



making projects
happen

VALUE FOR MONEY ASSESSMENT

ERINOAKKIDS CENTRE FOR TREATMENT
AND DEVELOPMENT



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Ms. Jennifer Quinn
Senior Vice President, Transaction Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, ON M5G 2C8

20 November 2014

Dear Ms. Quinn:

Re: Value for Money Analysis - ErinoakKids Centre for Treatment and Development

Ernst & Young Orenda Corporate Finance ("EYOCF") has reviewed the Value for Money ("VFM") assessment for the ErinoakKids Centre for Treatment and Development Project (the "Project") at the Financial Close stage. The analysis was prepared following the principles of an Infrastructure Ontario ("IO") VFM analytical framework which is consistent with approaches used in other jurisdictions.

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

1. The traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") model; and
2. The Alternative Financing and Procurement ("AFP") model estimation of the total project costs, as reflected by the Adjusted Successful Bid.

The VFM as noted above was prepared by applying an estimation of project risks under the traditional and AFP scenarios to the construction cost estimates as reflected in the Adjusted Successful Bid. The cost information and other underlying assumptions were not independently audited for accuracy or completeness.

The results of the VFM assessment demonstrate an estimated VFM cost savings of 17.9% by using the AFP approach to deliver the Project in comparison to using the traditional delivery approach.

Yours sincerely,

*Ernst & Young Orenda
Corporate Finance Inc.*

ERNST & YOUNG ORENDA CORPORATE FINANCE INC.



March 23rd, 2014

Mr. Michael Inch
Vice President, Procurement
Infrastructure Ontario
1 Dundas Street West, 20th Floor, Toronto
Toronto, Ontario M5G 2L5

Subject: ErinoakKids Centre for Treatment and Development Redevelopment Project ("EOK"). RFP No. 13-222P

Dear Mr. Inch:

P1-Consulting acted as the Fairness Monitor to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the ErinoakKids Centre for Treatment and Development Redevelopment Project ("EOK") in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

ErinoakKids Centre for Treatment and Development is located in ten leased buildings and one owned building. These facilities present a number of shortcomings that prevent services from being operated in a more integrated, co-supportive and operationally effective manner.

The redevelopment will consolidate the eleven existing locations into three new owned locations in Brampton, Mississauga and Oakville.

The Project is to support client care processes through improved relationships between programs and services and improved functionality of space. The new project will consist of three new buildings, totaling approximately 280,000 square feet.

The Project is intended to achieve the Silver Certification level under the LEED® Canada building rating system administered by the Canadian Green Building Council.

The scope of the Project includes:

- design of the Project;
- construction of the Project;
- financing of the Project; and
- coordination of the procurement, receipt, installation and commissioning of furniture, fixtures and equipment.

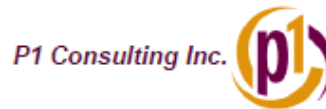
In our role as Fairness Monitor, P1 Consulting made certain that the following steps were taken to ensure a fair and open process:

P1 Consulting Inc.



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

Mr. Inch
March 23rd, 2013
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- 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, as applicable, 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;
- 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 RFQ and RFP Documents
- Commercially Confidential Meetings with the pre-qualified Bidders by interested Bidders
- Site and facility visits by the Proponents
- Review of the RFQ and RFP Addenda
- Review of evaluation process and guideline
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents

As the Fairness Monitor for the **ErinoakKids Centre for Treatment and Development Redevelopment Project ("EOK")** 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
Lead Fairness Monitor



ERINOAKKIDS CENTRE FOR TREATMENT AND DEVELOPMENT Artist's Rendering



The ErinoakKids Centre for Treatment and Development was designed by Stantec Architecture

Project Highlights

The ErinoakKids Centre for Treatment and Development currently operates out of one owned and 10 leased sites in Halton, Dufferin and Peel. The redevelopment project will allow ErinoakKids to consolidate programs and services into three state-of-the-art children's treatment centres — in Brampton, Oakville and Mississauga — and enable it to continue its mission to help children and youth with physical, developmental and communication disorders, autism, and hearing and vision impairments achieve optimal levels of independence, learning, health and well-being.

The new facilities are scheduled to open in early 2017 and will offer:

- autism services, including intensive behavioural intervention and applied behaviour analysis
- infant hearing and blind low-vision services
- physiotherapy and occupational therapy
- speech and language services
- assistive devices resource services
- medical, nursing and specialty medical services
- respite services (at Brampton location only)
- family support services

The Brampton facility, the largest of the three, will be approximately 121,000 square feet, the Mississauga site will be approximately 93,000 square feet and the Oakville location will be approximately 73,000 square feet. The new facilities are expected to achieve a Leadership in Energy and Environmental Design (LEED®) Silver certification for design excellence and sustainability.

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Summary

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.

The ErinoakKids Centre for Treatment for Development project is being delivered under the Province's AFP model and is expected to create construction jobs for approximately 200 workers at the peak of the project.

The new buildings will target Leadership in Energy and Environmental Design (LEED®) Silver certification. LEED® buildings focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources.

The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, as well as to demonstrate how value for money was achieved by delivering the ErinoakKids Centre for Treatment and Development project through the AFP process.

The value-for-money analysis refers to the process of developing and comparing the total project costs under two different delivery models, which are expressed in dollar values and measured at the same point in time.

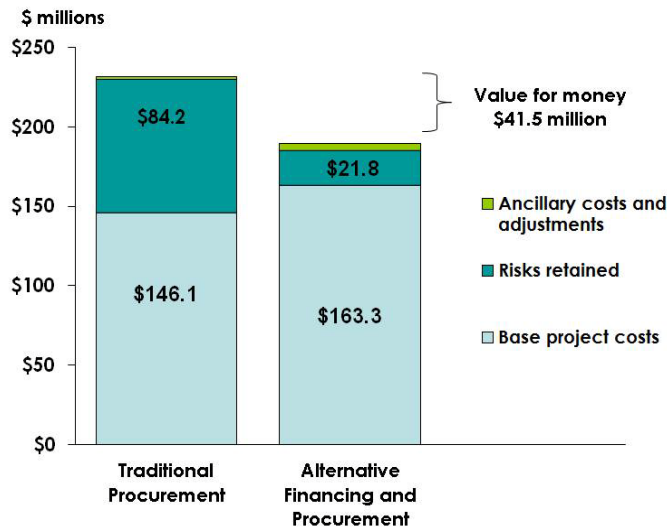
Value for money is determined by directly comparing the cost estimates for the following two delivery models:

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 ErinoakKids Centre for Treatment and Development project indicates estimated cost savings of 17.9 per cent or \$41.5 million, by using the AFP approach in comparison to traditional delivery.

Ernst & Young Orenda Corporate Finance Inc. completed the value-for-money assessment of the ErinoakKids Centre for Treatment and Development project. Their assessment demonstrates projected cost savings of 17.9 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 Inc. acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the ErinoakKids 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 3).

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*:

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.

Project Scope

The ErinoakKids Centre for Treatment and Development currently operates out of one owned and nine leased sites in Halton, Dufferin and Peel. The redevelopment project will allow ErinoakKids to consolidate programs and services into three state-of-the-art children's treatment centres — in Brampton, Oakville and Mississauga — and enable it to continue its mission to help children and youth with physical, developmental and communication disabilities achieve optimal levels of independence, learning, health and well-being.

The new facilities are scheduled to open in early 2017 and will offer:

- autism services, including intensive behavioural intervention and applied behaviour analysis
- infant hearing and blind low-vision services
- physiotherapy and occupational therapy
- speech and language services
- assistive devices resource services
- medical, nursing and specialty medical services
- respite services (at Brampton location only)
- family support services

The Brampton facility, the largest of the three, will be approximately 121,000 square feet, the Mississauga site will be approximately 93,000 square feet and the Oakville location will be approximately 73,000 square feet. The new facilities are expected to achieve a Leadership in Energy and Environmental Design (LEED®) Silver certification for design excellence and sustainability.

The project will deliver design excellence and sustainability, with the new building designed to achieve Leadership in Energy and Environmental Design (LEED®) Silver certification. Highlights include:

The project is generating economic stimulus through the creation of employment for approximately 200 jobs in the construction sector.

Competitive selection process timeline

Peel-Halton Partnership has entered into a project agreement to design, build and finance the ErinoakKids Centre for Treatment and Development project. The procurement stages for the project were as follows:

January 10, 2013

Request for Qualifications

In January 2013, Infrastructure Ontario issued a request for qualifications (RFQ) for the project. The three shortlisted teams were:

- *Peel-Halton Partnership*
 - Bondfield Construction Company Limited
 - Stantec Architecture
 - Rocklynn Capital Inc.

- *Kids Health Infrastructure Partnership*
 - Carillion Canada Inc.
 - Bird Design-Build Inc.
 - Zeidler Partnership Architects
 - Mitchell Architects
 - Investec Capital Markets

- *PCL Partnerships*
 - PCL Constructors Canada Inc.
 - NORR Limited
 - Montgomery Sisam Architects

October 24, 2013

Request for Proposals

A request for proposals (RFP) was issued to the short-listed proponents, setting out the bid process and proposed project agreements to deliver the project.

Proposal submission

The RFP period closed on April 24, 2014. Three bids were received by Infrastructure Ontario. The bids were evaluated using the criteria set out in the RFP.

October 10, 2014

Preferred proponent notification

Peel-Halton Partnership was selected as the first ranked proponent based on predetermined criteria, including construction schedule, technical requirements, price and financial backing in accordance with the evaluation criteria set out in the RFP. The consortium includes:

- Developer/Constructor: Bondfield Construction Company Limited
- Design: Stantec Architecture
- Financial Advisor: Rocklynn Capital Inc.

November 7, 2014

Commercial and Financial Close

A project agreement was executed by ErinoakKids and Peel-Halton Partnership.

Spring 2015 to Late 2016 / Early 2017

Construction Phase

During the construction period, the builder's construction costs will be funded by its lenders in monthly installments based on the construction program set out by Peel-Halton Partnership.

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 Infrastructure Ontario and ErinoakKids.

Completion and payment

Peel-Halton Partnership will receive three payments from the province following the substantial completion of each of the three sites. The three payment installments will be for \$46.65 million (Oakville), \$51.89 million (Mississauga) and \$64.64 million (Brampton), respectively.

Project agreement

Legal and commercial structure

The Province entered into a project agreement with Peel-Halton Partnership, comprising approximately 21 months and one week of site work and construction for Oakville, 21 months and three weeks of site work and construction for Mississauga, and 22 months of site work and construction for Brampton. Under the terms of the project agreement, Peel-Halton Partnership will:

- design and build the ErinoakKids Centre for Treatment and Development project;
- finance the construction and capital costs over the term of the project; and
- obtain a third-party independent certification that the facility is built to the requirements of the Province, as outlined in the project agreement.

Peel-Halton Partnership will receive three payments in all, following the substantial completion of each site, expected in late 2016 and early 2017, respectively.

Design, build and completion risk

All infrastructure 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 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 Peel-Halton Partnership. On a traditional project, these risks and resource availabilities can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Design and build phase price certainty

Peel-Halton Partnership will finance, design and build the ErinoakKids Centre for Treatment and Development project and will receive a payment from ErinoakKids at the substantial completion of

each of the three sites, expected in late 2016 and early 2017, respectively.

Scheduling, project completion and delays

Peel-Halton Partnership has agreed to complete the three new facilities by early 2017.

The project schedule can only be modified in very limited circumstances, in accordance with the project agreement. Payment to Peel-Halton-Partnership will be made for each of the three completed facilities when the respective site has been completed and certified by an independent party as substantially complete.

Costs associated with delays that are the responsibility of the contractor must be paid by Peel-Halton Partnership.

Development approvals

Peel-Halton Partnership is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals, except for the Oakville site where Peel-Halton Partnership is responsible for maintaining and complying with the Town Development Agreement.

Construction financing

Peel-Halton Partnership is required to finance the construction of the three facilities under this project until they are substantially complete. Peel-Halton Partnership will be responsible for increased financing costs if there is a delay in reaching substantial completion of any of the facilities. This shifts significant financial risk to Peel-Halton Partnership in the case of late delivery.

Change order protocol

In addition to the variation procedure set out in the project documents, Infrastructure Ontario's protocols set out the principles for any changes to the project work/scope during the construction period, including:

- requiring approval and processing of variations from Infrastructure Ontario;

- specifying the limited criteria under which variations will be processed and applied;
- timely notification of variations to Infrastructure Ontario;
- approval by Infrastructure Ontario for owner-initiated scope changes; and
- approval by Infrastructure Ontario for any variation.

Achieving value for money

For the ErinoakKids Centre for Treatment and Development project, Ernst & Young Orenda Corporate Finance Inc.'s value-for-money assessment demonstrates a projected cost savings of 17.9 per cent, or \$41.5 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.

Ernst & Young Orenda Corporate Finance Inc. 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. Their 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 Ernst & Young Orenda Corporate Finance Inc. on page 2.

Value-for-money concept

The goal of the 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 measured at the same point in time of delivering the same infrastructure project under two delivery models — the traditional delivery model (public sector comparator or “PSC”) and the AFP model.

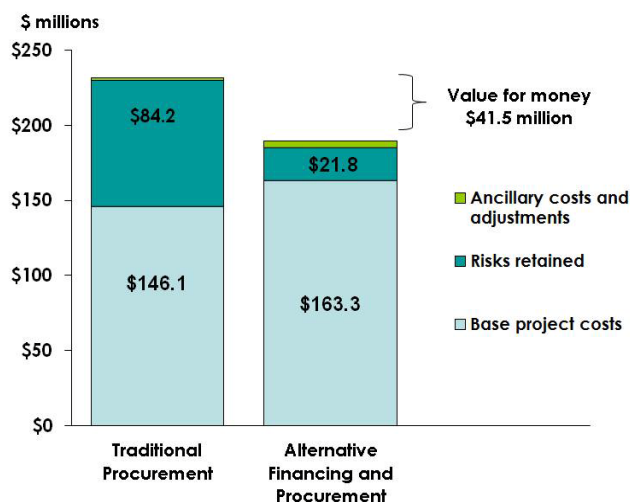
Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative financing and procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public 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 the AFP approach (model #2) is less than the total cost to deliver a project under the 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 value-for-money assessment is developed by obtaining detailed project information and input from multiple stakeholders.

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

The value-for-money assessment of the ErinoakKids Centre for Treatment and Development project indicates estimated cost savings of 17.9 per cent or \$41.5 million, by using the AFP approach in comparison to 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 the AFP delivery approach. For example, the use of the 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.

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 the date of substantial completion, to compare the two methods of delivering a design, build and 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 on how project costs are time-valued and the 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 Peel-Halton Partnership and include all design, development and financing costs. Base costs between AFP and traditional delivery differ mainly as follows:

Under the AFP model, the private party charges an additional premium to compensate for the risks that the public sector transfers to it and for the cost of financing the project using private capital. 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 and does not require private-sector financing.

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 ErinoakKids Centre for Treatment and Development project, these were \$163.3 million.

If the traditional model had been used for the ErinoakKids Centre for Treatment and Development project, net base costs are estimated to be \$146.1 million.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that went beyond a project’s base costs because of the contingencies that were necessary to respond to the project risks.

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 traditional

delivery versus AFP, the risks borne by the public sector (“retained risks”) should be identified and accurately quantified. Comprehensive risk assessment not only allows for a fulsome value-for-money analysis, but it also helps Infrastructure Ontario and the public sector sponsors to determine the party best able to manage, mitigate and/or eliminate the project risks and appropriately allocate those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 12-13, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement to Peel-Halton Partnership:

- design compliance with the output specifications
- design and build price certainty
- scheduling, project completion and potential delays
- design and build coordination
- construction period financing
- schedule contingency
- deployment of solution

Examples of these risks include:

- *Design and build coordination/completion:* Under the AFP approach, the vendor is responsible for design and build activities to ensure that the solution is built in full accordance with the output-based specifications in the project agreement. The vendor is responsible for inconsistencies, conflicts, interferences or gaps in the design and build submittals.
- *Scheduling, project completion and delays:* Under the AFP approach, the vendor has agreed that it will provide ErinoakKids with three completed facilities by three fixed dates, respectively, and at a pre-determined price. Therefore, any extra cost incurred (financing or otherwise) as a result of a schedule overrun caused by the vendor will not be paid by the

Province, thus providing the vendor with a strong motivation to maintain the project’s schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the vendor.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Group, to develop a template for assessing the project risks that the public sector relinquishes 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 risk matrix that has been used for validating the risk allocation for the specific conditions of the ErinoakKids Centre for Treatment and Development project.

Using the AFP model reduces these risks for the public sector. For example, had this project been delivered using the traditional approach, design risks that arise would be carried out through a series of change orders issued during the build of the facility. Using the AFP approach, change orders would be minimal, resulting in cost avoidance to the public sector.

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.

A detailed risk analysis of the ErinoakKids project concluded that the average value of project risks retained by the public sector under traditional delivery is \$84.2 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$21.8 million.

Ancillary Costs

There are significant ancillary costs associated with the planning and delivery of a large complex project and these 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. Technical advisory and cost consultant fees are also incurred to ensure the solution is being designed and built according to the output 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 upfront due diligence. The ancillary costs for the ErinoakKids Centre for Treatment and Development project under the traditional delivery method are estimated to be \$1.3 million as compared to \$4.9 million under the AFP approach.

For a detailed explanation of 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 Ernst & Young Orenda Corporate Finance Inc. concludes that the additional costs associated with the AFP model are more than offset by the benefits, which include: a much more rigorous upfront due diligence process, reduced risk to the public sector, controls imposed by the private sector to mitigate the risk that has been transferred to them, and Infrastructure Ontario's standardized AFP procurement process.

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 as at substantial completion. In the case of the

ErinoakKids Centre for Treatment and Development project, the estimated traditional delivery cost (i.e. PSC) is \$231.5 million as compared to \$190 million under the AFP delivery approach.

The positive difference of \$41.5 million or 17.9 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.