

**B.C. HOUSING
SRO RENEWAL PROJECT**

**FIRST REPORT OF THE FAIRNESS ADVISOR ON THE PROCUREMENT
PROCESS: RFQ STAGE**

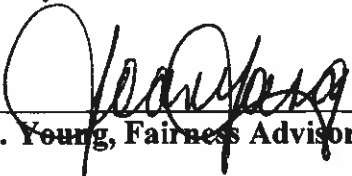
January 20, 2012

To: Project Board, SRO Renewal Initiative Project

This report covers the following issues:

1. The scope of the review;
2. The purpose of the review;
3. The framework for the review;
4. A statement that the review has been conducted in accordance with this framework;
5. Explanatory details regarding the variables which affect the review;
6. Project Background and Monitoring Activities by Fairness Advisor;
7. Recommendations to improve process for future procurements;
8. Any qualifications on the endorsement of the process; and
9. A statement that the Fairness Advisor has fulfilled the terms of her engagement in order to express an opinion;
10. Findings in the form of an opinion whether the process appears to have been undertaken in accordance with fairness principles expressed or implied in the procurement documents.

Respectfully submitted:



Joan M. Young, Fairness Advisor

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SCOPE OF REVIEW

I was retained on October 3, 2011 to act as the Fairness Advisor for the SRO Renewal Initiative Project. My role is to satisfy myself on the overall procedural fairness of the procurement process associated with the SRO Renewal Initiative Project.

BC Housing issued a Request for Qualifications (“RFQ”) for the SRO Renewal Initiative Project on October 20, 2011. The opportunity was posted on the electronic bidding site BC Bid®. The RFQ stage was intended to set out information regarding the project to the private sector and to invite those parties both interested and qualified to participate in the procurement process. The intention of BC Housing was to select up to three qualified Respondents to be invited to participate in the next stage of the procurement.

My engagement covers the evaluation of the responses to the procurement process from the issuance of the RFQ to conclusion of the procurement. This Interim Report covers the RFQ stage of the procurement.

The terms of engagement state that as Fairness Advisor I was asked to do the following:

1. The Fairness Advisor will report to the Chair of the Project Board, which is composed of senior officials within BC Housing Management Commission and Partnerships BC overseeing the Project.
2. The Fairness Advisor will act as an independent observer with respect to the fairness of the implementation of the Project’s procurement processes.
3. The Fairness Advisor will provide advice to the Project team on matters of fairness.
4. The Fairness Advisor will be available to proponents to answer queries relating to fairness.
5. The Fairness Advisor will provide formal written reports at specific points during the Project competitive selection process.

Access to Information

6. The Fairness Advisor will be provided full access to all of BC Housing’s information related to the Project Competitive Selection Processes as the Fairness Advisor decides is required including documentation, personnel, premises, meetings, reports and minutes;

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7. The Fairness Advisor will be permitted full access to any and all meetings, telephone conferences or other events as, in the discretion of the Fairness Advisor, are appropriate; and
8. The Fairness Advisor will be kept fully informed by the PBC Project Director of all documents and activities associated with the Project Request for Qualification and Request for Proposals processes.

Enquiries

9. The Project Team, through the PBC Project Director, may invite the Fairness Advisor to provide comment from time to time on issues related to the evaluation processes during the Project Competitive Selection Processes. The Fairness Advisor will not provide any comment or advice on any matter other than fairness of the procurement process.
10. During the Project Competitive Selection Processes, the Project Board may request comment on proposed action or circumstance related to the administration of the Project Request for Qualifications and the Project Request for Proposals.
11. The Fairness Advisor will be available to proponents to answer queries relating to fairness.

My role as the Fairness Advisor is not to validate the Evaluation Committee's recommendation of the selected Respondents; but rather is to provide oversight and assurances regarding the processes applied in making the recommendation. The Fairness Advisor may meet these responsibilities by undertaking the steps she feels are most appropriate to meet her mandate.

PURPOSE OF REVIEW

The purpose of my review is to provide arm's length advice to the Project Board and independent assurance for the Project as to the fairness and appropriateness of project management activities related to the procurement process for the SRO Renewal Initiative Project transaction.

FRAMEWORK FOR REVIEW

At each stage of the procurement process covered by my engagement, I undertook the following review activities in order to meet the terms of my review:

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- (a) Review standards for handling of documents, security of documents, procedures for clarifying or rectifying errors by the owner and/or proponents,
- (b) Conduct a review of all documentation issued by BC Housing and Partnerships BC to proponents including all procurement documents and addenda;
- (c) Ascertain whether each proponent was provided with access to the same information as other proponents for the purposes of responding to the various procurement stages;
- (d) Ascertain whether Evaluation Criteria was established in advance of evaluations being undertaken;
- (e) Ensure that adequate measures for avoidance of conflict of interest, unfair advantage and confidentiality were established in the procurement process as well as procedures for resolving issues which may arise during the procurement process;
- (f) Obtain information regarding rulings made by the Conflict of Interest Committee to ascertain whether the recommended course(s) of action have been fully implemented;
- (g) Review the Evaluation criteria proposed for the various stages of the procurement to determine that they were reasonably and rationally connected to the stated Project objectives;
- (h) Review responses, as necessary, submitted by proponents to ensure an adequate familiarity with the terms of the responses in order to undertake the Fairness Review;
- (i) Ensure that appropriate records regarding verbal and written contact with proponents were prepared and retained; and
- (j) Attend select meetings of the Evaluation Committee and any subcommittees;

REVIEW CONDUCTED IN ACCORDANCE WITH THIS FRAMEWORK

My review was conducted within the framework for review set out above.

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PROJECT BACKGROUND AND MONITORING ACTIVITIES OF FAIRNESS ADVISOR

The SRO Renewal Project is for the design and renovation of 13 single room occupancy buildings located primarily in the downtown east side of Vancouver, BC. The project sponsor is BC Housing. BC Housing's role is to assist British Columbians in greatest need of affordable and appropriate housing by providing options along the housing continuum. This continuum extends from emergency shelter and housing for the homeless through to affordable rental housing and homeownership. Where there are gaps in the housing continuum, they are addressed through the creation of new housing options or by adapting existing housing.

In its ongoing efforts to address homelessness, BC Housing began to acquire SRO buildings in 2007 and to date has invested more than \$65 million in improving the health and safety conditions for residents. However, many of the buildings are of advanced age (the average age is 99 years) and in significant need of renovation to extend their useful lifespan.

To address this need, BC Housing is proceeding with the SRO Renewal Initiative to deliver the design and implementation of major renovations for 13 SRO buildings that will provide a sustainable model for social housing.

In support of this initiative, BC Housing's goals for the Project are to:

- Provide satisfactory accommodation for 900 people;
- Provide flexibility to meet future demand and to reduce the number of people at risk of homeless in the DTES;
- Increase the useable life of the SROs by 25+ years;
- Attain carbon neutrality, energy efficiency and reduced GHG emissions; and
- Support and facilitate revitalization of Vancouver's DTES through job creation, safer streets and improved living conditions

BC Housing seeks to enter into a contract (a Project Agreement) with a qualified proponent to design, build, finance and maintain the SRO Renewal Initiative Project. The Project will be procured using a partnership approach and will utilize a DBFM delivery model in order to optimize the potential for private sector innovation and expertise. BC Housing expects that a single private partner will provide these integrated services, according the terms set out in the Project Agreement.

A. Appointment of Fairness Advisor

The role of Fairness Advisor is to provide oversight on the procurement process to ensure that the process for selecting a preferred proponent is open, fair and equitable. A Fairness

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Advisor also provides advice on issues which may arise during the procurement process which could impact on the overall fairness of the process. Fairness Advisors are typically used in public-private partnerships and, to a lesser extent but with increasing frequency, in other public sector procurements such as design-build procurements where a standard tendering process is not being utilized.

A Fairness Review typically follows four phases of the procurement process:

1. Before closing of the procurement process;
2. After closing of the procurement process;
3. Procurement Evaluation Stage; and
4. Post Procurement Evaluation.

As stated above, the role of the Fairness Advisor is not to validate the Evaluation Committee's recommendation to the Project Board of the selected proponent; rather, it is to provide oversight and assurances regarding the processes applied in making the recommendation.

B. Procurement Process for the SRO Renewal Initiative Project

This phase of the procurement process involved a Request for Qualifications. The intention of BC Housing was to short-list up to three qualified respondents who will be invited to prepare proposals in response to a Request for Proposals.

C. Request for Qualifications

The Request for Qualifications ("RFQ") was issued on October 20, 2011 with a closing date of December 8, 2011 (later amended to December 15 2011) requesting interested parties to submit their qualifications for the project. A public Bidder's Information session was held on October 26, 2011 which I attended. A tour of the subject buildings was held for Respondents. As well, a virtual Data Room was established to allow respondents to equally all access documentation in connection with the project, once each had agreed to certain confidentiality provisions. This was a reasonable and fair requirement in my opinion.

The RFQ had minor revisions during the RFQ stage, including the change the closing date, as noted previously, which amendment was permitted by the terms of the RFQ.

Prior to the closing there were a few matters for which I was consulted or my advice sought by either the Evaluation Committee. All of the issues raised were addressed to my satisfaction. For example, one Respondent team directly emailed a member of the Evaluation Committee. No information was provided through this contact and I was satisfied that it was an innocent error and did not compromise the RFQ process in any way.

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Other minor issues were also addressed to my satisfaction. No Respondents contacted me with any issues.

Six submissions were received in order at the submission location on or before the deadline. One submission was received after the deadline and was rejected. Each of the six submissions was subjected to a high level completeness review, and no deficiencies were noted. Several minor clarifications were issued to Respondents, which was permitted by the terms of the RFQ

An Evaluation Committee was established in advance of the closing date. The Evaluation Committee had the responsibility to evaluate and score the various Responses based on their review of the Responses and to recommend to the Project Board the selection of up to three Respondents to proceed to the next stage of the procurement. Sub-committees were also appointed to assist the Evaluation Committee in their work, although the ultimate responsibility of evaluation and scoring was with the Evaluation Committee.

Each Evaluation Committee member was required to execute a Relationship Disclosure declaration and Confidentiality Agreement in advance of access to any information or proposals received in response to the RFQ. Evaluators were also advised of the appointment of the Fairness Advisor and of the Conflict of Interest Committee for the project. An internal review process was established for identifying potential conflict or similar issues upon submission of the required documents from the various Committee members. There were no conflicts identified which prevented any Committee member from participating in the evaluation or review of the RFQ proposals. One person opted on their own motion to withdraw from participating in the evaluation process due to a remote family connection with one of the corporate respondent's team.

The evaluation was based on the published criteria, including weighting, set out in the RFQ. An Evaluation Manual was developed with the approval of the Evaluation Committee based on the criteria in the RFQ. The Evaluation Committee held interviews with each of the six teams on January 10 and 11, 2012 in the presence of the Fairness Advisor. All teams were provided with guidance that they would each be receiving the same time for their presentations as other respondents and that their presentation was to be limited to the content of their Response. They were each cautioned that this was not an opportunity to provide new information to the Evaluation Team. All respondents conducted themselves in accordance with the guidelines.

The Evaluation Committee met on January 10, 11 and 12, 2012, and completed their evaluation. The Fairness Advisor was present for all of the evaluation meetings and scoring sessions. The Evaluation Committee had lengthy discussions about the merits of each of the Respondents' qualifications based on their submissions, responses to clarification questions, answers provided in the in-person interviews and the references checks, as well as the comments and analysis done by the sub-committees. Each team's

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response was carefully analyzed, and the Evaluation Team applied the pre-determined scoring methodology to the responses with reference to the terms of the RFQ.

A Due Diligence advisor was also appointed to monitor the proceedings and was present for the Evaluation team meetings and the respondent presentations.

The Evaluation Committee scored and ranked all six teams, and has recommended that three teams be invited to the Request for Proposals stage. The Evaluation Team's report to the Project Board reflects the decisions and scoring I observed in the evaluation process.

RECOMMENDATIONS TO IMPROVE THE PROCESS FOR FUTURE PROCUREMENTS

No recommendations are suggested.

ANY QUALIFICATIONS ON THE ENDORSEMENT OF THE PROCESS

My fairness review has been based on my own review of selected documentation and records; my discussions with the Evaluation Committee; my attendance during the activities of the Evaluation Committee; answers to questions posed by me and my observations of meetings. I have reviewed a sampling of project related documentation, but not all documents created by each and every staff member or advisor.

FINDINGS

The RFQ procurement process associated with this stage of the SRO Renewal Initiative Project has been conducted in a fair manner in accordance with the procedures established in the Request for Qualifications stage.

I am satisfied that:

1. The SRO Renewal Initiative Project team members, and their advisors, followed the procedures and fairly applied the evaluation criteria specified in the procurement documents and subsequent documents;
2. Where judgment and interpretation was allowed or required, the project team exercised reasonable judgment and made interpretations in a fair and impartial manner; and
3. To the extent that amendments to the process were permissible, that decisions with respect to amendments were made in a fair and impartial manner;

I am satisfied that I have been provided with the appropriate access and information to render this fairness opinion to the Project Board.

FULFILLMENT OF REVIEW TERMS

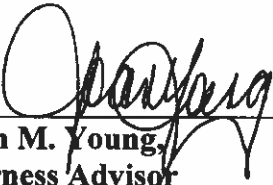
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I confirm that I have been fulfilled the terms of my engagement based on the activities described to you above.

Respectfully submitted,



**Joan M. Young,
Fairness Advisor**

Dated at Vancouver, BC this 20th day of January, 2012