

Report on The Waste Water Treatment Plant Project at The Alexandra Resort

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The project to replace and improve waste water treatment at the Alexandra Resort was completed in September, 2015 and cost \$457,141. The original estimate, approved by the joint Strata Executive Committees, had been \$330,000. Why was there a cost overrun of \$127,141, who or what are responsible and who is going to pay for it?

Executive Summary and Recommendation

(Note: the first two pages of this report is all that owners need to read. Pages 3-8 gives the timeline of the development of this project, details of the estimates/costs and the various decisions that were made. It also documents current possible problems with the system.)

The strata joint EC, in an effort to have oversight of this project independent of Millenium Management Ltd (MML) and its parent, Waterloo International Hotels Ltd., commissioned Building Services Design Ltd. of TCI (BSD) to inspect the current system, prepare and send out RFPs for a new system, recommend a system, prepare an estimate for it's complete installation, hire a contractor and oversee the project.

The primary cause of the overage on this project rests with a very incomplete, and in my judgement, irresponsible estimate supplied by BSD. It is also unfortunate that MML, which evidently has the expertise to manage the project internally had we selected that option, did not review the estimate and question the key items that were not addressed. MML owns roughly 30% of units at the Alexandra so they certainly have a vested interest in keeping these expenses under control. Additionally, one EC member with experience, had 19 items of concern about the estimate, that BSD principles responded with evidently misleading or incomplete answers. Again MML was part of that conversation and did not seem to have concerns.

Is it possible to recover monies from BSD? In the Operational Audit commissioned by the EC it states: *The peculiarities of the business environment in this country are such that a formal process of soliciting quotes is often worthless, and it is often best to contract with a firm or individual that is known for delivering good value -- frequently not the cheapest, but someone who will complete the job properly and stand behind the*

work done. So unfortunately in TCI it is very much a case of “buyer beware”.

Certainly one can also question the EC’s decision to hire BSD as the manager. Soon after receivership in 2012, BSD was commissioned by management to inspect the WWTP and found it in very poor shape. In their proposal of 2014 they did a second very thorough inspection and seemed very capable of handling this project. In hindsight we could have asked for other bids or perhaps vetted BSD more thoroughly. As is always the case with The Alexandra, the EC has had to deal with many, many important issues at once. In the summer of 2014 there were owner concerns about our new RMA, possible demands for redecorating and the Mango Reef lease. We made a leap of faith with BSD and in hindsight it was a mistake.

The options left to the owners at this point seem to be for us to pay the full amount of the overage or insist that management, which has the expertise and experience to review the estimate and raise red flags, but didn’t- even when an EC member brought this to their attention - take significant responsibility and share beyond in the costs assessed to their owned units.

In discussion with other EC members we have concluded that to pursue the latter course is unreasonable. There is no proof that management “dropped the ball”. Even though they are closer to the project than the EC and all owners, they too are mostly a victim of this inaccurate estimate. Additionally, If the estimate had been accurate and was given to us as \$450,000 would we have rejected it? The project clearly had to be done.

The members of the EC recommend that the owners, in a special assessment and not from the capital reserve, absorb the cost of the overage. The costs are distributed as follows:

\$89,000 assessed to individual owners

\$38,141 assessed to units owned by management

127,141 Total overage

Management is now recommending additional capital projects of roof and AC replacement. The one benefit of this experience is that we will go forward with a different approach to “cost estimates” and if approving any further projects will seek ways to guarantee we do not incur costs beyond what is approved.

Part I - Project initiation

Timeline

June 7, 2012- The Alexandra Resort goes into Receivership.

August, 2012- The Receiver commissions Building Services Design Ltd. (BSD) to evaluate the Wastewater Treatment plant at The Alexandra.

September 17, 2012- BSD submits report the states "The WWTP" is in need of some serious professional maintenance."

July 30, 2014- Lisa S receives a short spreadsheet from Caroline outlining the different strata and timeshare costs relative to the \$511,000 capital projects they propose. \$355,000 of it is for a new WWTP.

August 5, 2014- John Airey lists 15 items of information needed for the EC *"to assess the viability of the project and make an approval recommendation."* Lisa forwards the list to Natasha and citing a EC Skype meeting from the night before states *"We agreed that we would hire an independent professional, at strata expense, to review the project."*

August 6, 2014- Donald S emails Caroline that the information relative to the WWTP has not been provided. (I assume from a much earlier request than the day before) The email is more confrontational however about RMA issues.

August 6, 2014- 6 hours later Caroline writes 3 separate emails to Donald mostly on the issues around the RMA. In the first one she informs him that Natasha will be the point person for any issues regarding the WWTP. She states that John's list of items seems reasonable and *"we are happy to work with a Strata-appointed engineer"* and *"We have told our own internal team to stand down"*.

August 7, 2014- Lisa receives email from Natasha: *"Two of three vendors identified visited the site last week and provided preliminary numbers"*. She states based on the 2012 study she reached out to Bionest, Clearwater and Kee-Nudisc. She also states: *"Given the requirements of the Executive Committee we will proceed with identifying and selecting an independent professional to manage and review the project, we will also appreciate any recommendations from the EC members in terms of identifying the prospective manager."*

August 15, 2014- Natasha emails Lisa that BSD has submitted a quote to manage the project for \$28,900.

August 22, 2014- Lisa notifies Natasha that the EC agrees to accept the proposal from BDS and to hire them.

August 25, 2014- In response to a question from Lisa Natasha writes: *“The Waste Water Treatment Plant is considered part of the Common Property of the Resort...The management company is not liable for any cost related to the Waste Water Treatment Plant.”*

September 12, 2014- Natasha forwards to the EC the new Site inspection report dated 8/27/14. In it Graham Shaw of BSD concludes:

“The WWTP system is in poor condition and has been lacking in serious maintenance over the years and probably ever since it was installed. If the system was to be inspected by the Planning/Health Department they could take the drastic step to close the resort down until the system is replaced/repared. Our immediate thoughts are as follows:

a. A deep disposal well should be drilled to cater for the overflow from the existing irrigation tank

b. The area should be fenced off and covers should be installed on all of the chambers

c. A replacement and more efficient system should be considered which could be constructed in parallel to the existing system. This will involve a new grease trap by the existing restaurant. On completion and handover of the new WWTP the existing system is decommissioned and removed from the site.”

October 20, 2014- Natasha forwards to the EC The results of their RFP with the bids from Bionest, Clearwater and Kee Process. Graham Shaw’s conclusion in this report:

“All of the systems meet the initial requirements from the RFP. If the capital and running costs were not the issue then the preferred system would be that of Bionest due to its excellent performance and quality. However, based on the above and the costs detailed in Appendix D it is recommended that Clearstream be approached to supply a WWTP to the Resort. They should confirm that they have visited the site and are aware of the existing conditions. A site visit to one of their WWTPs in the USA is also recommended.”

January 17,2015- in an email summary of the AGR meeting Donald states:

“Management requested about \$400K for the wastewater treatment plant, to be shared by the two stratas and the timeshare. They also asked to be reimbursed for the money they had spent on beach and pool equipment and internet infrastructure. The money for the wastewater treatment will be billed to the owners as a special assessment. The reimbursement items will come out of reserve. We agreed with management not to pay for the wastewater from the reserve because it is not wise to drain the reserve to a level below the insurance deductible for hurricane and other catastrophic damage”.

February 3, 2015- John writes Lisa: *“Last week, I met with a business associate in Provo to discuss the WWTP project. This individual expressed concern over the report prepared by BSD and their recommendation of Clearwater. He had read the report.”*

February 3, 2015- John also writes Natasha: *“I have spent the better part of today looking at the bid analysis done by BSD. Overall, their report is weak and missing very important design &*

supply information. Also, their financial analysis does not take into consideration some important non-financial considerations. Before a commitment is executed with Clearwater/Provo Electric, could you please BSD to respond to the following questions:..." John then lists 19 questions and concerns.

March 6, 2015- John writes an update to the EC and states: *"The WWTP plant has been ordered finally after several discussions with the consulting engineer to ensure that the best equipment was chosen; a site project manager will be contracted to represent the resort during construction and start-up phase"*

June 15, 2015- John writes an update to the EC and states: *"The bids for the WWTP went out a couple of weeks ago; site construction to commence on August with system installation in Sept."*

Comments:

I have had several email discussions with Natasha regarding this history. Since you will realize later in this report that I find BSD to be primarily responsible for the \$127,000 project over run, I wanted to know how we came to hire BSD. Natasha stated that the EC requested that instead of Waterloo people (Kevin Hubbard) managing the project that an outside agent be hired to send out the RFPs and manage the project. It is clear that we did just that as Lisa makes that request on August 5 and Caroline tells her people to "stand down" on August 6. It is also clear that Natasha in her email of August 7 and Waterloo contractor Kevin Hubbard had been in the process of getting quotes before they were relieved of this responsibility. One week later she forwards a bid from BSD to manage the project. BSD had done the original inspection in 2012. As far as I can tell this was the only outside bid to manage the project that was received by Waterloo. One week later Lisa notifies Natasha that the EC has voted to accept the BSD bid and to hire them.

BSD's report of 8/27 recommends we replace the system and their 10/20 reports the results of the RFP and recommends we use the Clearwater system. On Feb 3, 2015 John expresses concerns about the BSD report and recommendation and asks Natasha to get answers from BSD to 19 bullet points. A month later John notifies us that the Clearwater equipment has been ordered after several discussions with a consulting engineer. Since I don't see any evidence in writing of an answer to the 19 bullet points I must assume John's concerns was satisfied in those discussions. Natasha does say: *"Mr. John Airey came to us with questions regarding the system. We arranged a conference call with him and all the parties involved to ensure we addressed all concerns about the system before we moved ahead. He was satisfied with the responses he received and we moved ahead with the project."*

Although the BDS report does not make the cost of each system evident, our audit report lists the three systems equipment costs at:
Bionest- \$350,000,
Kee Biodisc- \$213,000
Clearwater \$133,000.

Because each system required different type of construction the total costs/annual maintenance were estimated at:

Bionest \$789,000/\$39,000

Kee Biodisc: \$369,000/\$42,000

Clearwater: \$330,000/\$37,500

John states on June 15, 2015 that the bids for construction of the Clearwater system went out.

The three bids were:

NorStar: \$335,000

Been Construction: \$399,500

J&W Construction: \$311,000

- Natasha says these construction quotes turned out to be much closer to the real costs than BSD's quote of \$197,000 (\$330,000-\$133,000). Natasha explains: "*The consultant never received hard quotes for the building of the concrete tanks he only received hard quotes for the equipment. The consultant provided a cost estimate that was way off from the actual cost of construction of the tanks.*"

This is the major mistake that led to the cost overrun. BSD (or Natasha- I'm not sure) hired J&W construction. The actual bill from J&W was \$275,500. That is \$78,500 over BSD's estimate.

Our auditor also sites the following costs that should have been expected but were not:

• Customs Processing Fee (payable even on duty-free importations)	\$ 8,956
• Work permit for Installer	750
• Emptying of existing sewage tanks	11,200
• Structural design, planning & engineering	9,550
• Project engineering	<u>18,185</u>
	\$48,641

Our auditor also reports that the final total cost was \$467,000. Minus the original BSD estimate of \$330,000 leaves an overage of \$137,000.

My own figures are off by \$10,000. If J&W's final bill was \$78,500 over the estimate and you add the \$48,600 above for other unaccounted costs I get an overage of \$127,000. I have asked Natasha if she can account for the other \$10,000 that I believe they are planning to assess us for.

I am left with the following questions:

- Why was BSD the only company to bid on the management of the project? [We paid them \$29,100 (\$200 over what they quoted)]
- If we have the internal expertise to manage the project why wasn't Waterloo's contractor, Kevin Hubbard, asked to review the BSD estimates and if he was, why

didn't he catch such big things as the concrete tanks and emptying the existing tanks?

- The only person with any expertise that reviewed the BSD report and had questions was John Airey who had 19 bulleted concerns. Evidently they were all addressed in a conference call with BSD. Does John now feel deceived with the answers they gave him?
- Why did all the Construction quotes go directly to the Waterloo Group care of Natasha without any reference of copies to Graham Shaw/BSD?
- Once the three construction quotes were received by Natasha in mid June why wasn't BSD confronted with the overage and asked to explain (maybe they were- I have no history on that)
- Why wasn't the EC notified immediately that the the original estimates from BSD were clearly way off and the question asked: what should be done?

The next section of this report deals with the installed system and concerns we might have, but I have one last observation about the approval and completion of this project.

As I went through the last 2 years of emails it is clear that all of us on the EC and probably those at Waterloo too, were (and still are) dealing with a lot. A stream of emails about the WWTP is, for a long time, secondary to our major concerns about the RMA. Then when the subject emerges again we are all also concerned about the unit upgrades or The Mango Reef or the locks or building inspections. Now it is the huge question of the VRBOs and the Roof replacement and the AC replacement. The issues and assessments have become continuous and very hard for all of us, most of whom do not spend more than a month or two total on the island, to monitor, think about, ask important questions and follow up on. We are very blessed to have Lisa, Don and John who have tried their best to handle all this.

There is no obvious answer to improving this reality other than to try and slow Waterloo down. I will ask that question again in my Roof/AC report.

Part II- Current Operations

This part of the report is much shorter, primarily because there is a much shorter timeline. Since the Clearwater system went into operation I have very little documentation on it.

In both our visits in late November and our January visit we observed, especially in the evening, the red light blinking. Mary Ann Somerville wrote an email in January about observing it and we have talked to others on the west side of the resort who have seen it also.

Sometimes when the light is on and even when it is off there is also a very noticeable odor. It is

the same odor we remember from when the old system was overtaxed. We have smelt it at all times of the day.

Natasha claims that the complaints are way down and *“I have spoken to Gildo regarding the ‘stench’ and he has indicated to me that there is no stench. The plant contains raw sewage and there will be a smell from time to time but it is not a stench.”*

Obvious the concern is that after spending over \$400,000 is the system working effectively and why should the resort have any type of noxious odor from the system?

At this year’s AGM several people asked this question and Natasha reported that Mark Lubbers from Clearwater explained to her that the bacteria needed to process the waste has to be given time to mature.

In a separate email to Natasha, however there is no mention of bacteria. He says:

“There may be several alarm conditions that would cause the red light to flash. These may include a failed pump, a low water or high water condition in the equalization tank or in the final settling tank. It could also be caused by the Operator changing a setting in the controls and leaving one of the pump systems in the MANUAL or OFF (Not AUTO) position. The screen display inside the controls will tell the operator which of the above is the cause. I will give Gildo a call to discuss or you can have him call me at his convenience.

Installation of the control panel near the tank made good sense from an operations and an installation cost perspective. Relocating the panel would require some trenching and running the control wires some distance to the new location.... If odor from the vents is a continuing concern you could theoretically extend the vent pipes or install a type of low tech mulch bio-filter and run the pipe through the mulch. Active odor control systems using activated carbon filters can be large and expensive. As I mentioned I will give Gildo a call to discuss some options. I’ll let you know what I learn.”

Since there is no mention in his letter of maturing bacteria so I question how important that really is. I do not have answers to the questions asked of Gildo by Lubbers but we can certainly talk with Gildo although he is in a potentially delicate position and I don’t want to put him between us and management.

It is important to separate the failings of BSD from Clearwater. I have no reason to believe that Clearwater won’t take steps to address these concerns. We do need to know, however, whether any needed resolution means more expense.

Respectfully Submitted,

Malcolm Spaul
EC member Strata 49
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