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VALUE FOR MONEY ASSESSMENT

**TRILLIUM HEALTH CENTRE EXPANSION
AND REDEVELOPMENT PROJECT**

Private & Confidential

May 28, 2007

Bert Clark,
Senior Vice President
Infrastructure Ontario
777 Bay Street, Suite 900
Toronto, Ontario M5G 2C8

Dear Mr. Clark:

Re: Trillium Health Centre Project

We have prepared the Value for Money ("VFM") assessment of the Trillium Health Centre Project ("Trillium Project") in accordance with the terms of our contract with Infrastructure Ontario ("IO") dated April 23, 2006.

For the Trillium Project, the VFM summary assessment is based on a comparison of the total project costs at financial close as follows:

1. The traditional delivery approach reflected in the Public Sector Comparator ("PSC") model as compiled by us; and
2. The Alternative Financing and Procurement ("AFP") approach based on the final offer of the successful proponent.

Based on the above analysis, the Trillium Project demonstrates projected VFM savings of \$12.9 million (or 10.1%) under the AFP approach compared to the traditional delivery approach.

We did not audit or attempt to independently verify the accuracy or completeness of the information or assumptions underlying the PSC, which were provided by IO, and/or the successful proponent's final offer, nor have we audited or reviewed the successful proponent's financial model.

Yours truly,



John Casola
Partner

May 10th, 2007

Mr. Steven Richards
Vice President, Project Legal Services
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, Ontario M5G 2C8

Subject: Trillium Health Centre Expansion and Renovation Project (Queensway and Mississauga Site) RFP
No.: OIPC-06-05-I007

Dear Mr. Richards:

P1-Consulting acted as the Fairness Commissioner to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the **Trillium Health Centre Expansion and Renovation Project (Queensway and Mississauga Site)** in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

The primary objective of The Trillium Health Centre Expansion and Renovation Project (Queensway and Mississauga Site) is to renew, revitalize and expand a publicly-owned facility while incorporating private sector innovation and expertise, using Infrastructure Ontario's build finance model. The RFP process was used to select a pre-qualified proponent to build and finance a new seven-storey west wing at Trillium Health Centre - Mississauga Site and renovations to Trillium Health Centre – Queensway Site (West Toronto).

This project involved work at two sites:

- 1) The Mississauga site – The project will involve 177,494 ft² of new construction and 62,581 ft² of renovations. It will encompass the expansion of the cardiac program along with the renovation of the fracture clinic, diagnostic imaging, emergency support space and mental health. The plans also include a new 7-storey tower to house Orthopedics, Cardiac surgery, Coronary Care, Rehabilitation and Medicine units, a Learning Centre and physician support space.
- 2) The Queensway site (West Toronto) – This project will involve 18,510 ft² of new construction and 23,575 ft² of renovations. It will encompass the total renovation of the urgent care centre with other renovations at the south entrance for a new entrance to urgent care, surgical centre and tower. The scope of new construction will include space next to the Ambulatory Surgical Centre, renovations and construction for the oncology program and the east entrance – to include a healing garden.

In our role as Fairness Commissioner, 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, as applicable, and the evaluation process;

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- 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 Commissioner 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 Proponent
- Review of the RFQ and RFP Addenda
- Review of evaluation process and guideline
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents
- Oversight of the Negotiation Process

The final step in the process, which we oversaw, was for the Sponsors to select the Preferred Proponent. EllisDon Corporation was advised that they were the Preferred Proponent on March 7th, 2007.

As the Fairness Commissioner for the **Trillium Health Centre Expansion and Renovation Project (Queensway and Mississauga Site)**, we certify that, to date, 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,

Louise Panneton
Lead Fairness Commissioner

Trillium Health Centre Artist's renderings



Trillium Health Centre – West Toronto
Perkins Eastman Black



Trillium Health Centre – Mississauga
Perkins Eastman Black/Parkin Architects

Expansion of Services at Trillium Health Centre

Bed Increases & Total Beds

Current Beds	751*
New Beds	135
Total Beds at Completion	886
Increase	15 %

*Includes 206 Continuing Complex Services beds

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Summary

In 2005, the provincial government implemented *ReNew Ontario 2005-2010*, a \$30 billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure. Projects are assigned to Infrastructure Ontario by the provincial government when it is deemed appropriate to use the made-in-Ontario project delivery model called Alternative Financing and Procurement (AFP), one of the tools developed to overcome the infrastructure deficit in Ontario. The Trillium Health Centre project is one of the redevelopment projects to be delivered under the Province's AFP model.

The Trillium Health Centre project involves work at two sites, Trillium Health Centre – Mississauga and Trillium Health Centre – West Toronto.

At Trillium Health Centre – Mississauga, work will include expansion of the cardiac program and renovations to the fracture clinic, diagnostic imaging, emergency support space and mental health. There will also be a new 7-storey tower built that will house Orthopaedics, Cardiac Surgery, Coronary Care, Rehabilitation and Medicine units, as well as a Learning Centre and physician support space.

At Trillium Health Centre – West Toronto, there will be a complete renovation of the urgent care centre, renovations at the south entrance, construction of new space adjacent to the Ambulatory Surgical Centre, renovation and new construction of the oncology program, and renovation and new construction of the east entrance to include a healing garden.

The public sector retains ownership, control and accountability for the hospital, including the new 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 Trillium Health Centre project through the AFP process.

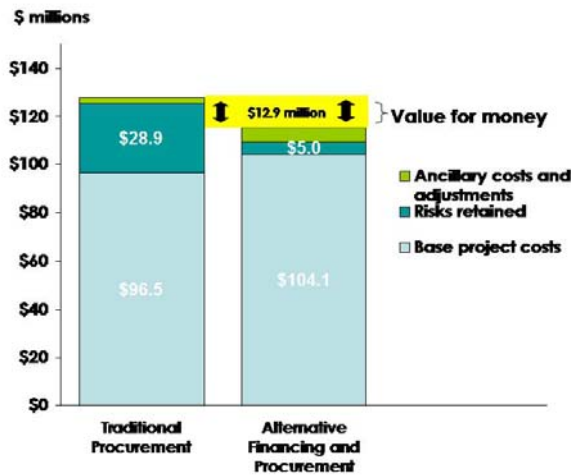
The value for money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point of time and related to two delivery models.

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 Trillium Health Centre project indicates estimated cost savings of 10.1 per cent or \$12.9 million, by using the AFP approach compared to a hospital project of this type that is delivered using a traditional model.



PricewaterhouseCoopers LLP completed the value for money assessment of the project. Their assessment demonstrates projected cost savings of 10.1 per cent by delivering the Trillium Health Centre project using the AFP model, over what it would have cost to deliver a hospital project of this type using a traditional delivery model (see page 14).

Property One Consulting acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Trillium Health Centre project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Property One Consulting certified that these principles were maintained throughout the procurement process.

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

"The Alternative Financing and Procurement model enhances accountability and management to capital projects like Trillium Health Centre's expansion. It will ensure that our projects, funded by the public, will meet each milestone on time and on budget and that the monies will be accounted for in a responsible and transparent manner."

-Janet Davidson, President and CEO of Trillium Health Centre.

Project description

Background

In 2005, the provincial government implemented *ReNew Ontario 2005-2010*, a \$30-billion plus strategic infrastructure investment plan. An update to *ReNew Ontario* was released in October 2006 and is available at www.pir.gov.on.ca. The provincial government is investing more than \$5 billion in more than 100 health care projects across the province to modernize, expand and upgrade health care facilities.

Infrastructure Ontario is an essential component of the *ReNew Ontario* plan. The Crown Corporation was created in 2005, to ensure that new infrastructure projects are delivered on time and on budget.

Under the *ReNew Ontario* plan, projects may be assigned to Infrastructure Ontario by the provincial government, which uses a made-in-Ontario project delivery model called Alternative Financing and Procurement (AFP). 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.

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.

Trillium Health Centre

Trillium Health Centre is a leading community hospital located at two different sites that together serve a population of over one million residents in Mississauga, south Etobicoke and the surrounding region.

The Government of Ontario approved the expansion and redevelopment of Trillium Health Centre's two sites to be delivered under the AFP model in its 2005-2006 Capital Plan.

Trillium Health Centre is a regional centre for stroke, neurosurgery, and sexual assault and domestic violence services. It is a provincial centre for cardiac services. It has a busy emergency service, a large free-standing day surgery facility and a total of 678 beds.

Job Creation

The redevelopment project will create economic value in the area as skilled trades people, subcontractors and their suppliers benefit from the capital investment. Over the construction period, there will be an estimated 20 to 40 workers on site daily at Trillium Health Centre – West Toronto and 30 to 60 workers on site daily at Trillium Health Centre - Mississauga.

Project Scope

The Trillium Health Centre project will modernize the hospital and increase its capacity to meet the needs of the growing and aging population of the area. The project involves construction of a new seven-storey west wing at Trillium Health Centre - Mississauga and renovations to Trillium Health Centre – West Toronto.

The new Trillium Health Centre - Mississauga west wing will accommodate expanded cardiac surgery, cardiac catheterization, cardiovascular intensive care, medical care, intensive care and coronary beds, as well as diagnostic and support services. The project will mean redeveloped and modernized space for 135 new beds.

At Trillium Health Centre – West Toronto, renovations will create new ambulatory care facilities, and expand urgent care and cancer detection and

treatment services. The project will provide a new cancer detection and treatment facility, replacing the temporary facilities currently located at Trillium Health Centre - Mississauga. A healing garden will also be added to the site.

Overall, the hospital's capacity will increase by 135 beds to 886 beds. This includes 206 Continuing Complex Services beds.

New construction will add 196,004 square feet of space, while 86,156 square feet will be renovated, resulting in 282,160 square feet of total redeveloped space.

Competitive selection process timeline

Trillium Health Centre has entered into a project agreement and guaranteed maximum price contract with EllisDon Corporation to complete the redevelopment of each of the sites. The procurement stages for the project were as follows:

March 21, 2006 – April 20, 2006

Request for qualifications

A request for qualifications (RFQ) was issued inviting interested builders to submit their qualifications to undertake the project. Five companies pre-qualified as RFP proponents:

- Aecon Buildings
- EllisDon Corporation
- PCL Constructors Inc.
- SNC-Lavalin Group Inc.
- Vanbots Construction Corporation

June 16, 2006 – November 22, 2006

Request for proposals

A request for proposals (RFP) was issued to the qualified proponents, setting out the bid process and proposed project agreement and guaranteed maximum price contract to build and finance the project.

Bid submission

Bids were submitted by the RFP proponents in November 2006 and evaluated by Infrastructure Ontario and Trillium Health Centre using the criteria set out in the RFP.

March 7, 2007

Preferred proponent notification

EllisDon Corporation was selected as the successful RFP proponent on the basis of their proposed price and project schedule, in accordance with the evaluation criteria set out in the RFP.

February – May 2007

Commercial and financial close

The guaranteed maximum price contract was executed by EllisDon Corporation and Trillium Health Centre.

Financing for EllisDon Corporation to complete the project was arranged by RBC Capital Markets.

May 23, 2007 – Summer 2009

Construction began on both sites in May 2007. During the construction period, the builder's construction costs will be funded by its lending group, as arranged by RBC Capital Markets through monthly loan requests from EllisDon Corporation. Construction will be carried out in accordance with the guaranteed maximum price contract.

Completion and Payment

Trillium Health Centre – West Toronto

Completion and payment for Trillium Health Centre – West Toronto will be completed in two stages. It is anticipated that the project will reach interim completion during Summer 2008, at which time an interim portion of the financing will be repaid by Trillium Health Centre through funding from the Ministry of Health and Long-Term Care and the hospital's fundraising efforts. It is anticipated that the project will reach substantial completion in late 2008, at which time the remaining amount of the financing will be repaid by Trillium Health Centre through funding from the Ministry of Health and Long-Term Care and the hospital's fundraising efforts.

Trillium Health Centre – Mississauga

Completion and payment for Trillium Health Centre – Mississauga will be completed in two stages. It is anticipated that the project will reach interim completion in early 2009, at which time an interim portion of the financing will be repaid by Trillium Health Centre through funding from the Ministry of Health and Long-Term Care and the hospital's fundraising efforts. It is anticipated that the project will reach substantial completion in summer 2009, at which time the remaining amount of the financing will be repaid by Trillium Health Centre through funding from the Ministry of Health and Long-Term Care and the hospital's fundraising efforts.

Hospital Funding

The provincial government's new hospital funding policy announced in June 2006, simplifies the Ministry of Health and Long-Term Care's funding formula. In the past, the Ministry's capital cost share rates varied from 50 per cent to 80 per cent, depending on the project. The new provincial government's portion of the construction costs will now equal 90 per cent of eligible construction costs. Under this new policy, hospitals will be responsible for 10 per cent of the eligible construction costs, otherwise known as their local share, as well as the costs associated with the purchase of new and replacement equipment.

Project agreement

Legal and Commercial Structure

Trillium Health Centre entered into a project agreement and guaranteed maximum price contract (project documents) with EllisDon Corporation to carry out the construction and financing of each of the sites. Under the terms of the project documents, EllisDon Corporation will:

- build the Trillium Health Centre – West Toronto project, which will be completed in 2008;
- build the Trillium Health Centre – Mississauga project, which will be completed in 2009;
- provide a financing package for project construction; and
- ensure that, at the end of construction, the building meets the requirements specified in the project documents.

The public sector retains ownership, control and accountability for Trillium Health Centre, including the new facilities constructed as a result of the project.

Construction and completion risk

Key risks associated with the construction of the facilities have been transferred to the builder by way of the project documents, including:

Construction price certainty

The builder will construct the facilities for a guaranteed maximum price of **\$104.1 million, including their financing costs**. The builder's guaranteed maximum price may only be adjusted in very specific circumstances, agreed to in advance, in accordance with the change order procedures of the project documents.

Scheduling, project completion and delays

The builder has agreed to reach the following dates: (i) interim completion for Trillium Health Centre – West Toronto by Summer 2008; (ii) substantial completion for Trillium Health Centre – West Toronto by late 2008; (iii) interim completion for Trillium Health Centre – Mississauga by early 2009; and (iv) substantial completion for Trillium Health

Centre – Mississauga by Summer 2009. The construction schedule can only be modified in very limited circumstances, in accordance with the project documents. Trillium Health Centre's repayment of the construction financing will not commence until interim completion for each of the sites (i.e., until it has completed the interim work in accordance with the project documents).

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

Design co-ordination

The guaranteed maximum price contract provides that the builder is responsible for all design coordination activities to ensure that the facilities are constructed in accordance with the design. Under the traditional model, the costs of these risks would have been borne by Trillium Health Centre.

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

Construction financing

The builder is required to finance the construction of the project until the facilities are turned over to Trillium Health Centre. The project documents provide that the builder will be responsible for all increased financing costs resulting from any builder delay in reaching interim and substantial completion. This shifts significant financial risk to the builder for late delivery.

Schedule contingency

The project documents provide Trillium Health Centre with a 30-day schedule contingency, also known as a schedule cushion, which shields Trillium Health Centre for up to 30 days of delay costs for which Trillium Health Centre is responsible. While delays caused by Trillium Health Centre are expected to be minimal, the schedule cushion provides Trillium Health Centre with some protection from the risk of delay claims by the builder.

Commissioning and facility readiness

The builder must achieve a prescribed level of commissioning for each of the new facilities at interim and substantial completion and must co-ordinate the commissioning activity within the agreed upon construction schedule. This assures Trillium Health Centre will receive a functional building facility at the time Trillium Health Centre pays for the work.

Activity protocols

The builder and Trillium Health Centre's consultant are required to establish a schedule for project submittals by the builder, which takes into account the timing for issuance of supplemental instructions by Trillium Health Centre's consultant. This protocol mitigates against the builder alleging delay as a result of an inability to receive supplemental instructions in a timely manner in the course of the work.

- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario;
- approval by Infrastructure Ontario for all owner-initiated scope changes;
- approval by Infrastructure Ontario for any change orders which 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 EllisDon Corporation and RBC Capital Markets 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 Centre; and
- the requirement that prior approval be secured for any changes made to the project budget in excess of a pre-determined threshold.

Change order protocol

In addition to the variation procedure set out in the project documents, Infrastructure Ontario's change order protocol with Trillium Health Centre sets out the principles for any changes to the project work/scope during the construction period, including:

- requiring processing and approval of change orders from Trillium Health Centre;

Achieving value for money

PricewaterhouseCoopers' value for money assessment demonstrates a projected cost savings of 10.1 per cent, or \$12.9 million, by using the alternative financing and procurement (AFP) approach to deliver the Trillium Health Centre project, as compared to the traditional procurement approach.

PricewaterhouseCoopers 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 result. Please refer to the letter from PricewaterhouseCoopers 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.

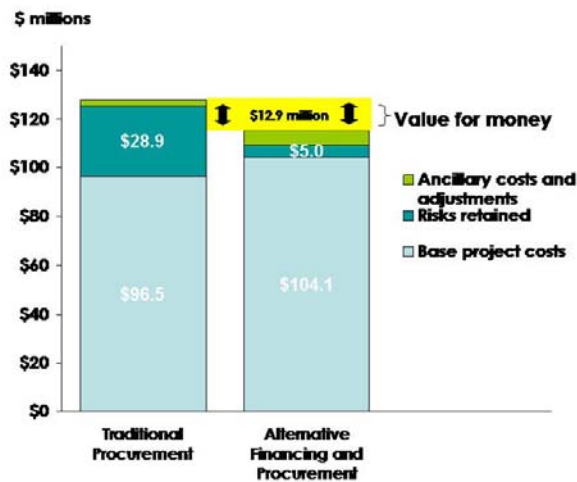
The value for money analysis compares the total estimated costs, expressed in dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models; the traditional delivery model (public sector comparator or "PSC") and the AFP model.

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 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 traditional delivery or AFP, 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:



Value for money analysis

For a fair and accurate comparison, the traditional delivery 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 on how project costs are future-valued 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.

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. All 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-financed project.

Other qualitative benefits relate to the existence of Infrastructure Ontario – a central organization to coordinate the development of a number of projects. Infrastructure Ontario has standardized documents, increased up-front due diligence and applied best practices to each of its projects; however, it would be difficult to accurately quantify these benefits.

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

Base costs

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

1. Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector has transferred 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 costs are higher under AFP because the financing rate that the private sector is charged is higher than the financing rate of the public sector.
3. The AFP base costs include taxes that are separately adjusted for under the PSC as a competitive neutrality item (explained in more detail later in this section).

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 Trillium Health Centre project, these were \$104.1 million.

If the traditional model had been used for the Trillium Health Centre project, base costs are estimated to have been \$96.5 million.

Risks retained

The public sector has always had to bear costs that go beyond a project's base costs. Total project costs exceed base costs in large part due to contingencies for the project risks.

Project risks may be 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 fulsome 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 would be significant. As discussed on pages 13-14, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement from the public sector to the builder:

- potential cost overruns;
- construction price certainty;
- design co-ordination;
- construction financing;
- scheduling, project completion and potential delays;
- 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 and particularly in the plans, drawings and specifications; and design completion issues which 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 the Province by a fixed date and at a pre-determined price to the Province. 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 Province, thus providing a 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 the traditional approach, these risks would have been borne by the public sector. For example, design coordination risks that materialize would be carried out through a series of change orders issued during construction. 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.

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.

A detailed risk analysis of the Trillium Health Centre project concluded that the average value of project risks retained by the public sector under traditional delivery is \$28.9 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$5 million.

For more information on the risk assessment methodology used by Infrastructure Ontario, please refer to the third party risk assessment report by Altus Helyar, 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 the costs of Infrastructure Ontario.
- *Transaction costs:* These are costs associated with delivering a project and primarily consist of legal and advisory fees. Under the AFP approach, in addition to legal, these fees will also include 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 Trillium Health Centre project, under the traditional delivery method are estimated to be \$2.1 million as compared to \$4.2 million under the AFP approach. For the Trillium Health Centre project a further adjustment of \$2 million has been made to the AFP for the interim payment to the private party scheduled for

Summer 2008 for Trillium Health Centre – West Toronto and early 2009 for Trillium Health Centre – Mississauga. This covers the additional notional public financing costs from the date of interim payment through to project completion and which reduces the private financing costs. It is important to note that as this interim payment is only made at the successful completion of a clearly defined phase of the project, the project risk allocation is not materially affected.

An adjustment is also made when estimating costs under traditional delivery. This adjustment is referred to as competitive neutrality and accounts for items such as taxes paid under AFP that flow back to the public sector and are not taken into account under the traditional model. In the case of the Trillium Health Centre project, this adjustment is made by adding \$0.5 million to the traditional delivery costs (i.e. on the PSC side).

For a detailed explanation on ancillary costs and adjustments, 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 money¹

The analysis completed by PricewaterhouseCoopers concludes that the additional costs associated with the AFP model are more than offset by the benefits of the AFP model, which includes: a much more rigorous upfront due diligence process, reduced risk to the public sector, and controls imposed by both the lender's 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 in Canadian dollars, as at substantial completion date. In case of the Trillium Health Centre project, the estimated

¹ Numbers are rounded for presentation

traditional delivery cost (i.e. PSC) is \$128 million as compared to \$115.2 million under the AFP delivery approach.

The positive difference of \$12.9 million between the above costs represents the value for money for using the AFP delivery approach, and is usually expressed in percentage terms. For the Trillium Health Centre project, estimated cost savings of 10.1 per cent over the traditional delivery model were demonstrated.