

**Quesnel's New City Hall: Lessons Learned**

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## **EXECUTIVE SUMMARY**

This case will examine the frontline management challenges that emerged as a consequence of the City of Quesnel's decision to acquire a prominent landmark building, commonly referred to as Place St. Laurent. In late 1999, just before the November general election, Quesnel City Council decided to acquire a building, located in the downtown commercial core. Rather than acquire the building through an outright purchase, the city elected to finance the acquisition through a leasing arrangement.

The city's intention was to renovate the building for use as a new city hall and regional library. At the same time, Council's objective was to revitalize the city's downtown core and strengthen its commercial viability from the competing pressures that were beginning to emerge in south Quesnel. The city learned in late 2000 that the cost to renovate Place St. Laurent would be significantly higher than originally anticipated. By this time, considerable public attention was focused on the project, and it was becoming increasingly evident that the project was facing some trouble.

It was equally apparent that some very deliberate steps would need to be taken if we were to effectively manage this emerging crisis. In spite of the setbacks encountered during the early stages of the project, Council's direction was to proceed and complete the renovations, despite the higher costs. This is what we did and occupancy of the city hall component of the project was ultimately realized on April 30, 2002.

After learning about the higher costs, several reports were subsequently commissioned, all of which confirmed that the original budget estimate was not based on a comprehensive analysis of the project. The purpose of this case study is not to re-examine the findings of these reports or to call into question the City's decision to proceed with this project in the first place. Similarly, the purpose of this study is not to re-open the debate on the Place St. Laurent project.

Instead, my observations and comments are intended to stimulate readers' thinking about some key project management principles and concepts that need to be observed when managing a large and highly complex project. Using these concepts as a starting point, I then try to relate some of the specific actions that we employed in our efforts to move the project forward toward completion. A lot of work and careful planning has been done in the past 18 months to deliver the project in a manner that closely reflects the original vision. This has not been an easy project. It is my hope that some important lessons can be learned from our experiences - perhaps most notably, that careful planning and a sound project management framework are essential ingredients to the delivery of a successful project.

## **PURPOSE**

The purpose of this case study is to promote discussion on the importance of good project management practices when planning and delivering a large and complex capital project. The case focuses on the challenges that I faced as a newly appointed City Manager to establish control over the City of Quesnel's Place St. Laurent project. I discuss some of the turnaround strategies and corrective measures that we undertook and present some lessons learned from the process.

## **BACKGROUND**

In late 1999, just before the November general election, Quesnel City Council decided to proceed with the acquisition of Place St. Laurent and the adjoining four lots. Place St. Laurent is a five-storey building located in the downtown commercial core of Quesnel. The building was constructed in the early 1980's at an estimated cost of \$8 million.

The three lower stories of the building are finished commercial space, which contains a fitness centre, a large swimming pool, and a lounge. The third, fourth, and fifth floors of the building were never finished by the original owner and builder and remained as unfinished office space at the time the building was acquired.

During the 1980's, the former owner operated the basement and first two levels as a fitness centre and spa. The second level also contained a lounge. The fitness centre and spa was closed in 1990, and the building remained unoccupied for several years.

The acquisition of Place St. Laurent was intended to be an important civic development initiative by encouraging economic revitalization within the main business district of the City. The original concept was to expand the existing City Hall and library and relocate them into the facility after renovations were completed.

When Council decided to acquire the land and improvements, the City elected to finance the acquisition through a lease to purchase arrangement with On-line Finance and Leasing Corporation, rather than through an outright purchase. It was originally estimated that the cost to renovate the building and develop the site would be \$800,000 to \$900,000.

Before acquiring Place St. Laurent, preliminary discussions had taken place with the Cariboo Regional District about the possibility of the regional library becoming a tenant in the building and eventually a part owner. Discussions had also taken place with the operator of a local fitness company concerning his interest in leasing the fitness facility component of the building.

Renovations and improvements to the building commenced in early 2000. In October 2000, some ten months later, the Project Engineering consultant was instructed to prepare a formal Master Plan for the project. Contrary to the initial cost projections, the estimated cost to complete the required renovations had climbed to \$2.7 million, excluding the \$400,000 that the City has already spent on general improvements to the building.

Despite the higher costs, Council's direction was to proceed with the renovations. In order to proceed, however, it was first necessary to do a number of things, including: identifying the problems, confirming and clarifying the scope, schedule, and cost estimates, and developing and implementing a realistic plan.

The decision to acquire the building was controversial from the outset. When the revised cost estimates to complete the renovations were announced, there was considerable public controversy and growing concern with the City's ability to effectively manage and deliver such a large and complex project. The discontent surrounding the project resulted in an uncomfortably high level of public scrutiny. Both Council and staff were faced with a crisis event that had to be managed carefully at both the political and administrative levels.

## **DISCUSSION: REFLECTIONS ON THE PROCESS**

There is a long and complicated history surrounding the decision to proceed with the Place St. Laurent project. It is beyond the scope of this case study to recount the entire chronology of events. Instead, I will attempt to highlight some important management concepts that are central to the successful delivery of a major capital project. At the same time, I will provide some practical examples of what my management team and I tried to do in our efforts to complete this high profile project and meet the occupancy target date of Spring 2002.

The following observations and comments are intended to focus on what I believe to be some key components of sound project management. The observations and comments are not necessarily in any order of importance, nor are they of equal weight in emphasis. In order to organize the observations and comments for ease of reading, they have been grouped into the following sub-sections: (1) planning and analysis; (2) project leadership; and (3) process issues.

### **1. Planning and Analysis**

In local government, good planning and analysis are critical undertakings for large and complex capital projects such as Place St. Laurent. Complex capital projects are subject to a large number of risks. In the case of the PSL project, the original cost estimate to renovate the building was not, in retrospect, based on sufficient analysis. A "Briefing Paper" was prepared for Council to support the decision to proceed; however, it did not anticipate or assess the key risks inherent in such a major capital project, or the implications of the risks to the city's financial position. In particular, the briefing paper did not fully consider the specific and significant risks

associated with renovating an existing building. The risks involved with renovations are different than those which are typically encountered in new construction.

Renovations to the building began in early 2000. By September 2000, serious concerns over the cost of the project were being raised. It was becoming clear to Council that decisive action needed to be taken in order to establish tighter control over the project.

As the new City Manager, I was directed by Council to identify and implement the necessary controls. What follows is a summary of the key actions that my management team and I took:

- ***Key Actions***

- ***1. Master Plan***

In October 2000, I instructed the Project Engineer and Architect to prepare a comprehensive Master Plan, which included the following components:

- Identification of the site issues affecting the project;
- Identification of the existing conditions of the building;
- Description of the design of the project;
- Description of the work completed and the work outstanding for the design consultants and contractors;
- An overall project budget; and
- A project schedule.

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*1 Place St. Laurent Project Master Plan, The Access Engineering/RBB Partnership, Prince George, B.C., October 25, 2000.*

The Master Plan revealed a total cost of \$2.7 million, excluding \$400,000 in costs that had already been incurred by the City. An Addendum to the Master Plan was prepared in November 2000, which revised the cost upward to \$3.4 million. The total estimated cost for the project was now \$3.8 million.

## **2. *Independent Audit of Master Plan***

Given the substantial increase in project costs from the original projections, questions were being raised about the accuracy of the revised cost estimates. Accordingly, I retained the services of an independent third party engineering firm to audit the content of the Master Plan prepared by our prime consultant. Specifically, their mandate was to provide a second opinion on the scope of work and related cost estimates. The independent engineering firm concluded that they agreed with the cost estimates and scope of work identified in the project Master Plan.<sup>2</sup>

## **3. *Economic Analysis***

The revised cost estimate to renovate the building immediately called into question and cast fundamental doubt on the financial viability of the project. To deal with the concerns over the economic viability of the project, I prepared an economic proforma analysis of the project and presented it to Council in November 2000.<sup>3</sup> The report examined the financial viability of the project and offered various options for Council to consider. The options ranged from abandoning the project altogether to proceeding in accordance with the Master Plan.

The Economic Analysis report concluded that, based on the revised cost estimates to renovate the building and the existing sub lease proposals, the City would have to commit significant funding to subsidize the project on an annual basis. It was suggested that Council be mindful of the extent to which ongoing funding obligations would "crowd-out" other spending initiatives. To reduce the annual carrying costs, it was recommended that serious consideration be given to proceeding with a scaled down plan, as well as to the possibility of capitalizing the project through long-term borrowing.

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*2 Place St. Laurent Project: Opinion on Scope of Work and Cost Estimates*, M. Milligan & Associates Ltd., Kamloops, B.C., January 26, 2001

*3 Place St. Laurent - Economic Analysis*, Administrative Report to Council, City of Quesnel, November 20, 2000.

## **2. Project Leadership**

An essential ingredient for a successful project is the establishment of a leadership team with appropriate authority and accountability, at the beginning and throughout the project. Large and complex projects require participants to accept that they are part of a team working for the achievement of an overall common objective. Trust and respect for individual roles are necessary for team building.

- ***Key Actions 1. Project***

### ***Transition Team***

When I assumed direct responsibility for the project in October 2000, I immediately created a Project Transition Team and appointed a Project Manager. The Transition Team, which is headed by the Deputy City Manger, was given responsibility for the overall direction and conduct of the project. The Transition Team has responded successfully to the significant challenges of managing a highly complex and controversial project.

## **3. Process Issues**

There is another important dimension to effective project management. Aside from the issues that relate directly to the performance of project delivery (i.e., cost control, scheduling, etc.), there is a whole range of "process" related issues that cannot be taken for granted. Although process related issues are relevant in any organizational setting, I suspect that these types of issues often play a more significant role in a local government or public sector setting.

After realizing that we were confronted with a crisis, much of our effort, at least initially, was focussed on addressing and clarifying various technical issues such as project costs, financial control, design issues, tendering processes, and cash flow requirements. In retrospect, what we probably did not spend enough time on was the need to manage the whole process surrounding the project. By process, I am referring to such things as:

- Communicating correct and accurate information about the project to the public;
- Explaining how and why the decision to proceed was made in the first place;
- Addressing widespread allegations concerning the misuse of public monies and conflict of interest; and
- Dealing more directly with the issue of whether the City should hold a referendum.

- **Key Actions 1. Management Audit and**

***Independent Inquiry***

The allegations concerning the misuse of public monies and conflict of interest arose when the City and the public learned that the initial renovation cost estimates for the project were inadequate. The allegations were damaging to the City's reputation as a project manager and service provider, and served to significantly undermine the City's ability to complete the initiative it had begun. Needless to say, the allegations were also very damaging to staff and Council morale. The City had two options: deal with the allegations head-on, or "wait it out" in the hope that the atmosphere surrounding the project would improve over time. In my view, the damage to the organization caused by the allegations was too significant to simply ignore. I recommended that Council choose the first course of action and address the charges head on.

With Council's support, I retained Kroll Linquist Avey to conduct an independent inquiry into the issues surrounding the Place St. Laurent project. Ron Parks, CA, one of the principals of the firm, headed the inquiry. The scope of the inquiry encompassed the following terms:

- Reviewing the project history;
- Reviewing the roles and responsibilities of individuals and committees involved;
- Conducting interviews with key individuals, contractors and others; and
- Preparing and presenting a final report to Council.

The Parks' Report<sup>4</sup>, which was released to the public on February 19, 2001, stated that no city officials, elected or appointed, were in a conflict of interest over the Place St. Laurent project. The report did note, however, that the management practices in place during the early phases of the project were not acceptable for a major public sector corporation.

The conclusions of the Parks' Report put to rest allegations of conflict of interest, but confirmed other concerns related to ways in which public funds were managed. Despite these findings, however, the report did, overall, help to improve the atmosphere surrounding the project. In my

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<sup>4</sup> *City of Quesnel: Place St. Laurent Inquiry*, Kroll Lindquist Avey, Vancouver, B.C., February 19, 2001.

view, the public appreciated the City's openness and willingness to accept and apply (see next point) constructive criticism.

## **2. Civic Transition Plan**

In response to the Parks' Report, Council and City staff developed what became known as a Civic Transition Plan in early 2001. The main elements of the plan included:

- An appraisal of the building to determine its market value at this stage of partial completion and its market value assuming the renovations are completed as planned;
- An independent financial analysis and economic impact assessment of the project, including the cost to the City if it were to proceed with the project, or alternatively, if it were to abandon the project, as well as an assessment of the financial, legal and political impacts of abandoning the project.
- The development of a public communications program to ensure that information on the project is communicated more effectively with the community; and
- Retaining the services of a commercial realty firm to assist in negotiating a lease arrangement with Gold's Gym that will be acceptable to Council and the taxpayers of Quesnel.

Admittedly, the Civic Transition Plan was a "reactive" rather than "proactive" strategy. When an organization is confronted with a crisis, management of it is fraught with all kinds of problems, including the one of damage control and recovery. In the initial stages of the Place St. Laurent crisis, our management efforts focused almost exclusively on safeguarding the viability of the project (i.e., better planning, greater management and financial control). It was only later that I realized that there is another, equally important dimension, to crisis management - notably, restoring the reputation of the organization, as well as the credibility of both elected officials and management in the eyes of the public. Although it remains unclear whether the strategy was entirely successful, the plan, along with the decision to commission the Parks' Report, was intended in large measure to address the less tangible "process" related issues that have played an important role as this project has evolved.

## • **Referendum Issue**

Public demands for a referendum, at the later stages of the process, have created a dilemma for City Council.<sup>5</sup> At the outset of the initiative, Council elected to proceed with the project in a manner that did not require voter assent. Based on this decision, the City entered into an agreement with On-Line Leasing to acquire the Place St. Laurent building, and commenced work on renovations.

A decision to hold a referendum on the project after having committed to various agreements and undertakings would have made little sense. The results of such a referendum could not have relieved the City of its financial obligations to the project.

One idea was to hold a referendum specifically on the issue of refinancing - i.e., purchasing the building using long-term debt, as opposed to leasing the building using operating revenues. If voters were to defeat a referendum on the refinancing question, however, the City could not simply discontinue commitments under the lease agreement with On-line Leasing. In essence, such a referendum would be seeking voter approval of a more attractive refinancing package, rather than their approval of the project as such. If a referendum were to be defeated, Council would find itself in a difficult political situation because the voters would likely expect the City to abandon the project altogether, even though this is not a realistic possibility.<sup>6</sup>

## **LESSONS LEARNED**

While compiling my thoughts and reflections on the project, I find myself asking how I might characterize my role and actions in managing this project, and, moreover, what lessons did I learn in dealing with this challenging situation.

Throughout the whole process, it was largely my job to ensure the right decisions were made. I may not have made the decision myself, but I worked hard to ensure that there was a good process in place and that a good decision was ultimately made. I should make it very clear that when

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5 Apart from the political controversy surrounding the referendum issue, the matter was also subject to a legal challenge under the *Judicial Review Procedures Act*. A group of concerned citizens petitioned the court for a declaration that the City had acted unlawfully. Although the court had a great deal of sympathy for the Petitioners, the petition was dismissed (see: *Campbell and Morton v. City of Quesnel*, [unreported decision], (S.C.B.C.), (June 12, 2001).

6 *Place St. Laurent Purchase Option - Process Involved to Obtain Elector Assent*, Administrative Report to Council, City of Quesnel, January 17, 2001, p4.

I assumed responsibility for this project, I had little or no experience in property development or real estate financing, nor was I an experienced construction manager. Moreover, there was no "how-to" manual or particularly relevant literature, describing how one might respond effectively to this type of situation. Instead, my approach was simply to breakdown the management tasks into some sort of logical sequence, and then I tried to work through these tasks in a deliberate and systematic way.

The process surrounding the project could be divided, I suspect, into three distinct or separate phases. In each phase, the specific role that I played was slightly different. The first phase involved defining the project. The purpose this exercise was to establish the mission of the project, specify the outcomes, describe what the project will look like, and determine what it will cost. All of these elements were designed to help define the scope of the project and to keep all those involved focused on what needed to be done.

The second phase involved developing the project plan and assembling the project team. Building the project team took a lot of thought, as I considered who should be involved and what skills needed to be brought to the table. As mentioned above, I had no previous experience managing a project of this type or complexity, and, therefore, team selection was a critical element to the success of the project. Clearly, the technical experience of candidates was an important consideration. Other important criteria included the ability to work with the team, as well as the ability to influence the decision-making process at all levels of the organization.

The third phase was the plan implementation stage. This phase involved a wide range of specific activities such as assigning responsibilities, establishing procedures, preparing tenders, scheduling work, monitoring progress and costs, and most importantly, problem-solving. In the first two phases, I played a much more direct and hands-on role than I did during the implementation stage. During the latter phase, I spent a lot of time with Council, just trying to settle them down and making sure that they were kept up-to-date on the project's status.

Many lessons were gained from our experience with the Place St. Laurent project. What follows is a summary of some of the key lessons that I have learned from this project:

1. A reliable estimate of a capital project's total cost is essential before deciding to proceed with the project. Proper analysis is required in order to assess the financial viability of the project, and to protect the financial integrity of the local government.

2. Good project management practices are essential for a successful capital project.
3. Creating a strong project leadership team will allow problems to be solved more effectively and will improve project delivery.
4. Managing the process is as important as managing the project. Citizens will often organize around one issue, particularly a controversial one. When pursuing a high profile capital project, it is important to ensure that correct and accurate information about the project is regularly conveyed to the public.

## **UNRESOLVED ISSUES**

We have come a long way in our efforts to bring the project closer to fruition. The project is being delivered within the cost estimates set out in the Master Plan. Although there were several schedule delays, we were successful in meeting an occupancy target date for the city hall component of the building of April 30, 2002.

In spite of these partial successes, there are still several unresolved issues. At this time, we have been unable to reach an agreement with the Cariboo Regional District with respect to the relocation of the regional library. Accordingly, we are currently exploring other leasehold options for the fifth floor of the building. The long term financial viability of the project depends largely on finding a suitable tenant for this space. Moreover, the matter of a referendum and development of a long-term financial plan are important issues that have not yet been resolved.

## **CONCLUSION**

The Place St. Laurent project has been a tremendous learning experience for my management team and me, as well as for the elected officials. Since the beginning of my involvement in the project, I have had to play a very direct and prominent role. At times, my role was rather uncomfortable, as I was forced to play a more publicly visible role than what is normally expected from a local government administrator. Our first and foremost responsibility as staff members was to provide technical advice and to manage the project generally. However, emotions were running high and frequently the line that divided the debate on technical issues from the larger political debate became blurred and was often unclear.

In the end, I believe that we achieved, at least at the administrative level, what we set out to achieve - namely, to develop and implement a credible and realistic plan that would allow the city to complete the project.