VALUE FOR MONEY ASSESSMENT

AIR RAIL LINK SPUR PROJECT

www.infrastructureontario.ca
January 3, 2012

Private and confidential

Jim Cahill, SVP of AFP Services
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, ON, M5G 2C8
Canada

Dear Mr. Cahill,

Subject: Financial Close Stage Value for Money Analysis – Air Rail Link Project

Deloitte & Touche LLP (“Deloitte” or “We”) has reviewed the Value for Money (“VFM”) assessment for the Air Rail Link Project (“Project”) at the Financial Close Stage, in accordance with Infrastructure Ontario’s (“IO”) value for money assessment methodology outlined in Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology, which is consistent with approaches used in other jurisdictions.

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

1. The traditional delivery approach, reflected as a Design-Bid-Build (“DBB”) in the Public Sector Comparator (“PSC”) model; and
2. The Alternative Finance and Procurement approach (“AFP”), reflected as a Design-Build-Finance (“DBF”) in the Preferred Bid.

The VFM assessment was compiled using the following information (collectively the “Information”):

i. A Risk Matrix originally developed for IO by Altus Group and amended and endorsed by MMM Group; and
ii. Cost and other input assumptions extracted from the Preferred Bid.

The VFM assessment demonstrates that the AFP approach will provide an estimated value savings of 11.1% (in comparison to the traditional delivery approach).

While we did not audit or attempt to independently verify the accuracy or completeness of the Information, we confirm, based on our familiarity with VFM methodologies in other jurisdictions and current market data, that IO’s VFM methodology is reasonable, yields a fair estimate of value for money and that the Information has been appropriately used in the VFM model.

Yours very truly,

Deloitte & Touche LLP
June 11th, 2012

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

**Subject: Airport Rail Link Spur Project (“ARLS”), RFP No. OIPC-11-508-P001**

Dear Mr. Inch:

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 **Airport Rail Link Spur Project (“ARLS”) project** in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

The Province of Ontario in cooperation with the Greater Toronto Area was successful in its bid to host the 2015 Pan/Parapan American Games (Pan Am Games). One of the commitments made in this bid was that a rail link would be in place between the Toronto Pearson International Airport (the "Airport") and Union Station for the Pan Am Games.

In August 2010, the Province assigned the responsibility for the construction and operation of the Airport Rail Link to Metrolinx. A key component of the Airport Rail Link is the spur which will connect GO's Georgetown corridor to the Airport. Metrolinx is also responsible for acquiring the new Diesel Multiple Unit (DMU) vehicles which will be used for this service, as well as constructing the line stations (Bloor and Weston) and Union ARL Station.

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, 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

The final step which we oversaw in the process, was the selection of the Preferred Proponent. On October 24th, 2011 Infrastructure Ontario announced that AirLINX Transit Partners had been selected as the Preferred Proponent.

As the Fairness Monitor for the Airport Rail Link Spur Project ("ARLS") Project, 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,

Louise Panneton
Lead Fairness Commissioner
The Air Rail Link Spur Project

Artist’s rendering of the new passenger station at Toronto Pearson International Airport

Highlights of the project

- The project will provide a three-kilometre rail line, connecting GO Transit’s Kitchener corridor (formerly Georgetown corridor) to the new passenger station at Terminal 1 of Toronto Pearson International Airport (Toronto Pearson).
- The two-track rail line will branch off near Highway 427 from GO Transit’s Kitchener corridor.
- This project enables Metrolinx to provide an express rail service between Canada’s two busiest transportation hubs – Toronto Union Station and Toronto Pearson International Airport (Toronto Pearson).
- The Air Rail Link is a division of Metrolinx, and Metrolinx will own and operate the service.

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<tr>
<th>Size</th>
<th>A three-kilometre elevated rail line</th>
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<td>A new passenger station at Toronto Pearson’s Terminal 1.</td>
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<th>Community features</th>
<th>For the first time, an express rail service will be available between the city of Toronto’s downtown core and Toronto Pearson.</th>
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<td></td>
<td>The Air Rail Link service will provide travellers with a quick, direct, easy mode of transport to the airport, and is expected to eliminate 1.2 million car trips from our roads in the first year of operation alone.</td>
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<td>Once the ARL service begins, trains will depart from Union Station and Toronto Pearson every 15 minutes.</td>
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<td>More than five million people travel between Toronto Pearson and the downtown core annually, and this number is expected to almost double in the next decade.</td>
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<td>Stops at Bloor and Weston</td>
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<th>Environmental features</th>
<th>Rail cars called Diesel Multiple Units (DMUs) purchased by Metrolinx can be converted to electric propulsion.</th>
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<td>The diesel multiple units (DMUs) will be Tier-4 diesel multiple units (DMUs), the strictest non-road engine emissions standard set by the U.S. Environmental Protection Agency (EPA).</td>
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<td>The ARL will launch with state-of-the-art Tier 4 diesel vehicles.</td>
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<td>Tier 4 emissions standards are the strictest non-road engine emission standards possible, as established by the US Environmental Protection Agency.</td>
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<td>Tier 4 technology reduces airborne particulate emissions by 90% and nitrogen oxides (NOx) by 80%.</td>
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Summary

The Air Rail Link Spur 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.

Over the last six years, the Province has averaged $10 billion in infrastructure investments per year. In June 2011, the Province launched its new long-term infrastructure plan – Building Together. The Province is continuing its significant investments in public infrastructure, and will provide an additional $35 billion over the next three years.

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. Starting in 2015, in time for the Toronto 2015 Pan / Parapan Am Games (Games), there will be a passenger rail service linking Toronto Union Station to Toronto Pearson International Airport (Toronto Pearson).

The Air Rail Link will be an important public asset that will help meet demand for a direct service connecting the busiest airport in Canada with the busiest transit and passenger rail hub in the country.

As part of the Air Rail Link Spur project, a three-kilometre rail spur will be constructed to branch off the GO Transit Kitchener line near Highway 427 and connect to a new passenger terminal at Toronto Pearson’s Terminal 1.

Once the ARL service begins, trains will depart from Union Station and the international airport every 15 minutes. The Air Rail Link service will provide travellers with a quick, direct, easy mode of transport to the airport, and is expected to eliminate 1.2 million car trips from our roads in the first year of operation alone.

The purpose of this report is to provide a summary of the project scope for the Airport Rail Link Spur and new passenger station at Terminal 1, the procurement process and the Project Agreement, and to demonstrate how value for money was achieved by delivering the 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 expressed in dollar values measured at the same point in time.

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

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<td>Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.</td>
<td>Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.</td>
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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 Air Rail Link Spur and new passenger station at Terminal 1 project demonstrates the AFP approach provides estimated cost savings of 11.1 per cent or $19.7 million compared to a traditional delivery.
Deloitte & Touche LLP completed the value for money assessment of the Air Rail Link Spur project. Their assessment demonstrates projected cost savings of 11.1 per cent by delivering the project using the AFP model in comparison to a traditional delivery model.

P1 Consulting Ltd. acted as the Fairness Monitor for the procurement process. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Air Rail Link Spur project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. P1 Consulting Ltd. certified that these principles were maintained throughout the procurement process (please see letter on pages 4 and 5).

Infrastructure Ontario will work with Metrolinx to deliver the Air Rail Link Spur, 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.

Metrolinx, together with Infrastructure Ontario, have the task of delivering the three-kilometre Air Rail Link Spur and a new passenger station at Toronto Pearson International Airport, on time and on budget. This project will be delivered using an Alternative Financing and Procurement (AFP) delivery model - a made-in-Ontario 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.

The Air Rail Link Spur project

Starting in 2015, in time for the Toronto 2015 Pan / Parapan Am Games (Games), there will be a passenger rail service linking Toronto Union Station to Toronto Pearson International Airport (Toronto Pearson).

The Air Rail Link (ARL) will be an important public asset that will help meet demand for a direct service connecting the busiest airport in Canada with the busiest transit and passenger rail hub in the country.

The Air Rail Link will operate on a 25-kilometre route, along GO Transit’s Kitchener corridor (formerly the Georgetown corridor), including a three-kilometre rail spur, which will be constructed to branch off the Kitchener line near Highway 427 and connect to a new passenger terminal at Toronto Pearson’s Terminal 1.

The Air Rail Link is division of Metrolinx, and Metrolinx will own and operate the service.

Using its Design-Build-Finance model, Infrastructure Ontario has partnered with Metrolinx to deliver a three-kilometre rail spur and new Airport Rail Link passenger station.

Upon completion, the Air Rail Link will make it quicker and easier for travellers to get from the downtown core to Toronto Pearson International Airport.

The new rail service is expected to eliminate 1.2 million car trips from our roads in the first year of operation alone.

Once the ARL service begins, trains will depart from Union Station and the international airport every 15 minutes. More than five million people travel between Toronto Pearson and the downtown core annually, and this number is expected to almost double in the next decade.

The project will generate economic growth for businesses and communities in the Greater Toronto and Hamilton Area (GTHA) by creating jobs in design and construction and will ease traffic congestion on our roads and reduce air pollution.

Project Scope

The project will provide a three-kilometre rail line extension to the Air Rail Link and a new passenger station at Terminal 1 of Toronto Pearson International Airport (Toronto Pearson).

The three-kilometre rail line will branch off from the Kitchen branch off the GO Transit Kitchener line near Highway 427 and connect to a new passenger terminal at Toronto Pearson’s Terminal 1. The ARL will provide frequent, shuttle-type service between Canada’s two busiest transportation hubs – Toronto Union Station and Toronto Pearson.

The 25-kilometre Air Rail Link will be completed in time for the Toronto 2015 Pan / Parapan American Games.
Competitive selection process timeline

Infrastructure Ontario has entered into a Project Agreement with AIRLINX Transit Partners Inc. to provide the Air Rail Link Spur project. The procurement stages for the project were as follows:

**November 26, 2010**
*Request for Qualifications*

On November 26, Metrolinx and Infrastructure Ontario issued a request for qualifications (RFQ) for the Air Rail Link Spur project. The following four teams were short-listed for the project:

- AirLink Group (SNC Lavalin)
- AIRLINX Transit Partners (Aecon Construction and Materials Ltd. and Dufferin Construction Company – a division of Holcim Canada Ltd.)
- Toronto Railway Airport Consortium (TRAC) – EllisDon Corporation, ACS Infrastructure Canada and Fengate
- Pearson Express (Flatiron/Laing O’Rourke)

**March 18, 2011**
*Request for Proposals*

A request for proposals (RFP) was issued to the short-listed bidders; this set out the bid process and proposed Project Agreements to deliver the project.

*Proposal submission*

The RFP period closed on August 18, 2011. Three bids were received by Infrastructure Ontario and Metrolinx. The bids were evaluated using the criteria set out in the RFP.

**October 7, 2011**
*First ranked bidder notification*

AIRLINX Transit Partners Inc. was selected as the first ranked proponent based on predetermined criteria, in accordance with the evaluation criteria set out in the RFP.

**December 15, 2011**
*Commercial close/Financial Close*

A Project Agreement was executed by AIRLINX Transit Partners Inc, Metrolinx and Infrastructure Ontario.

AIRLINX Transit Partners Inc. is a consortium between Aecon Construction and Materials Limited and Dufferin Construction Company – a division of Holcim (Canada) Inc.


**Winter 2012 – Summer 2014**
*Design and Build Phase*

The design and build phase will be carried out in accordance with the Project Agreement.

Following commercial / financial close, AIRLINX Transit Partners Inc. finalized design of the three-kilometre “spur” and new passenger station to ensure the necessary permits and approvals are in place to commence construction in spring 2012.

*Completion and payment*

AIRLINX Transit Partners Inc. has committed to complete the project in 31 months. The value of the contract with AIRLINX Transit Partners Inc. is approximately $128.6 million. AIRLINX Transit Partners Inc. will receive a single substantial completion payment once the three-kilometre “spur line” and new passenger station are completed. This project is expected to be completed in summer of 2014.

A copy of the Project Agreement will be posted to Infrastructure Ontario’s website: www.infrastructureontario.ca
Project Agreement

Legal and commercial structure
Infrastructure Ontario entered into a Project Agreement with AirLINX Transit Partners Inc. comprising approximately 31 months of construction. Under the terms of the Project Agreement, AirLINX Transit Partners Inc. will:

- Design, build and finance the Air Rail Link Spur project which includes a three-kilometre spur and a new passenger station at Toronto Pearson International Airport.

In the Project Agreement, AirLINX Transit Partners Inc. has committed to complete the project in 31 months. AirLINX Transit Partners Inc. will not receive any payments from Ontario until substantial completion of the project is reached. Since AirLINX Transit Partners Inc. starts to incur additional financing costs after the substantial completion date, it is highly motivated to meet the contractually required completion date and to remain on schedule.

The province is committed to delivering the Air Rail Link Spur in time for the Toronto 2015 Pan / Parapan American Games.

The Air Rail Link will be publicly owned and publicly controlled.

Design, build 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 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 in the traditional design build model are contractually transferred to AirLINX Transit Partners Inc. 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:

Construction price certainty
AirLINX Transit Partners Inc. payment may only be adjusted in very specific circumstances, agreed to in advance and in accordance with the detailed variation (or change order) procedures set out in the Project Agreement.

Scheduling, project completion and delays
AirLINX Transit Partners Inc. has committed to complete the project in 31 months.

The construction schedule can only be modified in very limited circumstances, in accordance with the Project Agreement. AirLINX Transit Partners Inc. will not receive any payment from the Province until substantial completion of the three-kilometre Air Rail Link Spur and the new passenger station that will be located at Toronto Pearson Terminal 1 in summer, 2014 and the project has been certified as substantially complete by an independent certifier. The overall Air Rail Link project will be completed in 2015 for the Toronto 2015 Pan/Parapan American Games.

Costs associated with delays that are the responsibility of AirLINX Transit Partners Inc. must be paid by AirLINX Transit Partners Inc.

Site conditions
AirLINX Transit Partners Inc. accepted the site and site conditions and will not be entitled to make claims against the Province for site condition related matters, subject to a baseline analysis of the ARLS corridor. AirLINX Transit Partners Inc. is responsible for the site and the conditions that were disclosed in or could have been reasonably anticipated from the reports, or that are caused by AirLINX Transit Partners Inc. or any of its parties.

Development approvals
AirLINX Transit Partners Inc. is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals and permits.
Construction financing
AirLINX Transit Partners Inc. is required to finance the design and the construction of the Air Rail Link Spur project until it is complete. AirLINX Transit Partners Inc. will be responsible for all increased financing costs should there be any delay in AirLINX Transit Partners Inc. reaching substantial completion of project. This shifts significant financial risk to AirLINX Transit Partners Inc. in the case of late delivery.

Commissioning
AirLINX Transit Partners Inc. must achieve a prescribed level of commissioning of the Airport Rail Link Spur project at substantial completion and must co-ordinate the commissioning activities within the agreed-upon construction schedule. This ensures that the Province will receive a compliant Air Rail Link Spur when payment is made to AirLINX Transit Partners Inc. AirLINX Transit Partners Inc. will work closely with Metrolinx to facilitate the transition phase of the Air Rail Link Spur and new passenger station.

Activity protocols
AirLINX Transit Partners Inc. and the Province have established a schedule for project submittals taking into account the time for review needed by Infrastructure Ontario’s compliance advisor.

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

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 change orders
- 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 owner-initiated scope changes
- Approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

In addition to the transfer of key risks (outlined on pages 12 to 13) to AirLINX Transit Partners Inc. under the project documents, the financing arrangement entered into between AirLINX Transit Partners Inc. and its lenders ensures that the project is subject to additional oversight, which may include:

- an independent budget review by a third-party consultant
- monthly reporting and project monitoring by a third-party consultant
- 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

For the Air Rail Link Spur project, Deloitte & Touche LLP’s value for money assessment demonstrates the AFP approach provides a projected cost savings of 11.1 per cent, or $19.7 million compared to the traditional procurement approach.

Deloitte & Touche 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. 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 Deloitte & Touche LLP.

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 today’s 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.

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| 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.

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

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

The value for money assessment of the Air Rail Link Spur project demonstrates the AFP approach provides estimated cost savings of 11.1 per cent or $19.7 million 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, using the AFP approach will result most likely 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**

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 future 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.

For a fair and accurate comparison, 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: the traditional delivery model (public sector comparator or PSC) and the AFP model. 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 AirLINX Transit Partners Inc., and include all construction and financing costs. The base costs between AFP and the traditional delivery model mainly differ as follows:

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 and as compensation for the cost of financing the project using its own 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 Air Rail Link Spur project, these were $128.6 million.

If the traditional model had been used for the Air Rail Link Spur and new passenger station at Toronto Pearson Terminal 1 project, base costs are estimated to be $108.9 million.

**Risks retained**

Historically, on traditional projects, the public sector had to bear costs that go beyond a project’s base costs as 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 fulsome value for money analysis, but 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 to 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 to 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 AirLINX Transit Partners Inc:

- design compliance with the output specifications;
- design and build price certainty;
- scheduling, project completion and potential delays;
• design and build co-ordination;  
• design responsibility;  
• infrastructure responsibility;  
• build period financing;  
• schedule contingency;  
• coordination of equipment procurement installation;  
• deployment of solution.

Examples of these risks include
• **Design and build coordination/completion**  
  The private-sector is responsible for coordinating design and construction activities. Under the AFP approach, the consortium 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 consortium is responsible for inconsistencies, conflicts, interferences or gaps in the design and build submittals.

**Scheduling, project completion and delays:**
• If schedule overrun occurs, AirLINX Transit Partners Inc is responsible for extra cost. Under the AFP approach, AirLINX Transit Partners Inc. has agreed that it will complete the Air Rail Link Spur project for 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 AirLINX Transit Partners Inc. will not be paid by the Province; this agreement motivates AirLINX Transit Partners Inc. to maintain the project’s schedule. Further oversight includes increased upfront due diligence and project management controls imposed by AirLINX Transit Partners Inc. and its lenders.

Infrastructure Ontario retained Altus Group to develop a template for assessing the project risks (later amended and endorsed by MMM Group) that the public sector relinquishes under AFP compared to the traditional approach. Using data from actual project as well as its own knowledge base, the firm established a risk profile under both approaches for transportation projects. It is this risk matrix that has been used for validating the risk allocation for the specific conditions of the Air Rail Link Spur project.

Using the AFP model reduces these results to 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 construction of the Air Rail Link Spur and new passenger terminal. Using the AFP approach, such change orders would be minimal and result 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 AirLINX Transit Partners Inc.

A detailed risk analysis of the Air Rail Link Spur and new passenger station concluded that the average value of project risks retained by the public sector under traditional delivery is $50.6 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to $8.6 million. This is a savings of $42.0 million for Ontario taxpayers.

**Ancillary costs and adjustments**  
There are significant ancillary costs associated with the planning and delivery of a large complex project that 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 Air Rail Link Spur and new passenger station are 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 up-front due diligence. The ancillary costs for the Air Rail Link Spur and new
passenger station under the traditional delivery method are estimated to be $17.0 million as compared to $19.5 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 Deloitte & Touche LLP 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 in Canadian dollars, as at financial close. In the case of the Air Rail Link Spur project, the estimated traditional delivery cost (i.e. PSC) is $176.5 million as compared to $156.8 million under the AFP delivery approach.

The positive difference of $19.7 million or 11.1 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.