Ontario

INFRASTRUCTURE ONTARIO

VALUE FOR MONEY ASSESSMENT

TRILLIUM HEALTH PARTNERS

CREDIT VALLEY HOSPITAL SITE

PRIORITY AREAS REDEVELOPMENT PROJECT

KPMG LLP
Suite 4600, 333 Bay Street
Toronto, ON M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

PRIVATE & CONFIDENTIAL

Ms. Jennifer Quinn
Infrastructure Ontario
777 Bay Street
Toronto, Ontario
M5G 2C8

Re: Value for Money Assessment – Credit Valley Hospital Priority Areas Redevelopment

Dear Ms. Quinn:

KPMG LLP ("KPMG") has prepared the Value for Money ("VFM") assessment for the Credit Valley Hospital Priority Areas Redevelopment Project ("Project") at the Financial Close stage, in accordance with our letter of engagement with Infrastructure Ontario ("IO") and IO's methodology *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*.

The VFM assessment is based on a comparison of the total project costs at substantial completion for the Project under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") model; and

2. The Alternative Finance and Procurement approach ("AFP"), incorporating the Preferred Bidder's proposed costs.

The VFM assessment was calculated using the following information (collectively the "Information") within the VFM model:

i. A Risk Matrix developed for IO by Altus Group and adapted by IO to reflect Project specific risks; and

ii. Cost and other input assumptions extracted from the bid submitted by the Successful Bidder and other VFM model assumptions as provided by IO.

We have not audited or attempted to independently verify the reasonableness, accuracy or completeness of the Information.

Based on our understanding of IO's VFM methodology, we can confirm that, the Information has been appropriately used in the VFM model, and that the VFM assessment demonstrates the AFP approach provides estimated cost savings of 7.1% in comparison to the traditional delivery approach.

Yours very truly

Will Lipson

KPMG LLP

Will Lipson
Partner
Toronto, Ontario
June 19, 2015

Page 2

October 20th, 2014

Mr. Michael Inch
Vice President, Procurement
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, Ontario M5G 2C8

Subject: RFP to Build and Finance Credit Valley Hospital Priority Area Redevelopment Phase 3 Project RFP No. 13-490P

Dear Mr. Inch:

P1 Consulting was retained to perform fairness auditing services and provide an independent attestation on the RFP procurement process. Our mandate was to review and monitor the bid documents and communications, provide advice on best practices, review and monitor the evaluation and decision-making processes that are associated with the RFP to ensure fairness, equity, objectivity, transparency and adequate documentation throughout the evaluation process.

Infrastructure Ontario issued, in conjunction with Trillium Health Partners, a Request for Proposals to Build and Finance the Credit Valley Hospital Priority Areas Redevelopment Phase 3 Redevelopment Project. The purpose of the RFP process is to select a general contractor to build and finance the Project.

The Project consists of approximately 115,000 square feet of renovation space and 16,000 square feet of new construction. The surgical suite, critical care, emergency department and diagnostic imaging will be redeveloped and/or expanded as part of the Project.

In our role as Fairness Monitor, P1 Consulting made certain that the following steps were taken to ensure a fair and open process:

- Compliance with the requisite procurement policies and procedures and the laws of tendering for the acquisition of services relating to public sector procurement;
- Adherence to confidentiality of bids, and the evaluation process;
- Objectivity and diligence during the procurement process in order to ensure that it was conducted in an open and transparent manner;
- Proper definition and use of evaluation procedures and assessment tools in order to ensure that the process was unbiased;
- Compliance of project participants with strict requirements of conflict of interest and confidentiality during the procurement and evaluation processes;
- Security of information;
- Prevention of any conflict of interest amongst evaluators on the selection committee;

P1 Consulting Inc.

86 Centrepointe Drive, Ottawa, Ontario, Canada K2G 6B1 T: (613) 723-0060 F: (613) 723-9720

P1 Consulting Inc.

- Oversight to provide a process where all bidders were treated fairly.

The Fairness Monitor actively participated in the following steps in the process to ensure that fairness was maintained throughout:

- Project kick-off meeting
- Review session of the draft RFP Documents
- Commercially Confidential Meetings with the Proponents
- Site and facility visits by the Proponents
- Review of the RFP Addenda
- Review of evaluation process and guideline
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents

The final step which we oversaw in the process was the selection of the First Negotiations Proponent.. A recommendation to the Evaluation Committee was made on September 11th, 2014 to approve Walsh Canada as the First Negotiations Proponent.

As the Fairness Monitor for the **Credit Valley Hospital Priority Area Redevelopment Project Phase 3**, we certify that, at the time at which this report was prepared, the principles of fairness, openness, consistency and transparency have, in our opinion, been maintained throughout procurement process. Furthermore, no issues emerged during the process, of which we were aware, that would impair the fairness of this initiative.

Yours truly,

Jill Newsome

Jill Newsome
Lead Fairness Commissioner

Credit Valley Hospital Priority Areas Redevelopment Project

Courtesy of Cannon Design

Project highlights:

- renovations to nearly 187,000 square feet of hospital space
- complete renovation and expansion of the emergency department
- a new six-bay ambulance garage
- renovation and expansion of the surgical and peri-operative department
- new and expanded facilities for the critical care unit
- renovations to the diagnostic imaging department

Table of Contents

Summary

The Credit Valley Hospital Site Priority Areas Redevelopment project supports the Province of Ontario's long-term infrastructure plan to repair, rebuild and renew the province's roads and highways, bridges, public transit, schools and post secondary institutions, hospitals and courthouses in communities across Ontario.

Infrastructure Ontario plays a key role in procuring and delivering infrastructure projects, on behalf of the Province. When Infrastructure Ontario was created, its mandate included using an alternative financing and procurement (AFP) method to deliver large, complex infrastructure projects. In June 2011, the Province expanded Infrastructure Ontario's role to deliver projects of various sizes, including ones suitable for an AFP delivery model, as well as other delivery models.

Trillium Health Partners' Credit Valley Hospital Site Priority Areas Redevelopment project is being delivered under the Province's alternative financing and procurement (AFP) method.

Once completed, Trillium Health Partners will be better able to meet the needs of the growing population and to enhance access to essential health-care services.

The public sector retains ownership, control and accountability for the hospital, including the redeveloped facilities.

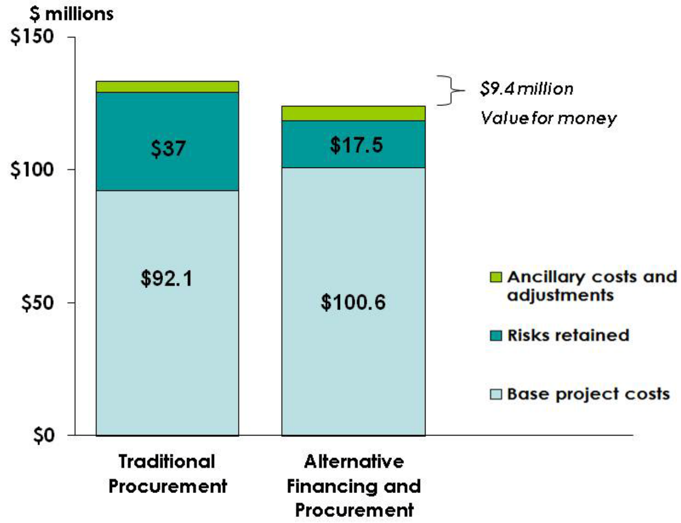
The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, and to demonstrate how value for money was achieved by delivering the Credit Valley Hospital Site Priority Areas Redevelopment project through the AFP process.
The value-for-money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point of time and related to two delivery models.

Value for money is determined by directly comparing the cost estimates for the following two delivery models:

Model #1 **Traditional project delivery (Public sector comparator)**	**Model #2** **Alternative financing and procurement**
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

The cost difference between model #1 and model #2 is the estimated value for money for this project.

The value for money assessment of the Credit Valley Hospital Site Priority Areas Redevelopment project indicates estimated cost savings of 7.1 per cent or $9.4 million, by using an AFP approach in comparison to a traditional delivery.



KPMG completed the value for money assessment of the Credit Valley Hospital Priority Areas Redevelopment project. Its assessment demonstrates projected cost savings of 7.1 per cent by delivering the project using the AFP model, versus what it would have cost to deliver the project using a traditional delivery model.

P1 Consulting acted as the Fairness Monitor for the project. It reviewed and monitored the communications, evaluations and decision-making processes associated with the Credit Valley Hospital Site Priority Areas Redevelopment project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. P1 Consulting certified that these principles were maintained throughout the procurement process (please see letter on page 4).

Infrastructure Ontario will work with Trillium Health Partners on the redevelopment of the hospital, which will remain publicly owned and publicly controlled.

Project description

Background

Ontario's public infrastructure projects are guided by the five principles set out in the provincial government's *Building a Better Tomorrow Framework,* which include:

1. public interest is paramount;
2. value for money must be demonstrable;
3. appropriate public control and ownership must be preserved;
4. accountability must be maintained; and
5. all processes must be fair, transparent and efficient.

Infrastructure Ontario has the task of delivering the Credit Valley Hospital Site Priority Areas Redevelopment project on time and on budget. The Credit Valley Hospital Site Priority Areas Redevelopment project will be delivered using an Alternative Financing and Procurement (AFP) delivery model - a public-private partnership approach to project delivery. AFP brings private-sector expertise, ingenuity and rigour to the process of managing and renewing Ontario's public infrastructure while shifting risks associated with cost and schedule overruns away from the public sector.

Project scope

The Priority Areas Redevelopment Project includes renovations to approximately 187,000 square feet of existing hospital space. Project highlights include:

- the complete renovation and expansion of the emergency department
- a new six-bay ambulance garage
- the renovation and expansion of the surgical and peri-operative department
- new and expanded facilities for the critical care unit
- renovations to the diagnostic imaging department

Sustainable design strategies will be incorporated as a vital part of the design of the project providing benefits to the hospital, such as:

- Improved patient, visitor and staff comfort;
- Creating an improved healing environment;
- Reduced annual energy costs

The design approach will ensure low energy costs for the building, while providing an environmentally friendly indoor and outdoor environment. To reduce overall energy cost, energy conservation measures will be employed in the boiler and chiller plants, air-handling systems, domestic hot water heating systems, etc. The building systems will support an indoor environment with a therapeutic setting. The systems will also be developed to provide the ideal temperature, fresh air, humidification, de-humidification and acoustic requirements to each space.

Competitive selection process timeline

Trillium Health Partners entered into a project agreement with Walsh Construction Company of Canada to build and finance the redevelopment project. The procurement stages for the project were as follows:

May 13, 2013

Request for Qualifications

In 2013, Trillium Health Partners and Infrastructure Ontario issued a request for qualifications (RFQ) for the Credit Valley Hospital Site Priority Areas Redevelopment project.

Trillium Health Partners and Infrastructure Ontario then evaluated and identified the project teams with the required construction capability and experience, and the financial capacity to undertake a project of this size and complexity. This can take several months.

For Credit Valley Hospital Site Priority Areas Redevelopment project, five proponents were shortlisted:

- Bondfield Construction Company Limited
- EllisDon Corporation
- Graham-Harbridge + Cross Joint Venture
- PCL Constructors Canada Inc.
- Walsh Construction Company of Canada

March 20, 2014

Request for Proposals

A request for proposals (RFP) was issued to the pre-qualified proponents, setting out the bid process and the proposed project agreements to build and finance the project.

Proposal submission

The RFP technical submission deadline was August 19, 2014 and financial submission deadline was August 21, 2014. Four proposals were received by Infrastructure Ontario and Trillium Health Partners. The bids were evaluated using the criteria set out in the RFP. It takes several months to evaluate proponent's proposals and then negotiate a final contract.

November 26, 2014

Commercial and financial close

A project agreement was executed by Trillium Health Partners and Walsh Infrastructure Credit Valley, Ltd., ("Project Co") a wholly owned subsidiary of Walsh Construction Company of Canada.

The building team, led by Walsh Construction Company of Canada, includes financing provided by Sumitomo Mitsui Banking Corporation.

November 26, 2014

Construction

Construction began on November 26, 2014. During the construction period, the builder's construction costs will be funded through financing, which will be paid in monthly instalments based on the construction program set out by Walsh Construction Company of Canada.

Construction will be carried out in accordance with the project agreement. The project will be overseen by a joint building committee made up of representatives from Trillium Health Partners and Infrastructure Ontario.

Completion and payment

Project Co. will receive final payment when the remainder of the project is substantially completed.

Project agreement

Legal and commercial structure

Trillium Health Partners entered into a project agreement with Project Co. to carry out the construction and financing of the project. Under the terms of the project agreement, Project Co. will:

- build the Credit Valley Hospital Site Priority Areas Redevelopment project, which will be completed in spring 2018
- provide a financing package for project construction; and
- ensure that, at the end of construction, the building meets the requirements specified in the project agreement.

Credit Valley Hospital will remain publicly owned and publicly controlled.

Construction and completion risk

All construction projects have risks. Some project risks are retained in varying magnitude by the public sector. Examples of risks retained by the public sector under either the AFP or traditional model include planning, unknown site conditions, changes in law, public sector initiated scope change, and force majeure (shared risk).

Under the AFP model, some key risks that would have been retained by the public sector are contractually transferred to the private sector. These risks, such as design co-ordination and resource availability, could have led to cost overruns and delays in traditional projects. Other examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

Walsh Construction Company of Canada will redevelop the Credit Valley Hospital site for a guaranteed maximum price of $100.6 million, including financing costs. The builder's guaranteed maximum price for the hospital may only be adjusted in very specific circumstances, agreed to in advance and in accordance with the change order procedures set out in the project agreement.

Scheduling, project completion and delays

The builder has agreed to reach substantial completion of Credit Valley Hospital Site Priority Areas Redevelopment project by spring 2018. The construction schedule can only be modified in very limited circumstances and in accordance with the project agreement.

Costs associated with delays that are the responsibility of the builder must be paid by the builder.

Design co-ordination

The project agreement provides that Project Co. is responsible for all design coordination activities to ensure that the facilities are constructed in accordance with the design.

Costs associated with design coordination that are the responsibility of the builder must be paid by the builder.

Construction financing

Project Co. is required to finance the construction of the project until the facility reaches substantial completion and is turned over to Trillium Health Partners. The project agreement provides that the builder will be responsible for all increased financing costs resulting from any builder delay in reaching substantial completion. This shifts significant financial risk to the builder and is a strong incentive to prevent late delivery.

Schedule contingency

The project documents provide the hospital with a schedule contingency, also known as a schedule cushion, which shields Trillium Health Partners for delay costs for which the hospital is responsible. While delays caused by the hospitals are expected to be minimal, the schedule cushion provides Trillium Health Partners with some protection from the risk of delay claims by the builder.

Commissioning and facility readiness

Project Co. must achieve a prescribed level of commissioning of the redeveloped facility at substantial completion and must co-ordinate the commissioning activity within the agreed upon construction schedule. This ensures that Trillium Health Partners will receive a functional facility at the time payment is made.

Activity protocols

Project Co. and the consultants from Trillium Health Partners have established a schedule for project submittals by the builder, taking into account the time for review needed by the hospital's consultants.

This protocol mitigates against the builder alleging delay as a result of an inability to receive responses in a timely manner in the course of the work.

Change order protocol

Infrastructure Ontario's change order protocol sets out the principles for any changes to the project work/scope during the construction period, including:

- requiring review and approval of change orders from Trillium Health Partners;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of potential change orders to Infrastructure Ontario;
- timely review by Infrastructure Ontario for owner-initiated scope changes;
- approval by Infrastructure Ontario for any change orders that exceed pre-determined thresholds; and
- approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

In addition to the above key risks being transferred to the builder under the project documents, the financing arrangement entered into between Project Co. and its lenders ensures that the project is subject to additional oversight, which may include:

- an independent budget review by a third-party cost consultant;
- monthly reporting and project monitoring by a third-party cost consultant;
- the requirement that change orders must be within the project contingency or funded by Trillium Health Partners; and
- the requirement that prior approval be secured for any changes made to the project budget in excess of a pre-determined threshold.

Achieving value for money

KPMG LLP's value for money assessment demonstrates a projected cost savings of 7.1 per cent, or $9.4 million, by using an alternative financing and procurement (AFP) approach, as compared to a traditional procurement approach.

KPMG LLP was engaged by Infrastructure Ontario to independently assess whether – and, if so, the extent to which – value for money will be achieved by delivering this project using the AFP method. Its assessment was based on the value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which can be found at www.infrastructureontario.ca. The approach was developed in accordance with best practices used internationally and in other Canadian provinces, and was designed to ensure a conservative, accurate and transparent assessment. Please refer to the letter from KPMG on page 2.

Value for money concept

The goal of an AFP approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

The value for money analysis compares the total estimated costs, expressed in future dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models: a traditional delivery model (public sector comparator or "PSC") and an AFP model.

Model #1 **Traditional project delivery** **(Public sector comparator)**	**Model #2** **Alternative financing and procurement**
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

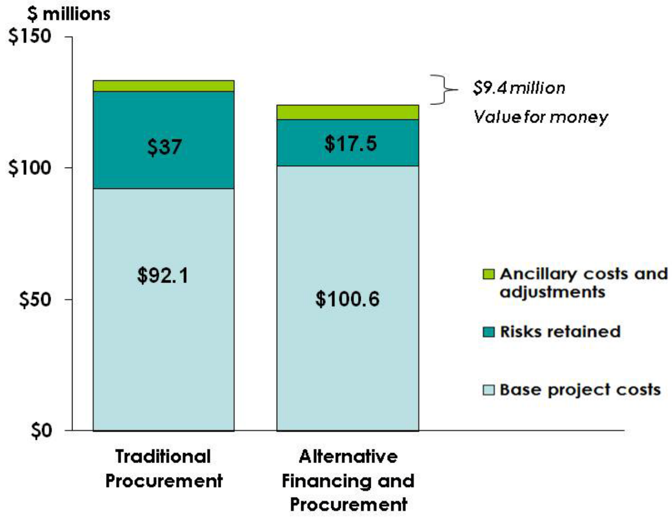
The cost difference between model #1 and model #2 is referred to as the value for money. If the total cost to deliver a project under an AFP approach (model #2) is less than the total cost to deliver a project under a traditional delivery approach (model #1), there is said to be positive value for money. The value for money assessment is completed to determine which project delivery method provides the greatest level of cost savings to the public sector.

The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP. Project costs that would be the same under both models, such as land acquisition costs, furniture, fixtures and equipment, are excluded from this VFM calculation.

The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in hospital project management and construction project management.

Components of the total project costs under each delivery model are illustrated below:

The value for money assessment of the Credit Valley Hospital Site Redevelopment project indicates estimated cost savings of 7.1 per cent or $9.4 million, by using an AFP approach in comparison to a traditional delivery.



It is important to keep in mind that Infrastructure Ontario's value for money calculation methodology does not attempt to quantify a broad range of qualitative benefits that may result from using an AFP delivery approach. For example, the use of an AFP approach will more likely result in a project being delivered on time and on budget. The benefits of having a project delivered on time cannot always be accurately quantified. For example, it would be difficult to put a dollar value on the people of Ontario gaining access to an expanded health care facility sooner than would be the case with a traditionally delivered project.

These qualitative benefits, while not expressly quantified in this value for money analysis, are additional benefits of the AFP approach that should be acknowledged.

Value for money analysis

For a fair and accurate comparison, the traditional delivery costs and AFP costs are future-valued to substantial completion to compare the two methods of delivering a Build-Finance project at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information about assessing using future value and value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Base costs

Base project costs are taken from the price of the contract signed with Walsh Construction Company of Canada, and include all construction and financing costs. The base costs between AFP and the traditional delivery model mainly differ as follows:

1. Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector transfers to them under the AFP project documents. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks.
2. The financing rate that the private sector is charged is higher than the financing rate of the public sector and not included in the traditional model delivery base costs.

In the case of the AFP model, the base costs are extracted from the price agreed among the parties under the project agreement. For the Credit Valley Hospital Site Redevelopment project, this is $100.6 million.

If the traditional model had been used for this project, base costs are estimated to have been $92.1million.

Risks retained
Historically, for projects delivered using a traditional delivery model, the public sector had to bear costs that go beyond a project's base costs. This is because contingencies were put in place to respond to risks (or unexpected events).

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost. The concept of risk transfer and mitigation is key to understanding the overall value for money assessment.

To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

Comprehensive risk assessment not only allows for a thorough value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors ensure that the party best able to manage, mitigate and/or eliminate the project risks is allocated those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. Below are risks transferred to the builder under the project agreement using the AFP model:

- construction price certainty;
- scheduling, project completion and potential delays;
- design co-ordination;
- construction financing;
- schedule contingency;
- commissioning and facility readiness; and
- activity protocols.

Examples of these risks include:
- *Design coordination/completion:* Under the AFP approach the builder is responsible for design coordination activities to ensure that the facilities are constructed in full accordance with the design in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the contract documents particularly in the plans, drawings and specifications; and for design completion issues that are specified in the contract documents but erroneously left out in the drawings and specifications.
- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by Trillium Health Partners by a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the builder will not be paid by the public sector, thus providing the builder clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

Under a traditional approach, design coordination risks that materialize during construction would be managed through a series of change orders. Such change orders would, therefore, be issued in a non-competitive environment, and would typically result in a significant increase in overall project costs for the public sector. AFP reduces and transfers these risks and related costs, to the private sector.

The added due diligence brought by the private party's lenders, together with the risk transfer provisions in the project documents result in overall cost savings as these transferred risks will either be better managed or completely mitigated by the private sector builder.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Group Limited, to develop a template for assessing the project risks that the public sector assumes under AFP compared to the traditional approach. Using data from actual projects as well as its own knowledge base, the firm established a risk profile under both approaches for infrastructure facilities.

It is this generic risk matrix that has been used for validating the risk allocation for the specific conditions of the Credit Valley Hospital Site Redevelopment project.

A detailed risk analysis of the Credit Valley Hospital Site Redevelopment project concluded that the average value of project risks retained by the public sector under traditional delivery is $37 million.

The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to $17.5 million.

For more information about the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Group Limited's *Build-Finance Risk Analysis and Risk Matrix*, available at www.infrastructureontario.ca.

Ancillary costs and adjustments

There are significant ancillary costs associated with the planning and delivery of a large complex project that could vary depending on the project delivery method. For example, there are costs related to each of the following:

- *Project management:* These are essentially fees to manage the entire project. Under the AFP approach, these fees will also include Infrastructure Ontario costs.
- *Transaction costs:* These are costs associated with delivering a project and consist of legal, fairness and transaction advisory fees. Architectural and engineering advisory fees are also incurred to ensure the facility is being built according to specifications.

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence.

The ancillary costs for the Credit Valley Hospital Site Redevelopment project, under the traditional delivery method are estimated to be $4.1 million as compared to $5.7 million under the AFP approach.

For a detailed explanation on ancillary costs, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Calculating value for money

The analysis completed by KPMG LLP concludes that the additional costs associated with the AFP model are more than offset by its benefits, which include: a much more rigorous upfront due diligence process, reduced risk to the public sector and more stringent controls imposed by both the lender's and Infrastructure Ontario's standardized AFP procurement process and oversight.

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at substantial completion date.

In the case of the Credit Valley Hospital Site Redevelopment project, the estimated traditional delivery cost (i.e. PSC) is $133.2 million as compared to $123.8 million under the AFP delivery approach.

The positive difference of $9.4 million or 7.1 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.