

A Public - Public - Private Partnership in Qualicum Beach

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May, 2002

*Town of Qualicum Beach
Town Hall/Library/Public Plaza Initiative*



***Advanced Certificate in Municipal Management
Submission of a Case Study
To The Board of Examiners***

Subject: A Public-Public-Private Partnership in Qualicum Beach

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EXECUTIVE SUMMARY

MY INVOLVEMENT

As project manager representing the corporation of the Town of Qualicum Beach I was involved in every aspect of the P3 Town Square/Library development from negotiating the details of the legal contractual documents with the developer and solicitor to designing office spaces with the Architect and builder. My involvement is further detailed in this document under the heading 'Obstacles to Overcome'.

PROJECT NEED

The genesis for the project was the commissioning of a programming/space needs study that identified the need for 12,000 square feet of office space with the municipal staff at that time occupying approximately one-half that amount in 2 separate buildings. The Vancouver Island Regional Library also conducted a space needs study that stated the library also required a doubling of space to serve the growing population of the district.

PROJECT COMPONENTS

The Town Square complex includes Municipal offices, Committee/Council Chambers, Policing offices, Library, commercial space, public washrooms, underground parking and a public square.

PROJECT OVERVIEW

The Municipality transferred Town owned lots to the developer to build the aforementioned buildings and structures. The developer purchased the old Town office for \$440,000 and constructed 8,000 square feet of new commercial space that he owns fee simple. The Town utilized \$560,000 in off-street parking reserve funds contributed by other commercial developments to purchase the underground parking structure.

This \$1,000,000 total reduced the \$3,000,000 capital project down to \$2,000,000 and the Municipality will pay back this balance over a 10 year period through a capital lease with the developer. The Town, in turn, sub-leases 6,000 square feet of this space to the Library and the developer commercially leases an additional 2,000 square feet over the 10 year period that was built for the library future expansion area.

The public square/park was constructed by the developer on a lot owned by the Town between the Town Hall/Library building and the developer's 8,000 square foot commercial building. In August 2007 the Municipality will receive title to the Town Hall/Library building for \$1.00.

A PUBLIC-PRIVATE PARTNERSHIP IN QUALICUM BEACH

INTRODUCTION

The Town of Qualicum Beach has experienced a growth rate in excess of 6% per year during the past 40 years. Increasing in population from just over 700 people in 1961 to an estimated 7,500 in 2001. As the community grew over the years, the municipal office facilities originally constructed in 1955 and expanded in 1976 had become too small. The building inspection and public works staff were relocated to another building in 1993 and this led to inefficient and ineffective service delivery to the public.

In keeping with its no general debt policy, Town Council began to study its options for funding a new building. After careful review, Council selected the public-private partnership route in order to secure private sector participation in developing a larger multi-use facility.

WHY USE A PUBLIC PRIVATE PARTNERSHIP?

A public-private partnership is a method of partnering between the public and the private sectors for the construction, supply, or operation of a facility or a service which has been traditionally procured by government itself. There are 2 key factors involving in establishing successful public-private partnership:

- providing for optimum risk transfer to the private-sector partner; and
- ensuring value for money to the public

These partnerships are becoming more common due to cost savings which utilize private-sector experience, specialized equipment, labour efficiencies, competitive bidding, and transfer of risk to the private sector. One of the important considerations to Councils in choosing this type of procurement process is the protection it offers if the project goes over budget. The municipality will not be responsible for the cost overruns.

EVOLUTION OF THE PROJECT

In 1988, the Town began to assemble parcels of land adjacent to the existing Town office located in the downtown core for the new municipal office facilities. A 1994 study determined the space requirements of the municipal office and a reserve account was established to begin to set aside funding for construction. By that time, the Town had also been advised that the Vancouver Island Regional Library wished to expand its

library facilities in Town, which were originally built in 1978. This led to the public-public component of the ultimate partnership. Later in 1994, the initial concept plan for a multi-purpose complex was presented to the public.

During 1994 and 1995 I assembled as much information on the P-3 procurement process as I could, including attending various P3 seminars. In July 1995, Council decided to embark on the library/Town hall project and Town staff, working in partnership with specialist advisors and consultants, prepared terms of reference for the selection of a private-sector partner.

Council's preferred submission received from the short listed proponents was presented to the public in March 1996. Details of the partnership between the public and the private sector partners and the Town of Qualicum Beach were discussed with representatives of the two Resident's Associations, the executive of the Chamber of Commerce and citizens who attended an open house format public information meeting. Contract documents were then executed and construction of the project began in August 1996. The Town Hall/Library portion of the project was completed in September 1997.

PROJECT COMPONENTS

The project has been divided into two components. A public and a private component.

The public component, known as the Town Square complex, includes:

- new municipal offices
- new policing offices
- a new council chamber and committee room
- a new public library with provision for expansion
- public washrooms
- an underground public parking lot; and
- a public square to serve as focal point for the community

The private component of the project includes:

- commercial space within the Town square complex; and
- new commercial space on the site previously occupied by the former municipal offices.

DETAILS OF THE PARTNERSHIP

The partnership agreement called for the Town to transfer the land for the Town square complex to the private-sector partner who designed and built the Town Square complex, including all on-site and off-site servicing.

When the new building was completed, Town Council and staff moved from the old municipal offices into the new premises. Building inspection, engineering, and public works staff relocated to the new municipal office from their previous temporary location. The library relocated to the new library location from another municipally-owned building. The Town leases the Town square complex from the developer for 10 years and the Town, in turn, subleases to the library. The Town makes lease payments to the contractor and at the end of the lease, the Town will acquire the Town Square complex for \$1.

Once the Town Square complex was occupied, the old municipal office site was sold, at market value, to the private-sector partner. The contractor then redeveloped that site into retail, restaurant, and other commercial space.

ANALYSIS OF THE FINANCIAL BENEFITS

The Town had originally budgeted to spend a total of \$4.1 million over 14 years to construct a new municipal office complex. Working with a private sector partner reduced the total cost of the Town Square complex to just over \$3 million. That amount was further reduced to just over \$2 million after subtracting the proceeds from the sale of the old municipal office site and offsite parking payments received from commercial developers that funded the underground parking structure.

On an annual basis, anticipated costs have been reduced from an average of \$290,000 to under \$170,000. This has been accomplished by:

- the capital cost reductions previously mentioned;
- the proceeds from the lease of the library premises; and
- the taxes from the commercial space located within the Town Square complex.

This \$120,000 in annual savings is now used to fund other Town projects. The proposal resulted in the public receiving the benefit of the new facility in year 1 and paying for it over 10 years instead of the 14-year period previously anticipated. In addition, the Town will continue to receive library lease payments beyond year 10, even though the facility will be paid off after 10 years.

Finally, the Town received revenues from the following sources which further reduced its overall cost of the project. These were

- approximately \$235,000 in development cost charges paid by the contractor to the Town;
- an estimated total of \$280,000 for off-site improvements (covering permit fees and actual construction costs); and
- property taxes from the private commercial buildings located on properties that were previously tax exempt.

OTHER PROJECT BENEFITS

In addition to the financial benefits noted above and the significant risk transferred to the private-sector partner, the following are some of the other advantages of this project:

- The area was revitalized by providing more public open space, new sidewalks, trees, ornamental street lighting and underground utilities.
- A new larger modern library facility is now provided for the use and enjoyment of the citizens of Qualicum Beach and surrounding district.
- Council chambers are vastly improved and public capacity expanded to better facilitate Council meetings and other meetings. (ie., Restorative Justice)
- Commission meetings previously held at the Civic Centre are now held in the new municipal offices thus making available for rent space at the highly sought Civic Centre.
- Improved efficiencies and convenience for the public is now provided once again by having all Town departments in the same building.
- The new building is designed to serve as the Emergency Operations Centre in the event of a disaster.

OBSTACLES TO OVERCOME

1. *council endorsement of the P3 process and project.*
2. *assembling the required property*
3. *public support for the new Town Hall project*
4. *budget approval from the Vancouver Island Regional Library Board*
5. *tendering and selection process*
6. *legal contractual documents for leasing and property transfer*
7. *finalizing detailed building specifications*
8. *working with developer*
9. *compliance with budget constraints*

1. COUNCIL ENDORSEMENT OF THE P3 PROCESS AND PROJECT

The Council of the Town of Qualicum Beach was involved in the project from the beginning by concurring with staff's foresight by endorsing the purchase of parcels of land adjacent to the old Municipal Office beginning in 1988. To

confirm staff and Council's need for improved/expanded Municipal Office facilities I received the approval of Council to commission a space needs study in 1994 to determine the square footage required for the new facility. My contacts in Courtenay enabled the Town to save money by hiring the same company that had just completed a similar space needs study for that municipality.

At this time, Council was envisioning the traditional method of construction - hire an architect to design the building, produce construction drawings, and to then tender to contractors to build the building. Working with the Councillor (soon to be Mayor) assigned to this project we did extensive research into the P3 process and experiences of others involved in public-private partnership projects. This process took a full year from the date of the completion of the space needs

study, but by this time Council was unanimous and unwavering regarding support for the project and process as a result of the work Councillor Luchtmeijer and myself had done in gathering and presenting P3 information to Council.

2. PROPERTY ACQUISITION

In 1988, the Town began to purchase properties located in the same block as the existing Town Hall to facilitate construction of the new building. I negotiated the purchase of all these properties. One property between the new Town Hall site and the existing building had yet to be acquired when construction began, and this problem was overcome by phasing the project. The public square was the last phase and a letter of credit had been provided by the developer to construct this public plaza. The timing of this new Town square was entirely dependent on the wishes of the resident of the house that was situated on the last remaining lot in the block.

The Town square was completed by the developer in May 1999 and the letter of credit has subsequently been returned.

3. PUBLIC SUPPORT

Council support was unanimous and unwavering. This factor was invaluable when seeking public acceptance for the project. Need was not a significant issue as the overcrowding of the Town Hall and library was apparent by the public. The artists' rendering of the new facility was a significant factor as in this case the picture was worth a thousand votes.

The relatively small size of our community was a positive factor in that it allowed Council and I to present the details of the project to several groups representing the concerned citizens of the community in a short time period practically on a one-on-one basis. An information handout prepared by me was inserted in all utility bills sent to our rate payers. It is important to note that full details of the leasing and financial arrangements were openly discussed with the public and all questions were answered in a forthright manner. This resulted in not only acceptance by the public, but outright endorsement from the two presidents of each resident's association.

4. LIBRARY BOARD APPROVAL

The public appeal of the library as a component of the Town Hall project can not be under estimated. Expanded library premises were much needed as the 2,000 square foot site has now been relocated to the new 6,000 square foot facility.

However, although the Board had budgeted for leasing new library premises in their 10 year plan, Qualicum Beach was not scheduled until 1999. This obstacle was overcome through cooperative negotiations I conducted with the Vancouver Island Regional Library that resulted in the library moving into their new premises in September 1997.

5. TENDERING/SELECTION PROCESS

Selecting a suitable private sector partner is an extremely important process when considering a P-3 project. Council and staff relied on both experienced solicitors and consultants to ensure compliance with the *Local Government Act* while allowing for creative approaches that the private sector has to offer when constructing and financing a project. Upon completion of both the Town Hall and Library space needs studies, Council and staff met to establish the criteria for the P-3 project.

Council entrusted me with all aspects of the project from this point on. Communication back to Council of ongoing developments in the process was therefore of utmost importance. Expert assistance was also needed to ensure the Municipality's interests were protected. The services of a law firm with excellent credentials was engaged to assist in the tendering process. A public-private partnership consultant was also retained to aid in the selection of the preferred proponent. Council gave me full latitude to work with these two individuals to bring the project to fruition.

The process began with preparing and sending "Requests for Expressions of Interest and Qualifications" advertisements and direct mail outs to potential development companies. This step enabled the team to evaluate the financial capability and reputation of the developers who responded. Approximately forty-five project packages were sent out to interested parties and twenty-five developers were then invited to an information meeting to discuss parameters of the project with Council, staff and the consultants.

A total of 11 development companies submitted detailed qualifications and a brief outline of their own proposals.

Three proponents were then selected by Council based on my recommendation to complete the requirements of the Request for Proposal Documents. These documents were prepared through assistance of the Municipal planner, engineer, myself and the two consultants.

After receiving the completed detailed proposal packages, Council selected the preferred proponent. This process occurred over a six month period.

6. LEGAL AGREEMENTS

As one can appreciate this was the most time consuming, yet one of the most important aspects of the public-private partnership. As with Council and staff, the major concern of the public was to ensure that the municipality's interest was protected in this venture. Transferring public property to the private sector and assuring everyone that the municipality would be able to lease, and in 10 years time acquire title to the property and improvements, was a task that required carefully drafted legal agreements. It took time, but with a fair and cooperative private partner the protection offered both parties was inserted into the wording of the various documents.

7. BUILDING SPECIFICATIONS

As this is essentially a design build project, the detailed specifications were not submitted with the original proposal. (The shortcomings of this are detailed under the heading 'Lessons Learned') A careful review of the building plans and

specifications is required to ensure that the library and municipal space needs requirements as outlined in the original proposal document submission are in fact included in the building when it is completed.

8. WORKING WITH DEVELOPER

Instead of hiring a private consultant to be the project manager, Council appointed me to this position. Significant time was spent by myself negotiating extras and credits with the developer. These extras and credits were a result of changes in details that evolved as the building was being constructed. Some of these discussions could have been avoided by having more detailed building specifications (see lessons learned).

9. COMPLIANCE WITH BUDGET CONSTRAINTS

The aforementioned extras and credits as well as the furnishing requirements of the building necessitated me to closely adhere to the budget provided to me by Council for this purpose. I had \$262,000 budgeted for extras and furnishings/equipment. Approximately *1/2 was* utilized *for* building improvements (extras) and the other for furniture and equipment. Purchasing furnishings from Corcan (Corrections Canada) enabled me to save substantial money on tables and seating for example. Using a company called Independent Telephone rather than Telus also saved money.

LESSONS LEARNED

For the most part the project was an outstanding success as there is nothing substantial that I would do differently today. Interest in our exciting P3 development has resulted in visits from staff and Council from California, Washington, Texas, Newfoundland, New Brunswick, Ontario, Manitoba, Alberta, and all over British Columbia including Tofino, Powell River, Comox, Lake Cowichan, Esquimalt and West Vancouver. I have also been asked to speak at various conferences and seminars. However, as with anything there could always be improvement with the project.

1. PROGRAM/SPACE NEEDS STUDY

This document could have been more specific. While one must allow the private sector some latitude in order to provide for innovative solutions, care must also be taken to specify the minimum expectations for content and quality. The library space needs study was a better document in this regard by specifying such things as lighting luminaries and carpet quality. These specifics could have saved on extras for the Town Hall portion of the project. For example, roof quality 20-year vs. 30-year guarantee and stating, up front, the requirement for back up power rather than adding the emergency generator during construction.

2. TAXATION EXEMPTION

Numerous sleepless nights could have been avoided if the leasing and option to purchase documents had been provided to Municipal Affairs and the BC Assessment Authority in advance of the project construction. The taxation exemption status of the municipal offices was in limbo for several months as our solicitor, Mayor and myself spent numerous hours meeting with MLAs, Municipal Affairs and BC Assessment Authority staff. I was finally able to obtain a written ruling from Connie Hughes of BCAA confirming taxation exemption status for the Town Hall portion of the project. The Agreement of Sale and Purchase contained an option to purchase the building for \$1 at the end of the ten year lease period and this was the determining factor in this decision. The capital lease alone was not sufficient to meet the Province's interpretation of the legislation regarding taxation exemption.

CONCLUSIONS

Originally the Town had anticipated that the private sector would prefer to amortize the project over 30 years. However, at that time the *Local Government Act* of British Columbia placed a 10-year limit on such undertakings. Though handicapped by this legislation, the Town of Qualicum Beach has been able to structure a creative public-public-private partnership that provides for new municipal offices at a considerably reduced cost when compared to the Town undertaking the project in a more traditional manner.

While cost is a major consideration, also of importance is the risk transfer that has been achieved. The private sector indemnified the Town, through contractual arrangements, for cost overruns in the design and construction of the new facility. In addition, private-sector skills and creativity have been harnessed to maximize the contribution to the project from associated commercial development opportunities. The citizens of Qualicum Beach have expressed overwhelming support for the project in the public consultation process that was established. So, it is good to be able to report on an innovative partnership where Council, staff, the contractor, and most of all, the citizens are pleased with the outcome.