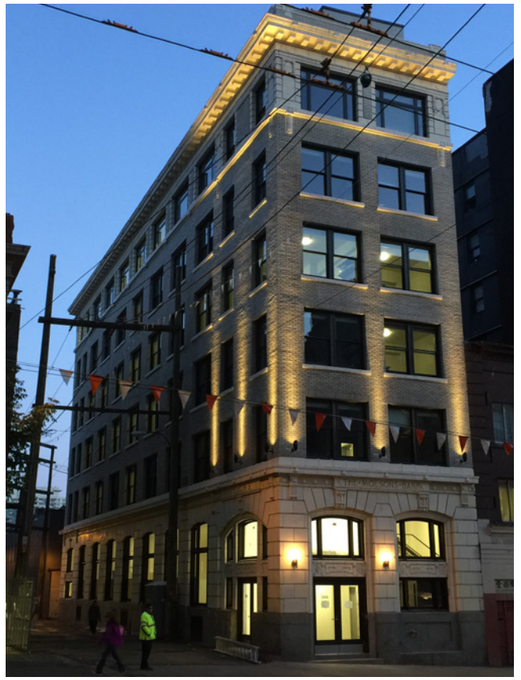
Bundling of building renovations: Unanticipated construction delays have a costly, domino effect on schedules when buildings are bundled under the P3 model. Also, there can be supervening events as buildings wait their turn for renovations that can lead to additional costs for the government or to private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



Dominion Hotel



Roosevelt Hotel

Maple Hotel

The Tamura

Specific challenges that were anticipated or that emerged during SRORI and amplified by the P3 model are discussed below, along with the implications of those challenges, how the P3 model contributed to those challenges, strategies in place to mitigate expected challenges, and the lessons learned for future P3 projects.

SRORI CHALLENGES	IMPLICATIONS OF CHALLENGES	P3 CONTRIBUTORS	MITIGATION STRATEGIES (what was done)	LESSONS LEARNED (what could do in future)
Renovation project rather than new construction • This was the first P3 involving renovations rather than new construction • The buildings were approximately 100-years-old • Plans for the buildings were not kept up-to-date and changes to the building over time were not documented (e.g. there had been a fire many years back in one of the buildings and no records of repairs) • There were many unknowns in terms of the condition of the buildings that could not be known until walls were opened up • Buildings were occupied while bids and contracts were put together, so units could not be taken back to their structure to get a better sense of what might be behind the walls • Buildings were not up to code due to their age • There were requirements from the City that weren't anticipated, especially when renovating older buildings (e.g. soundproofing)	• Did not have details of actual internal dimensions of buildings (details were guesses by owners and based on limited destructive testing) • Led to unknown costs that private partner had to absorb (e.g. seismic, structural, heritage, hazmat, old oil tanks discovered, water tanks with rust and corrosion, asbestos, mould, etc.) • It may have been more economical to build a purpose-built product rather than renovate, but with new- builds bylaws requiring units be at least a certain square footage would have applied, leading to a loss of units	• Risk transfer • Bundling of renovation projects	• Owner undertook destructive testing and drilled bore holes into key spots to examine the underlying structure and mechanical components of the buildings to help inform the RFQ/P specs and contracts • Bidding teams were invited to walk through the buildings during the RFQ process • Private partner went into the project knowing there would be unanticipated issues once the walls were opened, so built contingencies into contracts • To ensure risk for unanticipated issues was transferred to the private partner, the contract stipulated reports be taken as is and the private partner would not get any relief if the reports were incorrect • Facility maintenance contracts had to reflect that though the buildings were fully renovated, not every component would be new (e.g. some floors might still slope) • Issues were addressed through prudent contract management, a dedicated project team and ongoing communication • Risk transfer had to be balanced enough for lenders to be willing to invest	• Detailed destructive testing where possible would better inform construction scopes to ensure owner is not responsible for unanticipated costs due to incorrect assessments of building condition • Language in project agreement needs to be clear and descriptive to ensure the owner is not left responsible for certain costs due to lack of clarity • Would be ideal to have two or three units per building vacated and gutted right down to structure to discover what is behind the walls, so bidding teams would have more information about the actual condition of the buildings • Cash allowances could be expanded to seismic, hazmat, and heritage-related issues to reduce risk for the private partner and make it more appealing for teams to bid (e.g. During the SRORI project, bidders could not accurately price costs associated with addressing rot, so a cash allowance was provided where the private partner was responsible for rot related costs up to a certain amount and any expenses above that amount were covered by the owner) • Explore whether the City would be willing to provide variances on unit size for new construction in future to prevent loss of units for redevelopment of subsidized housing • Some interviewees felt there could have been more opportunities to transfer additional risks to the private partner

SRORI CHALLENGES	IMPLICATIONS OF CHALLENGES	P3 CONTRIBUTORS	MITIGATION STRATEGIES (what was done)	LESSONS LEARNED (what could do in future)
Condition of buildings deteriorated while waiting for renovations • Buildings were renovated through a phased approach, so some projects were not handed over to the construction team until several years after the contract was signed • Some building maintenance was deferred in hopes of saving costs and since they would soon be renovated. (e.g. mould issues were not remediated and spread)	• Led to additional construction issues, costs and delays from original budget • These costs were charged to BC Housing, as BC Housing was responsible for costs related to supervening events	• Risk transfer • Bundling of renovation projects		• Ensure buildings are maintained as well as possible until they are handed over to partner to limit unanticipated construction issues and costs • Alternatively, assign buildings to the private partner at financial close to maintain the buildings until renovations begin
Permitting and utility connection delays • There were delays in getting permits (e.g. sprinklers, plumbing and electrical • So many buildings needing utility connections under tight timelines overwhelmed the utility providers	• Could not seal up walls until the permits were issued, which led to overall project delays and additional costs • Utility workers were not available to set up connections when the buildings were ready to be operational, which led to costly occupancy delays	• Risk transfer • Bundling of renovation projects • High volume of buildings with quick timelines	• BC Housing created a working group with the City, so the City was updated on scheduling • Developed an agreement with the City Inspector to ensure that work continued as long as walls were not sealed until inspected • A working group was set up with third-party utility providers to ensure updates on scheduling to avoid costs due to delays in setting up utilities • P3 Canada explained the P3 process to the City	• Trade permits are difficult to get, so a working group to expedite could help keep project on schedule
Unclear expectations from the City at time of bidding • Some requirements from the City were not well defined as teams were preparing bids (e.g. seismic requirements) • Some requirements from the City conflicted (e.g. the Heritage Department wanted the staircase at Marble Arch to be maintained as a heritage component, but the Building Department said the staircase was not to building code and needed to be replaced)	• The lack of clarity around seismic upgrade requirements at the shortlist phase, combined with other unknown risks, resulted in one of the three short-listed proponents walking away and caused concern for those that stayed in the running • Time was required to resolve conflicting requirements	• Risk transfer • Bundling of renovation projects • High volume of buildings with quick timelines	• The City could have forced the partner into completing all of the seismic upgrades, but came up with a 30% solution, which they will likely use for future similar projects (i.e. occupants can exit safely, but building is not required to be left usable after an earthquake – similar to what is being done with older schools that don't meet current seismic requirements) • The City hired a seismic engineer to approve plans • A City liaison (a municipal employee) was put in place to identify City requirements and resolve conflicting regulations	• Owner and the City should agree upon seismic requirements in advance of releasing the RFQ to help bidding teams understand the risks and to inform bids • During RRQ stage, release technical aspects to help firms understand the risk transfer – make sure Project Agreement requirements are included in the pre-qualification documents to prevent firms from walking away due to concerns about unquantifiable risks

SRORI CHALLENGES	IMPLICATIONS OF CHALLENGES	P3 CONTRIBUTORS	MITIGATION STRATEGIES (what was done)	LESSONS LEARNED (what could do in future)
Covering unanticipated maintenance costs post-occupancy • Abnormal wear and tear cannot be planned for	• BC Housing and non-profits are responsible for any wear and tear beyond the existing facility maintenance contracts with the private partner	• Risk transfer	• The Facility Maintenance provider has a plan of what on-going maintenance is required, which clearly lays out what the private partner is responsible for financially over the term of the maintenance contract	
Learning curve for BC Housing related to doing first P3 • BC Housing and design/construction team was learning about the P3 model every step of way (e.g. how the process worked, what the owner's responsibilities were versus the private partner, etc.) • The size of this P3 project was small compared to other P3 projects, with some buildings that could have been included not, but still a large number of buildings incorporated for BC Housing's first P3 experience	• Economies of scale weren't fully maximized • Bundling of so many buildings for the first P3 involving renovations led to unexpected challenges that affected all 13 buildings • BC Housing was under-staffed to manage the design, construction, and administrative components of 13 projects at once • Two supervening events were challenged by BC Housing and went to arbitration, which found in favour of the private partner in all cases	• Bundling of renovation projects • Many stakeholders	• Through regular, honest communication and a strong commitment to relationship-building between the owner and private partner (even though strained at times), the parties were able to work through most issues as they emerged and maintain good will	• If BC Housing were to do another P3 in future, would have project agreement templates already in place and could build on the learnings to improve efficiencies and effectiveness • More BC Housing staff could help to manage the project • Arbitration could have been avoided if BC Housing had received more on-going advice on contracting issues from Partnership BC throughout the project rather than just during the contract development phase or perhaps could have someone in-house who had worked on a P3 contract before) • Could be less prescriptive in the procurement process to allow bidding teams to come forward with innovative ideas to improve the project • Could build in longer concession period for facility maintenance (25 years) • Could incorporate more energy performance specifications (adds costs) • Could have brought more buildings into the project to benefit from economies of scale • Knowing what they know now, the design/construction team would have a robust bid, but may not be selected as their bid would be much higher

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 stakeholders 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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