



Project Report:  
**Okanagan  
Correctional Centre**

July 2014

## Purpose of this Report

The purpose of this report is to provide key information to the public about the Okanagan Correctional Centre (OCC) project. This report describes the need for the Project and how it will be delivered. The report explains how different procurement delivery methods were analyzed, and how project benefits and innovations are expected to be achieved. A summary of the key aspects of the Project Agreement is also provided.

In all of its procurement processes, the Province of British Columbia is committed to a high standard of disclosure as part of its accountability for the delivery of public projects. Ministries, Crown Corporations and other government agencies are publicly accountable for projects through regular budgeting, auditing and reporting processes.

The OCC Project Executive Board—which includes representatives from the Ministry of Justice, the Ministry of Technology, Innovation and Citizens' Services, the Ministry of Environment and Partnerships British Columbia (Partnerships BC)—is accountable for the contents of this project report.

## Defined Terms and Abbreviations

Capitalized terms are defined in the glossary at the end of this report.

Abbreviations are defined in the table below:

DBB	Design Bid Build
DBFM	Design Build Finance Maintain
NPC	Net Present Cost
OIB	Osoyoos Indian Band
OCC	Okanagan Correctional Centre
PPP	Public Private Partnership
RFQ	Request for Qualifications
RFP	Request for Proposals

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Visitor front entrance to OCC.

# 1. Executive Summary

During the past decade, the Province of British Columbia (the Province) embarked on a significant capital investment program to develop, renovate and expand correctional facilities across the province. A \$185-million first phase capital plan delivered on the Province's commitment to reduce correctional capacity pressures with the addition of 340 new cells, improve safety conditions for correctional employees and inmates, and enhance public safety in British Columbia (B.C.).

In 2012, the Province announced the second phase of its capital expansion plan to include a new Okanagan Correctional Centre project (OCC, or the Project) to help further alleviate inmate capacity pressures. When completed in fall 2016, the OCC project will add an additional 378 cells, serving both male and female inmate populations. The high-security OCC will include state-of-the-art technologies to enhance operations and the delivery of corrections programs and services.

In March 2013, the Province announced the signing of a historic 60-year agreement with Osoyoos Indian Band (OIB) to lease land within the Senkulmen Business Park (an OIB Development Corporation Company). The partnership to build the new provincial correctional centre on OIB land is the first such partnership between the Province and an aboriginal group in B.C.

Following a competitive selection process based on the principles of openness, transparency and fairness, the Province<sup>1</sup> entered into a performance-based, fixed price Project Agreement in March 2014 with Plenary Justice (the private partner) to deliver the OCC project. Plenary Justice will design, build, partially finance and maintain (DBFM) the

Project for a term of 32.5 years, which includes the approximate 2.5 year construction period. Based on accounting guidelines, the capital cost, for accounting purposes, for the construction of the OCC project is expected to be about \$192.9-million. This figure includes the capital cost for the design and construction, the associated interest during construction and Plenary Justice's bid development and financing costs.

The procurement decision to use the DBFM partnership delivery method was based on a thorough analysis of procurement options. The analysis undertaken indicated Project objectives could best be met by using the partnership method.

Plenary Justice submitted a strong proposal that clearly demonstrated their expertise and capacity to deliver the Project. Plenary Justice's design solution offered significant benefits that addressed the Province's operational objectives to increase safety for inmates, staff and the community. In addition, the proposal provided additional program space capacity that exceeded the Province's expectations within the affordability ceiling<sup>2</sup> set for the Project.

The OCC will generate significant economic benefits for the South Okanagan region, including the creation of up to 500 direct and 500 indirect construction jobs<sup>3</sup>, as well as approximately 240 new, full-time correctional positions when the centre becomes operational. In addition, there will be a number of contracted staff on site such as nurses, doctors, dentists, counsellors, food service workers and trades personnel.

<sup>1</sup> The Ministry of Technology, Innovation and Citizens' Services.

<sup>2</sup> The key component of the Affordability Ceiling is the net present cost of the maximum amount of annual service payments the Province will pay over the life of the project.

<sup>3</sup> Job numbers provided by the Ministry of Justice.

Once construction of the facility is completed, Plenary Justice will provide a range of life cycle and facilities management services over the 30-year operating term of the agreement including plant services, help desk, utility management, roads, grounds and landscaping services and environmental and sustainability services. Plenary Justice will receive a monthly service payment for these services. Those payments will be based on performance, facility availability and service quality. Service payments can be reduced if Plenary Justice does not meet the high-quality standards contained in the Project Agreement.

The final partnership agreement between the Province and Plenary Justice is estimated to achieve a net present cost (NPC) value for money of \$39.3 million compared to a traditional Design Bid Build (DBB) method. Additional benefits from the DBFM delivery model include:

- Competition and innovation: The competitive nature of the bidding process encouraged Proponent teams to develop innovative solutions in all aspects of the Project from design and construction through to operations.

- Schedule certainty: Plenary Justice will receive a portion of its payment through monthly annual service payments once the facility is available for use, thereby providing a financial incentive to complete the Project on time.
- Cost certainty: The Project Agreement is a fixed-price contract for a term of 32.5 years, inclusive of an approximate 2.5 years construction period.
- Integration: Plenary Justice is responsible for the design and construction, partial financing and long-term facilities and life cycle maintenance of the facility. This creates opportunities and incentives to integrate these functions to optimize performance of the facility over the duration of the Project Agreement.
- Life cycle maintenance: Plenary Justice is responsible and accountable for ensuring the facilities are maintained and rehabilitated over the duration of the Project Agreement otherwise the monthly service payment may be reduced.

All correctional services will continue to be funded by the Province and delivered by BC Corrections.

The Province maintains control and decision-making over services and owns the facility over the life of the project.



Entrance from Enterprise Way.

## 2. Project Benefits and Key Features

The 378-cell, multi-storey OCC will be approximately 29,000 square metres and designed to accommodate remanded and provincially sentenced<sup>4</sup> inmates in a high-security environment. The correctional centre will contain 10 living units, comprised of 36 cells each to accommodate male inmates, and one living unit comprised of 18 cells for female inmates. In addition, three specialized living units have been designed for health care, segregation and specialized inmate management.

Integral to the rehabilitation of inmates, the facility incorporates well-designed, multi-purpose program spaces for workshops, skills-training and education, including culturally sensitive spaces designed for a range of aboriginal programs and activities.

Extensive use of glazing in the facility design will provide lots of natural light and the use of quality ventilation systems that deliver abundant fresh air will help to create calming environments for both employees and inmates. Employees will have access to outdoor courtyards and patios, a fitness centre and staff lounge facilities.

The use of wood materials and finishings will be featured prominently in non-secure areas of the facility to the extent permitted by the B.C. Building Code in a correctional environment. Wood finishings will adorn the two-storey glass atrium lobby creating a welcoming environment for visitors, the public and staff.

The exterior façade of the facility has been designed to blend in with the natural landscape of the business park. The facility will be set back from the roadway and landscaping will utilize indigenous plantings and materials.

### 2.1 Security Enhancements

A fully integrated, sophisticated electronic security and communication system that includes state-of-the-art, high-resolution cameras and perimeter intruder detection systems will assist correctional staff in performing their duties.

Control post locations provide strategic vantage points and allow for separation of functions between those that focus on the control of internal movement of inmate and staff, and those that focus on perimeter control, surveillance and alarm monitoring.

### 2.2 Technology

Building on the successful opening of the Surrey Pretrial Services Centre Expansion project, the OCC will incorporate innovations in technologies from this centre with a proven track record of success that are expected to improve operational efficiencies in a correctional environment. When construction of the OCC is completed fall 2016, these technologies will include the latest upgrades and software capabilities. Examples include:

- **Tablets:**

The hand-held audio/visual device has been designed specifically for correctional officers. A key benefit of the tablet is the ability for correctional officers to remain connected while moving around the living unit, thereby increasing their frequency of interaction with inmates. The ability to move freely around a living unit permits the correctional officer to engage, assess the atmosphere and behaviour of inmates, and allows valuable time for correctional officers to respond proactively to an incident when required.

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<sup>4</sup> BC Corrections operates facilities which hold people 18 years of age or older awaiting trial (remanded), serving a custodial sentence shorter than two years in length, or awaiting an immigration hearing.

- **Kiosks:**

Each living unit will have computer inmate kiosks that contain custom, secure software designed to provide personal information for inmates such as their trust account balances, health care appointments and visit schedules. These kiosks allow inmates to be more self-sufficient by providing them access to their personal information when they need it. In the past, when an inmate would like to know their account balance or schedule a medical appointment, they have to wait until their living unit correctional officer is available. By providing inmates with on-demand access to their information, correctional officers will be freed up to spend more time on inmate supervision and communication.

- **Video Conferencing**

Video conferencing provides many benefits for staff and inmates. It provides a convenient and secure environment for inmates to interact with the courts, lawyers and other professionals remotely. It is also used as the primary means for inmates and families to visit at the facility without visitors having to enter the secure zone of the facility. Additionally, video conferencing reduces the requirement of inmates to travel outside the high-security correctional centre for court appearances, thereby enhancing public safety and reducing travel time and costs. Video conferencing enables:

- Real time, two-way conversation;
- Flexibility for an inmate or various parties who cannot physically be at the same location to participate in the conversation;
- The reduction of contraband distribution;
- Reduced expenses and travel times in the transportation of inmates for court appearances;
- Reduction in greenhouse gas emissions from limiting the use of vehicle transportation to transfer inmates to/from courts; and
- Remote meeting opportunities for legal counsel.

## 2.3 Environmental Benefits

The OCC has been designed to be a green and energy efficient facility. It will be constructed to attain Leadership in Energy and Environment Design (LEED®) Gold certification ensuring a high-level of sustainability is achieved for the building. Expected benefits from the design include:

- Abundant natural light and fresh air;
- Reduced energy consumption and water use; and
- A reduction in the operating and maintenance cost of the facility throughout the life of the building.

The OCC will have access to geothermal services provided by Senkulmen Utilities (an OIB Development Corporation Company) generated within the Senkulmen Business Park and delivered to the site. This will provide sustainable, cost-effective and environmentally efficient heating and cooling for the facility.

## 2.4 Economic and Labour Benefits

The OCC will provide a boost to the local economy and create family-supporting jobs, generating approximately 500 direct and 500 indirect jobs during construction. Upon completion, approximately 240 new, full-time correctional positions will be created. In addition, there will be a number of contracted staff on site such as nurses, doctors, dentists, counsellors, food service workers and trades personnel.

## 3. Project Background, Guiding Principles, and Scope

### 3.1 Background

B.C. Corrections manages nine remand and sentenced facilities across the province. Currently, B.C. Corrections is faced with insufficient cells available to adequately accommodate projected inmate populations while separating incompatible inmates safely and securely. Every opportunity to maximize capacity in the existing facilities has been taken, however they continue to operate at capacity and pressures facing B.C. Corrections are acute.

In 2011, the need and rationale for the OCC Project was established in the Corrections Capital Asset Management Plan prepared by the Ministry of Public Safety and Solicitor General. The plan states that B.C. Corrections requires capital and operating funding increases to provide adequate capacity at the earliest date possible. Average daily inmate counts have been rising in recent years and expected to increase by 1.5 to 2 per cent a year for the foreseeable future. This projection does not include any additional impacts associated with the federal crime omnibus bill C-10—impacts that B.C. Corrections anticipates and will be monitoring closely.

In December 2012, the Province announced an important step forward to addressing the issue with the release of a Request for Qualifications (RFQ) into the market to identify companies capable of delivering the new OCC project in the South Okanagan.

### 3.2 Project Objectives

The Province developed the following objectives for the Project:

- Provide needed capacity to meet demand requirements in the Okanagan and Southeast B.C.;
- Provide and increase access to correctional programs that reduce re-offending;
- Accommodate inmates in an effective and respectful environment;
- Provide a positive work environment necessary to recruit and retain the highest quality correctional staff;
- Develop a state-of-the-art facility that optimizes the use of innovation and technology to maximize building reliability and accessibility; and
- Develop a facility that supports the health and safety of the community, staff and inmates.

### 3.3 Scope of the Project

The scope of the Project includes:

- 378 high-security inmate cells, which includes a separate 18-cell living unit for women;
- A segregation unit and a health care area;
- Supporting facility components including:
  - Admissions and Discharge;
  - Program Services;
  - Food Services;
  - Health Services;
  - Reception and Visiting;
  - Laundry;
  - Security and Control;
  - Staff Services;
  - Sheriff Services; and
  - Administration.
- Facilities maintenance services for the life of the contract, returning the entire facility in a fully-maintained condition at the end of the term as specified in the Project Agreement.

### 3.4 Project Site

In March 2013, the Province announced the signing of a historic agreement with OIB to lease land within the Senkulmen Business Park (an OIB Development Corporation Company). The partnership to build the new provincial correctional centre on OIB land is the first such partnership between the Province and an aboriginal group in British Columbia.

The 36-acre Project site is located seven kilometres north of Oliver, B.C. on Highway 97 in the southern end of the Senkulmen Business Park.

The contract secured the future of the OCC project by laying out the details of the land lease and utilities service for a 60-year period, plus an option for an additional 20 years.



View of OCC Business Park from the northwest, located in the Senkillmen.

## 4. Project Delivery Options

In accordance with the Province's Capital Asset Management Framework (CAMF), the project team undertook a procurement options analysis to determine an optimal procurement method for the OCC project.

### 4.1 Methodology

The evaluation of procurement options is mainly concerned with identifying the method of delivering the project that will result in the greatest value for money on both a financial (quantitative) and qualitative basis. In financial terms, value for money is established by calculating the estimated cost of a project, based on a particular partnership procurement method, and comparing it to the estimated cost if the project were procured using another method.

The evaluation of procurement options involves two main steps. The first step identifies key procurement objectives, and provides a qualitative assessment of a wide range of available procurement options including both traditional and partnership methods. The assessment of these procurement options is intended to identify the two procurement methods most relevant to the project, which then form the basis of comparison.

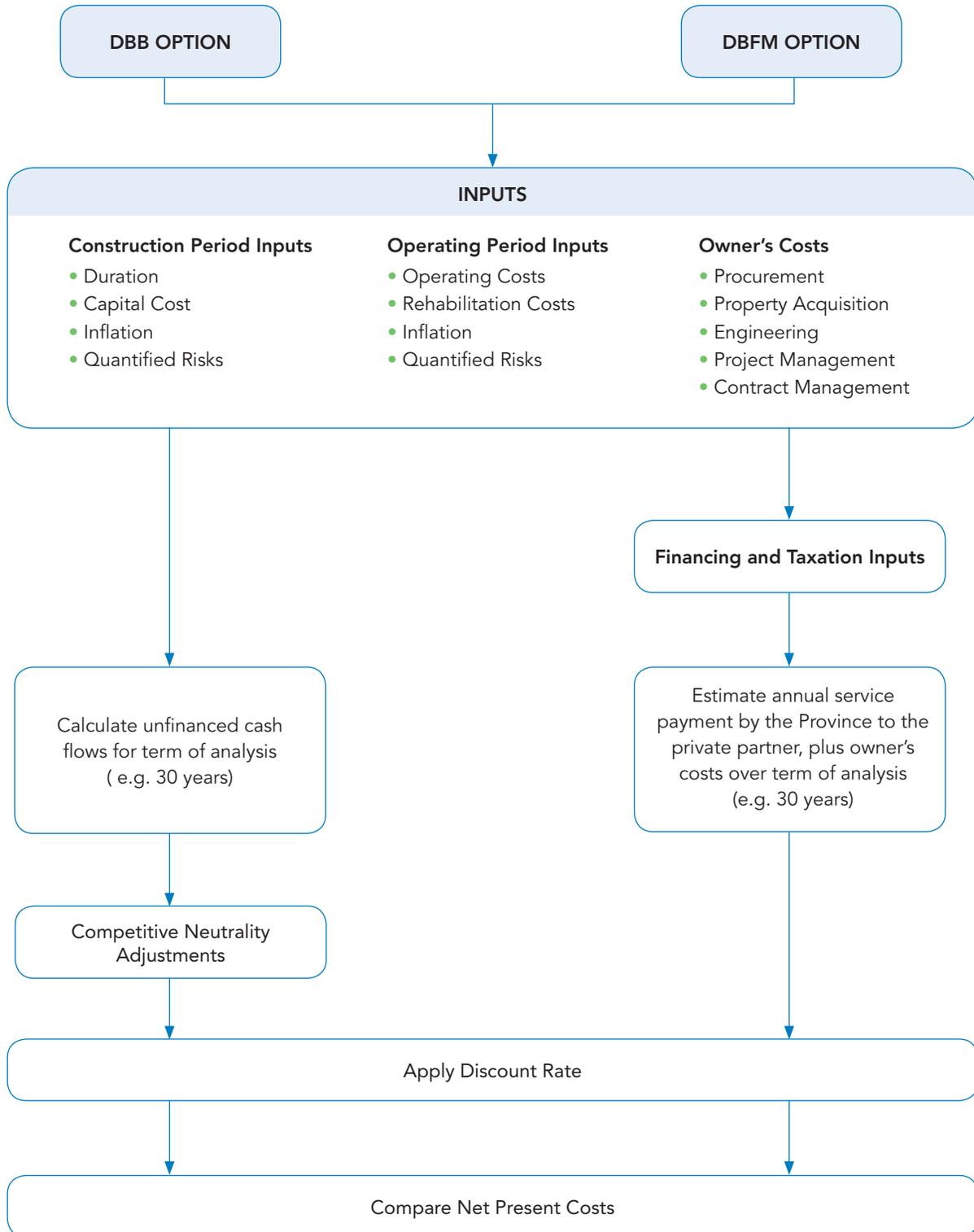
The second step in the assessment involves a more detailed, quantitative analysis that compares the two methods. A comprehensive risk analysis is conducted and financial models representing the two procurement methods are developed and compared. Both procurement methods consider detailed financial inputs that reflect key project components during the construction and operating periods, as well as associated public sector costs under each option.

To ensure that a complete comparison is being made, the analysis also considers inputs that address financing and taxation issues along with adjustments to ensure competitive neutrality that include items such as, how each model accounts for insurance costs. Without these adjustments, some costs may be understated in some areas and consequently would not reflect the true cost to the Province. When the procurement models being compared result in significantly different cash flows, a discount rate is applied to the projected future cash flows to facilitate an accurate comparison of the two approaches in present day dollars. Discounting allows procurement methods with different cash flow impacts—such as all payments made in the first year of a 15-year period versus payments spread over the 15 years—to be compared on a like-for-like basis. Comparing competing options in this way provides an objective means of determining the approach that provides the best value in terms of cost.

The results of this quantitative comparison between the two procurement methods, together with the qualitative criteria, are used to determine the method that is expected to provide the best potential value for money.

The following graphic illustrates the financial modeling approach used to compare procurement models.

**DETERMINING THE NPC OF ALTERNATIVE PROCUREMENT APPROACHES - SUMMARY**



## 4.2 Project Procurement Objectives

Procurement options were carefully considered through the development of procurement objectives based on the project objectives. The following procurement objectives were developed by the OCC project team to provide guidance in the selection and analysis of procurement options:

- Schedule certainty;
- Cost certainty;
- Facility performance throughout life cycle;
- Procurement process flexibility for innovation in design;
- Efficient risk allocation; and
- Overall value for money.

## 4.3 Procurement Options Analyzed

Based on discussions with the Province that considered the Project, procurement objectives and the Project scope, the project team determined that the traditional means by which the Province would procure the Project would be through a design, bid and build (DBB) model. Additional analysis by the project team determined that a DBFM procurement approach would be the most appropriate public private partnership (PPP) structure to consider for a detailed comparison. These two options are described further below.

**Design Bid Build (DBB):** The Province would engage an architect to develop a detailed design (working drawings) for the facility. The architect would complete the working drawings and then the Province would issue a tender call for a construction contract. The lowest qualified price would be selected and an industry standard construction contract would be used. The construction contractor would take responsibility for construction to the specifications detailed in the working drawings developed for the Province by its architect. The Province would remain responsible for errors and omissions in the design and would make monthly progress payments to the contractor. Once construction of the facility is completed, the Province would take possession and maintain and operate the facility for its entire lifespan.

The Province would retain key design and construction risks, such as schedule, construction cost and life cycle maintenance costs. Separate parties would design, build and maintain the various components of the facility.

**Design Build Finance Maintain (DBFM):** This partnership delivery model involves a two-stage competitive selection process. The first stage is a RFQ, whereby Respondent teams would submit qualifications to be received and evaluated, resulting in a shortlist of Proponent teams. The second stage invites the Proponent teams to submit proposals as part of the Request for Proposals (RFP) process. At the RFP stage, the Province would provide performance specifications and seek proposals from the Proponents to design, build, finance and maintain the facility.

The project team would evaluate these proposals to determine a Preferred Proponent with which it would enter into a final Project Agreement. Under the Project Agreement, the successful proponent would be required to design, build, partially finance and maintain the project over the specified term of the agreement.

Performance payments would be made monthly to the private partner over the life of the agreement, at a fixed rate determined at Financial Close. Payments only commence once the facility is completed to the satisfaction of the Province. To ensure that the private partner receives full payment, they must meet defined and measurable performance and availability standards on a continuous basis. The DBFM approach provides a financial structure that aligns the incentives of the private partner and the Province. Under the DBFM option, the private partner would be responsible for:

- Arranging partial project financing, including equity, for facility construction and maintenance over a specified term (32.5 years, which includes an approximate two and half year construction period);
- Designing and building the project facility; and
- Maintaining the facility over the life of the Project Agreement and handing it back at the end of the contract term in the prescribed condition.

#### 4.4 Results of the Procurement Options Analysis

Based on the procurement options analyzed, the DBFM method was determined to be the preferred procurement option, expected to best meet the Province's procurement objectives and overall project objectives.

#### 4.5 Achieving Value for Money

Value for money is a term that captures both the quantitative and qualitative benefits that are expected to be achieved by the decision to deliver the project using the partnership method. Quantitative value for money is achieved through the lower project cost resulting from a particular procurement method. Qualitative value is achieved when a particular procurement method is best able to support the broader objectives of a project.

#### PARTNERSHIP PROJECTS TYPICALLY PROVIDE THE FOLLOWING QUALITATIVE BENEFITS

- **Competition and innovation:** The competitive nature of the bidding process encourages the private partner teams to develop innovative solutions in all aspects of the project from design and construction through to operations.
- **Schedule certainty:** The private partner receives a significant portion of their payment through monthly availability payments once the facilities are available for use, thereby providing a financial incentive to complete the project on time.
- **Cost certainty:** The Project Agreement is a fixed price contract.
- **Integration:** The private partner is responsible for the design and construction, partial financing, long-term operations, maintenance and rehabilitation of the facility. This creates opportunities and incentives to integrate these functions to optimize performance of the facilities over the duration of the Project Agreement.
- **Life cycle maintenance:** The private partner is responsible and accountable for ensuring the facilities are maintained and rehabilitated over the duration of the Project Agreement, otherwise the annual service payment may be reduced.

## 5. Competitive Selection Process

A two-stage, competitive selection process was undertaken for the project<sup>4</sup>. During the RFQ stage, respondents were asked to present their qualifications for the project. Seven teams responded to the RFQ. A shortlist of three Proponent teams was selected and invited to participate in the RFP stage process. The Proponent teams invited to compete are described below.

PROPONENT	DESIGN	CONSTRUCTION	FINANCING	FACILITIES MANAGEMENT
BC Community Partners	<ul style="list-style-type: none"> <li>• OMICRON AEC LTD</li> <li>• Integrus Architecture</li> <li>• KMBR Architects Planners Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Bouygues Building Canada Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• InfraRed Capital Partners Ltd.</li> <li>• Bouygues Building Canada Inc.</li> <li>• Bouygues Energies &amp; Services Canada Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• Bouygues Energies &amp; Services Canada Ltd.</li> </ul>
Brookfield-EllisDon-Fengate Justice Partners	<ul style="list-style-type: none"> <li>• AECOM Canada Architects Ltd.</li> <li>• Kasian Architecture Planning &amp; Interior Design Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• EllisDon Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Brookfield Financial Corp.</li> <li>• EllisDon Capital Inc.</li> <li>• Fengate Capital Management Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• Johnson Controls Inc.</li> </ul>
Plenary Justice	<ul style="list-style-type: none"> <li>• DGBK Architects</li> </ul>	<ul style="list-style-type: none"> <li>• PCL Constructors Westcoast Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Plenary Group (Canada) Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• Honeywell Limited (Canada)</li> </ul>

The RFP required each Proponent to submit a proposal to design, build, partially finance and maintain the Project under the affordability ceiling. The affordability ceiling was set by the Province to ensure the project was affordable once proposals were received from Proponents.

During the RFP stage, collaborative and topic meetings were offered so that each team had the opportunity to discuss issues or concerns related to commercial, legal, design and construction and facilities management matters. Prior to the closing date for submissions, a final draft Project Agreement was issued and it served as the common basis for all proposals.

The timeline of the competitive selection process is outlined in the table below.

PROCUREMENT STAGE	TIMING	OUTCOME
RFQ	December 2012 to March 2013	The project was marketed locally, provincially, nationally and internationally. Submissions from seven respondents were evaluated and a shortlist of three teams was announced March 2013: <ul style="list-style-type: none"> <li>• BC Community Partners</li> <li>• Brookfield-EllisDon-Fengate Justice Partners</li> <li>• Plenary Justice</li> </ul>
RFP	March 2013 to January 2014	The three shortlisted teams submitted proposals.
Selection of Preferred Proponent	January 2014	After evaluation of the proposals, Plenary Justice was selected as the Preferred Proponent.
Project Agreement Finalization	March 2014	The Project Agreement was signed by the Province and Plenary Justice.

<sup>4</sup> The RFQ and RFP procurement documents are publicly available at [www.partnershipsbcc.ca](http://www.partnershipsbcc.ca)

## 5.1 Evaluation of Proposals

The overall objective of the evaluation was to select the proposal that best met the requirements of the RFP and achieved value for money. The Province appointed an evaluation committee to evaluate the proposals based on the criteria set out in the RFP and to recommend a Preferred Proponent.

As part of the evaluation process, Proponents were asked to submit proposals based on a two-part submission process—a technical submission followed by a financial submission. Each submission had to substantially satisfy the requirements of the RFP and the final Project Agreement.

Each proposal determined to be meeting the mandatory requirements of the RFP was examined to identify the extent to which, if at all, Scope Ladder items had been used to achieve the affordability requirements.

Proposals were evaluated and ranked in accordance with the Proponent's use of Scope Ladder items such that the Proponent using the least Scope Ladder items would be ranked the highest, and the Proponent using the most Scope Ladder items would be ranked the lowest.

None of the three Proponents used any of the Scope Ladder items and therefore, the Proponents' financial submissions were evaluated.

After a rigorous evaluation of proposals, it was deemed that Plenary Justice's proposal best satisfied the requirements of the RFP and final Project Agreement, under the affordability ceiling. The evaluation committee recommended to the Project Executive Board that Plenary Justice be declared Preferred Proponent. The Project Executive Board accepted the recommendation.

## 5.2 Affordability Ceiling and Scope Ladder

In a PPP, the private sector partner is paid an annual service payment consisting of the initial capital costs (e.g. design and construction), operational costs (e.g. facility management), major repairs and replacement of building elements (e.g. the roof) throughout the term of the Project Agreement. All of these costs are captured in the NPC of the project. The key component of the Affordability Ceiling is the NPC of the maximum the Province will pay in annual service payments over the life of the project.



A living unit.

To ensure the Province received affordable proposals, it was mandatory for the cost of proposals to be equal to or lower than the Affordability Ceiling. For the OCC project, the affordability ceiling was set at \$196.5 million NPC.

A Scope Ladder was introduced to provide the means for Proponents to meet the Affordability Ceiling by providing scope reduction steps outline in the RFP. A Proponent could propose to reduce the scope of the Project by one or more of the scope items set out in an approved list, referred to as the Scope Ladder. Proponents proposing reductions to the scope of the Project were asked to limit their proposed reductions to items identified by the Province in the Scope Ladder, and reductions could only be made in the order set out in the Scope Ladder. An example of a Scope ladder item was the deletion of a standard workshop.

None of the three Proponents used any of the Scope Ladder items.

The winning proposal received from Plenary Justice met the affordability ceiling and delivers the OCC Project scope in its entirety, without reduction, as outlined in the Project Agreement.

### 5.3 Fairness Advisor

A fairness advisor, John R. Singleton Q.C., Singleton Urquhart LLP was engaged to monitor the competitive selection process and offer an assessment about the procedures and whether or not the selection process was carried out in a fair and reasonable manner. The fairness advisor was provided access to all documents, meetings and information related to the evaluation processes throughout both the RFQ and RFP stages.

The fairness advisor issued reports for both the RFQ and the RFP stage of the competitive selection process. The report of the fairness advisor for the RFP process concluded that, *"In the end, I found the entire procurement process during the RFP phase to be transparent and without bias being shown to any one or more of the proponents and additionally to be in full accordance with the guidelines set out in the RFP document itself. The evaluators were fully cognizant of the need to comply with the principles of fairness, and in my view their conduct in doing so was exemplary. In sum, the RFP process in this instance has been completed without any residual fairness concerns."*

The fairness advisor's reports are publicly available at [www.partnershipsbc.ca](http://www.partnershipsbc.ca)

### 5.4 Competitive Selection Costs

The cost of the competitive selection process is factored into the value for money analysis. The total competitive selection cost for the Project from approval of the business case to financial close is \$9.8<sup>6</sup> million, including the cost of developing performance specifications, preparing procurement documentation, obtaining advice from external advisors and partial compensation of \$250,000 paid to each of the two unsuccessful Proponent teams. To be eligible to receive partial compensation, each unsuccessful proponent team had to submit a bona-fide proposal that satisfied all the mandatory requirements stated within the RFP. A common practice in the industry, partial compensation recognizes the significant time and expense that proponents have spent on developing their response to the RFP.

The decision to offer partial compensation is made on a case-by-case basis and can be used to: encourage competition; ensure the quality of proposals submitted; secure access to intellectual property; and, mitigate costs incurred by Proponents in developing their proposals.

<sup>6</sup> There were additional costs to prepare the road access to the site procured under a separate contract.

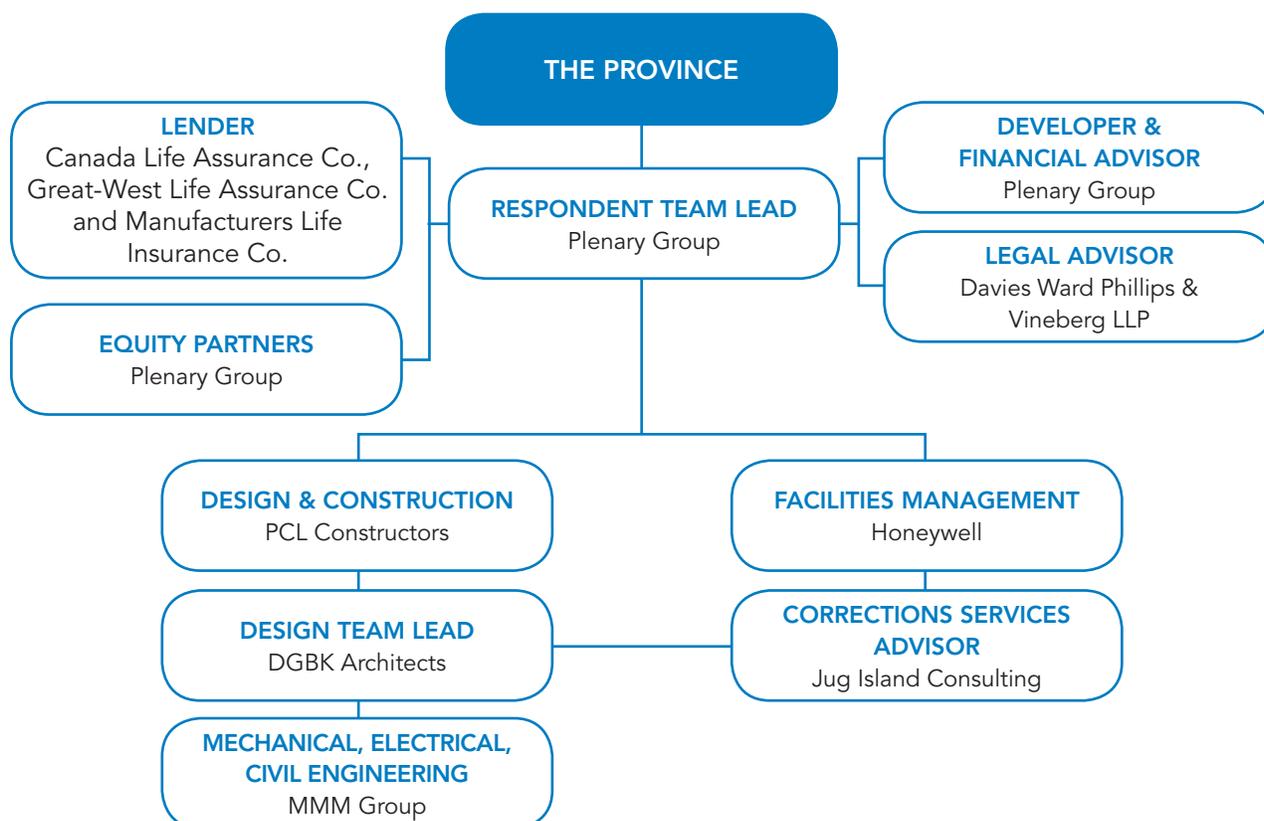
## 6. The Final Project Agreement

QUICK FACTS	
Private partner	Plenary Justice
Project Owner	The Province—Ministry of Technology, Innovation and Citizens’ Services, Shared Services BC
Provincial contributions to capital cost (nominal dollars)	\$72.3 million
Construction Complete	September 2016
Term of the Project Agreement	32.5 years, inclusive of approximate 2.5 years construction period
NPC of the final Project	\$241.6 million

### 6.1 Profile of the Private Sector Partner

Plenary Justice is the private partner for the OCC project. Plenary Justice is a consortium of companies qualified through the RFQ period and consisting of the following key members:

- **Consortium Lead** – Plenary Group (Canada)
- **Design** – DGBK Architects
- **Construction** – PCL Constructors Westcoast Inc.
- **Facility Management Services** – Honeywell Ltd. (Canada)
- **Equity Provider** – Plenary Group (Canada)
- **Lenders** – Canada Life Assurance Company, Great-West Life Assurance Company and Manufacturers Life Insurance Company



## 6.2 Key Terms of the Project Agreement

Under the terms of the Project Agreement, Plenary Justice is responsible for the following:

- Arranging a portion of financing for the design and construction period;
- Designing and building the correctional facility in accordance<sup>7</sup> with the design and construction specifications outlined in the Project Agreement;
- Providing specified facility management and life cycle services during the 30-year operating period. Activities include:
  - Plant services;
  - Help desk services;
  - Utility management services;
  - Roads, grounds and landscape maintenance services;
  - Environmental and sustainability services; and
  - Life cycle maintenance (major capital renewals and repairs).
- Maintaining the facility over the 30 years of the operations contract phase and returning it in a pre-specified hand back condition at the end of the term; and.
- Obtaining LEED® Gold certification within 36 months following substantial completion of the facility.

All correctional services will continue to be funded by the Province and delivered by BC Corrections.

The Province maintains control and decision-making over services and owns the facility over the life of the project.

## 6.3 Key Design Features of the Preferred Proponent's Proposal

Plenary Justice submitted a strong technical submission that clearly demonstrated the consortium has the expertise and capacity to design, construct, partially finance and maintain the Project. Their overall design solution offers significant benefits for the Province, some of which are described below.

- Supports the Province's operational objective of managing inmates through enhanced direct supervision, while also integrating security and enabling state-of-the-art technologies which assist staff in performing their duties efficiently and effectively.
- Provides additional capacity and program opportunities that incorporate colour and windows drawing in natural light to create a normalized and humane environment to the greatest extent possible. This solution results in increased safety for inmates, staff and the community.
- Incorporates creative physical configuration of living units, maximized sight lines, redundant circulation routes, and enhanced supervision from pod controls, which enables efficient and safe movement and increased safety for all occupants.
- The exterior facility design uses form and character that reflects cultural, geographical and climatic conditions of the South Okanagan. The exterior design will strengthen the Province's owned facility portfolio while also demonstrating BC Corrections' role as a positive member of the community.

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<sup>7</sup> See section X for details on project scope.

## 6.4 Performance-Based Payment Principles

During construction, the Province will make construction payments based on a percentage of the eligible construction costs incurred by Plenary Justice in a specific month as certified by an Independent Certifier.

Plenary Justice is incented to perform through a payment mechanism based on the principles of performance, facility availability and service quality. Once construction is complete and service commencement has been achieved, Plenary Justice will begin receiving an annual service payment from the Province. These payments will be made monthly and are based on the availability of the facility for correctional staff and the management of inmates, and the quality of facility maintenance services provided by Plenary Justice. The performance of Plenary Justice will be continuously monitored based on key performance indicators. If the performance standards in the Project Agreement are not met, the Province may apply deductions to the annual service payment.

Payment deductions are based on the severity of the failure to meet the performance indicator, the importance of the room or department area affected, and the level of unavailability. An unavailability deduction applies when a functional unit (room or department) fails to comply with the condition specified in the Project Agreement. For example, an unavailable officer command post not operationalized on time could result in a \$3,600 dollar penalty, per day.

## 6.5 Adjustments to Payments

The annual service payment may be adjusted to reflect specific circumstances as defined in the Project Agreement, including:

- **Change in Law:** If there is a change in law targeted at correctional facilities, the annual service payment may be amended to leave Plenary Justice in no better or worse position than if that change in law had not occurred.
- **Compensation Events:** Any compensation payable for a compensation event (e.g. breach by the Province of its obligation under the agreement) is provided by way of an annual service payment adjustment.
- **Deductions:** The monthly annual service payment will be reduced if Plenary Justice does not meet the performance standards outlined in the Project Agreement. Deductions will vary depending on the incidents' severity and duration.
- **Indexation:** The capital component (e.g. to repay the private debt and equity) of the annual service payment will not be indexed. The FM services component, life cycle costs and SPV costs of the annual service payment will be indexed by the Consumer Price Index.
- **Life Cycle:** The life cycle costs are non-uniform throughout the term of the agreement and will fluctuate based on Plenary Justice's life cycle profile. The non-uniform life cycle payment is an important risk mitigant as it prevents the Province from having to monitor a large build-up of cash in the first half of the agreement for use in the second half (when most life cycle expenditures occur).
- **Changes/Variations:** If the Province requires Plenary Justice to make a physical change or amend the services scope, the Province can pay the cost up front or have the cost financed. If the Province chooses to have the change financed, the cost will be reflected in an amended annual service payment.

## 6.6 Risk Allocation Summary

The Project Agreement includes detailed risk allocation provisions over the construction period and 30-year operating term. This approach transfers key risks to Plenary Justice—such as construction, cost and schedule—and adds value through design and private sector innovation.

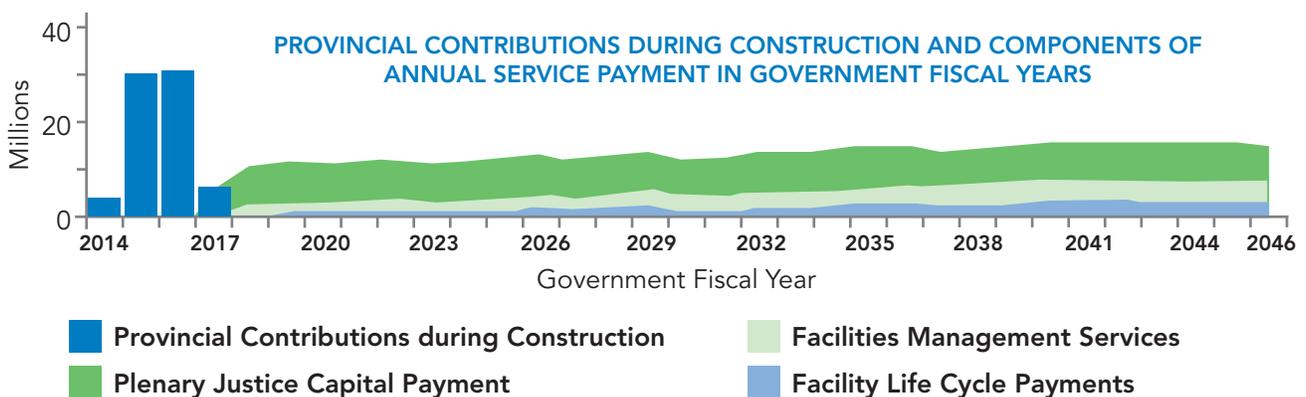
The table below summarizes key risk allocation between the Province and Plenary Justice.

THE PROVINCE	SHARED	PLENARY JUSTICE
Ownership of the facility	Force Majeure	Design
Program Delivery	Labour costs during operations	Construction
Legislative Change	Change in law	Financing
Existing soil conditions		Schedule
Utility (energy) unit costs		Maintenance
Cost of equipment		Commissioning
Scope changes		Life cycle
Consumer price index inflation on Facilities Management and life cycle costs		Inflation during construction
Utility Volume		Facility energy efficiency
		LEED Gold Certification

The risk allocation is supported by the following provisions in the Project Agreement:

- Plenary Justice will start receiving annual service payments from the Province when an independent certifier confirms the conditions for service commencement have been achieved, thus providing an incentive to complete construction on time and on budget;
- The expiry date of the Project Agreement is fixed, so any delays in completing construction will reduce payments to Plenary Justice, providing them with a strong incentive for timely construction completion; and
- Provisions are in place to reduce the annual service payment if Plenary Justice does not meet the performance standards in the Project Agreement for facility availability and maintenance.

The graph below demonstrates the cash flows to Plenary Justice that meet the affordability ceiling as defined in the RFP. The graph is expressed in nominal dollars, which assumes two and a half per cent inflation for facilities management and life cycle costs. Payment projections assume no penalties or deductions.



## 6.7 Quantitative Benefits

The estimated NPC of the Project delivered using a DBB approach is \$280.9 million. The estimated NPC of the Project delivered using the DBFM approach and Plenary Justice’s proposal is \$241.6 million. A comparison of these numbers is provided below. In financial terms, the final Project Agreement is estimated to achieve a NPC value for taxpayers’ dollars of \$39.3 million, when compared to the alternative procurement option.

**TABLE 1: VALUE FOR MONEY TABLE**

NET PRESENT COST (millions)	FINAL PROJECT COST	DBB OPTION
Annual service payments to Plenary Justice	154.4	
Provincial contributions to capital costs	71.1	
Capital costs		176.2
Life cycle and operating costs		41.8
Risk adjustment	6.4	32.9
Project management costs including planning, procurement and implementation	9.7	30.0
<b>Total</b>	<b>241.6</b>	<b>280.9</b>
Cost differential		39.3
Percentage savings		14%

Significant factors contributing to value for money includes:

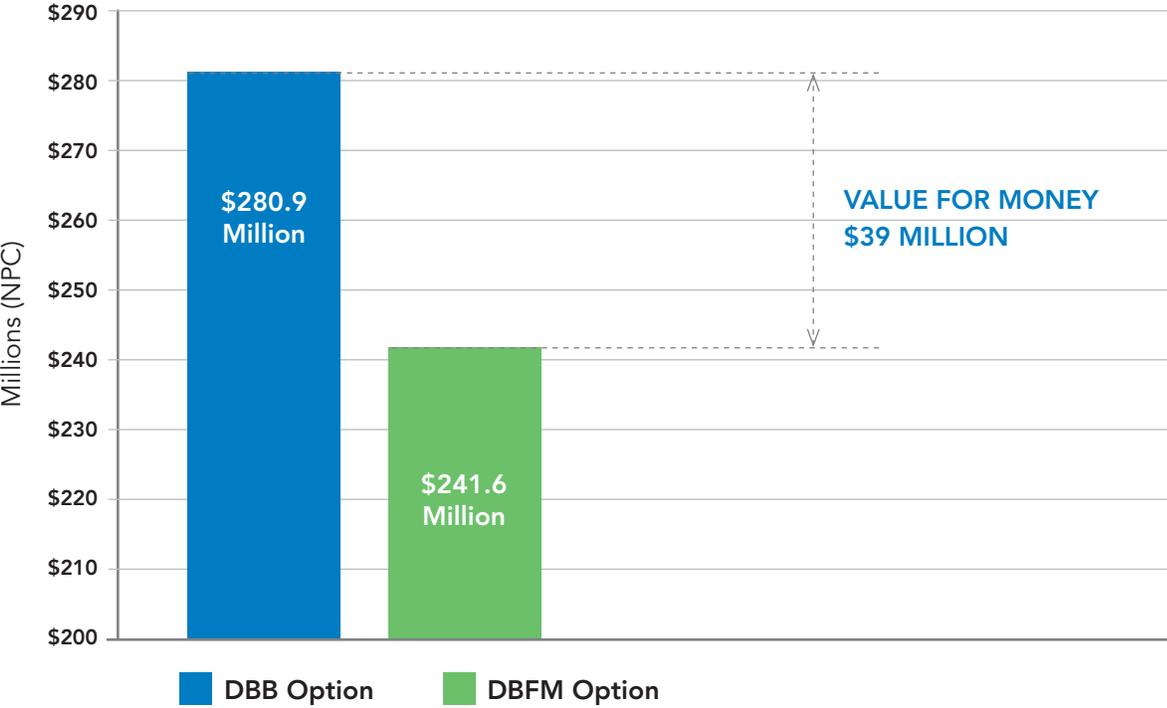
- Efficiencies from competitive construction pricing;
- Innovative and efficient construction methods to meet project timelines;
- Scheduling and integrating the design, build, operate and finance teams;
- Expected operational savings over the 30-year term of the Project Agreement; and
- Efficient allocation of risk.



Reception area, Level 2 of OCC.

The value for money analysis was made following established methodology<sup>8</sup>. The NPC of the figures described above were developed using a discount rate<sup>9</sup> of 5.92 per cent at February 2014, which represents the costs of capital over time, taking into account factors such as inflation and interest rates.

**FIGURE 2: VALUE FOR MONEY - COST COMPARISONS**



### 6.8 Accounting Treatment

B.C.'s Office of the Comptroller General, responsible for the overall quality and integrity of the Province's financial management and control systems, has established accounting guidelines for partnership projects. Based on accounting guidelines, the capital cost, for accounting purposes, for the construction of the OCC project is expected to be about \$192.9-million. This figure includes the capital cost for the design and construction, the associated interest during construction and Plenary Justice's bid development and financing costs. It does not include costs for Province-purchased equipment, insurance, GST, the competitive selection process, implementation or Province-held contingencies. These costs are accrued to the Province through the construction period as the costs are incurred.

<sup>8</sup> Partnerships BC's Discussion Paper: Methodology for Quantitative Procurement Options Analysis is publicly available at [www.partnershipsbc.ca](http://www.partnershipsbc.ca)

<sup>9</sup> The discount rate used for the calculation of value for money (VFM) is 5.92 per cent. To test the impact of a change in the discount rate on the quantitative VFM proposition of the DBFM model versus the DBB model, the modeling results were re-calculated assuming a discount rate 50 basis points higher and 50 basis points lower than the base discount rate. It should be noted that no change in the estimated value of risks was undertaken in conjunction with the change in discount rates used in the sensitivity analysis. A change in the discount rate, either higher or lower, would require a reassessment of the risks of the project. The results of the sensitivity analysis of the discount rate showed that the NPC of the final Project Agreement would have been approximately \$33.6 million less than the DBB if the discount rate was 50 basis points lower, and about \$44.5 million less if the discount rate was 50 basis points higher.

## 7. Ongoing Project Agreement Monitoring

The Project Agreement with Plenary Justice includes specific provisions to ensure project delivery, performance and quality standards are met. Monitoring spans every phase of the project, from Financial Close through design and construction, facility operations and maintenance. There are a number of major phases in the project monitoring schedule, with roles and responsibilities assigned to project participants at each stage.

### 7.1 Design and Construction Phase

The Project Agreement stipulates that both the Province and Plenary Justice must appoint design and construction representatives. The Province representative will review, approve, accept or confirm Plenary Justice's activities in accordance with the Project Agreement. The Province representative is supported by a compliance team of professionals. The Province representative and the compliance team will have full access to the construction site, drawings and specifications, and will report observations to the Province with regularity.

In addition, a Construction Period Joint Committee (CPJC) will be formed at the commencement of construction. The CPJC formalizes communications between the Province and Plenary Justice with the purpose of providing a formal forum for the parties to consult and cooperate in all matters relating to the Project during construction. The CPJC is a requirement of the Project Agreement and will remain in place until construction is complete and service commencement has been achieved.

In support of the aforementioned monitoring activities, the Province and Plenary Justice have also jointly appointed an Independent Certifier who will monitor and report on construction progress, and provide certification that the conditions for service commencement have been achieved.

### 7.2 Operations and Maintenance Phase

The Project Agreement stipulates that both the Province and Plenary Justice must appoint a representative to serve as a member of the Operating Period Joint Committee over the 30-year operating term of the agreement. The committee is a formal forum for the parties to consult and cooperate on all matters related to the facility during the operational term.

During the operations phase, Plenary Justice will provide the Province with the following plans for review and approval:

- Annual and five year plans for facilities maintenance and life cycle; and
- Management of building needs to conform to plans and performance indicators outlined in the Project Agreement.

### 7.3 Quality Management

The Project Agreement is designed to motivate Plenary Justice to ensure delivery, performance and high standards of quality given the monetary consequences of not achieving these requirements.

Plenary Justice is required to have a performance monitoring program in place during the operating period that will monitor the delivery of services. All reports generated from this program and supporting data are readily available to the Province at any time for audit purposes. Monthly reports delivered to the Province will contain a variety of information, including:

- Summary of calls made to the facilities management help desk and their resolution;
- Summary of unavailability events and service;
- Calculation of the monthly service payment owed to Plenary Justice; and
- A summary of all life safety actions and statutory testing (e.g. fire extinguisher inspections).

These reports allow for a thorough review and analysis on a monthly basis by the Province to ensure the facility is performing as intended. It will also ensure building operations and conditions are consistent and achieving Project objectives established at the start of the Project. The reports provide key information that determines if the facility is being properly maintained or not in (nature of help desk call and frequency of calls) accordance with the performance standards set out in the Project Agreement.

There are strict penalties if Plenary Justice misrepresents the monthly report, potentially leading to contractor default.

#### 7.4 Hand-Back Requirements

At the end of the 30-year operating term, the facility must be in a condition that is consistent with the services and maintenance specifications in the Project Agreement. For example, it would not be acceptable for the building fabric to be failing, the flooring to be worn or the general environment to be unkempt. Plenary Justice and the Province will jointly appoint and pay for an independent party to inspect and survey the condition of the buildings in advance of the end of the project term. Plenary Justice is responsible for meeting the hand-back requirements at the end of the project term.

Building conditions will be consistent with completion of all planned work agreed to during the operations period and need to be acceptable to the Province. Keeping facility conditions up during the operations period through ongoing maintenance will ultimately lead to hand-back conditions being satisfactory.

#### 7.5 Project Agreement Reviews

The Province will review the Project Agreement at appropriate intervals from the start of operations. This review will focus on whether the Project Agreement is functioning as intended and whether the expected services and benefits are being realized. The intent is to ensure satisfactory performance and ensure administrative elements are being applied correctly.

#### 7.6 Project Executive Board

A project executive board was established in 2012 to provide guidance and oversight for the implementation of the project, including the traditional capital components. Members of the project board include representatives from the Ministry of Justice, the Ministry of Technology, Innovation and Citizens' Services, the Ministry of Environment and Partnerships BC.

The Province has assembled an integrated project management team that will be responsible for implementing the project through design, construction and operating period. The project team reports through the chief project officer to the project executive board.

## 8. Glossary of Terms

**Affordability Ceiling:** The net present cost of the maximum the Province will pay in annual service payments over the life of the project.

**Annual service payment:** The mechanism by which a private partner in a PPP arrangement is often compensated. According to performance standards specified in a Project Agreement, an annual service payment is paid to the private partner for capital and operating costs, as well as their required rate of return, over the term of the agreement.

**Business Case:** Document prepared by the Province demonstrating the need and cost/benefit of a project, in addition to supporting a procurement method and providing an overview of the accounting impacts that a project may have.

**Competitive Neutrality:** A circumstance where competitive advantages that typically accrue to the Province as a result of public sector ownership are neutralized through a series of adjustments that permit a fairer comparison of non-public sector alternatives.

**Discount Rate:** A rate used to relate present and future dollars. Discount rates are expressed as a percentage and are used to reduce the value of future dollars in relation to present dollars. This equalizes varying streams of costs and benefits so that different alternatives can be compared on a like-for-like basis.

**Financial Close:** The point in the procurement process where negotiations with a preferred proponent are finalized and a Project Agreement is executed, allowing construction to begin.

**Independent Certifier:** An Independent, third-party certifier engaged jointly by the Province and the private partner to verify and certify whether certain conditions of the Project Agreement are being satisfied.

**Life Cycle:** The long-term requirements to maintain and rehabilitate the facility.

**Net Present Cost (NPC):** Refers to the value of periodic future cost outlays when they are expressed in current, or present day, dollars by discounting them using the Discount Rate.

**Nominal Cost:** Means costs calculated in nominal terms at current prices recognizing adjustments for inflation.

**Operations:** The ongoing processes or activities of a practical or mechanical nature that are involved in running a facility, such as janitorial services in a building or snow removal on a roadway.

**Partial Compensation:** A payment made to unsuccessful shortlisted bidders in a RFP process for expenses incurred in submitting a compliant proposal.

**Performance Specification:** Specifications developed by the Province that define the output and performance levels required in relation to construction and life cycle performance of a facility, to ensure the completed project satisfies the objectives of a project with respect to meeting the Province's service delivery needs.

**Preferred Proponent:** A proponent selected from a shortlist of bidders to enter into negotiations with the Province to reach financial close and deliver a project.

**Procurement Decision:** The decision by the Province to procure a project in a particular way to achieve value for money.

**Project Agreement:** The contract between the Province and Plenary Justice that sets out the requirements for the delivery of the facility under a PPP in terms of cost, schedule and life cycle performance that typically govern the performance-based, annual service payment to the private partner.

**Public Private Partnership (PPP):** A long-term, performance-based agreement with a private sector partner to deliver and maintain an infrastructure asset, including significant, upfront capital investment.

**Request for Proposals (RFP):** Document issued by the Province for qualified Proponents to submit formal proposals to deliver a project.

**Request for Qualifications (RFQ):** Document issued by the Province inviting parties interested in participating in an RFP, to submit their qualifications for delivering a project.

**Retained Risk:** Risks associated with delivering a project that are not transferred to the private partner under a PPP, representing a cost to the project regardless of the procurement approach.

**Scope Ladder:** Allows a Proponent to reduce the scope of the Project by one or more of the scope items set out in an approved list outlined in the RFP to meet the Affordability Ceiling.

**Service Commencement:** The date upon which the following activities have been achieved: the architect certifies substantial performance of the buildings; an occupancy permit has been issued; and all construction commissioning activities are complete.

**Traditional Procurement:** Methods by which the public sector has traditionally procured projects in B.C, through design bid build (DBB), or a combination of DBB and design build (DB) contracts.

**Transferred Risk:** Risk associated with delivering a project that is typically borne by the public sector under traditional procurement that is transferred to the private sector under a PPP.

**Value for Money (VFM):** Also commonly referred to as value for taxpayer dollars, VFM describes the benefits to the public expected to be realized through a particular procurement method that can be quantitative and/or qualitative in nature. Quantitative value for money is achieved through the lower cost of a project resulting from the procurement method, whereas qualitative value is achieved when a particular procurement method better supports the goals and objectives of a project without necessarily costing less.



View of the centre from northwest at Tucelnuit Drive.

## 9. July 2017 Supplement to Project Report

The following table provides nominal cash flows that represent the underlying numbers used to create the net present costs in the Value for Money table in Section 6.7 of the Project Report. The cash flows in the following table have been annualized and include all categories of costs included in the Value for Money table in the Project Report. To clarify, the numbers in the Final Project Cost column includes both payments to the Project Co as well as all of the Province's costs (e.g. project management). They have not been updated for any changes to the Project Agreement or performance issues after contract execution. It is important to note that the cash flows used to derive the net present cost numbers for the DBB and Final Project Cost columns in the Value for Money table are based on a combination of monthly, quarterly and semi-annual cash flows. Discounting the annual cash flows will produce net present cost numbers, similar, but not exactly the same as in the Project Report. The calculation of net present cost numbers is dependent on the timing of the cash flows, so a difference in the net present cost numbers is to be expected.

After the Project Report was released, it was noticed that Provincial contributions to capital costs were originally presented one year too early. Section 6.7 presents the VFM as 14%. The VFM based on the corrected cash flows is 15.4%. The table on this page reflects the correction.

FISCAL YEAR END (March 31)	FINAL PROJECT COST	DBB OPTION
	Cash flows for deal that make up Value for Money (\$000s)	Cash flows for deal that make up Value for Money (\$000s)
2013	2,113	4,191
2014	11,070	11,635
2015	35,851	83,381
2016	34,690	122,785
2017	10,942	25,241
2018	10,783	2,533
2019	10,858	3,035
2020	10,940	3,316
2021	11,344	3,005
2022	11,609	4,073
2023	11,267	4,387
2024	11,608	3,334
2025	12,303	3,620
2026	12,758	3,846
2027	12,298	4,752
2028	12,556	5,073
2029	13,569	4,142
2030	12,608	3,752
2031	12,444	4,082
2032	13,198	5,611
2033	13,420	5,207
2034	13,702	4,395
2035	14,368	4,804
2036	14,570	4,351
2037	14,320	7,717
2038	14,303	8,193
2039	15,084	4,687
2040	15,431	5,244
2041	15,669	5,720
2042	15,726h	6,882
2043	15,485	7,327
2044	15,481	5,787
2045	15,493	6,638
2046	15,352	7,561
2047	9,079	3,583



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