

Value for Money Assessment

Brockville General Hospital
Phase 2 Redevelopment Project

March 2018

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	2
▶ Infrastructure Ontario	2
▶ Alternative Financing and Procurement in Ontario	2
▶ Achieving Value for Money	2
▶ External Review	3
II. PROJECT HIGHLIGHTS	4
▶ Brockville General Hospital	4
▶ Background	4
▶ Objectives	4
▶ Project Scope	5
▶ Economic Benefits & Job Creation	5
III. ACHIEVING VALUE FOR MONEY	6
▶ Value for Money Concept	6
▶ Calculating Value for Money – Inputs & Assumptions	6
▶ Brockville General Hospital Phase 2 Redevelopment Value for Money Results	9
▶ External Review	10
IV. PROJECT AGREEMENT	11
V. COMPETITIVE SELECTION PROCESS	12
▶ Procurement Process	12
▶ Construction and Maintenance Phases	13
VI. CONCLUSION	14
VII. APPENDICES: EXTERNAL CONSULTANT LETTERS	15

I. EXECUTIVE SUMMARY

This report provides a summary of the procurement process for the Brockville General Hospital Phase 2 Redevelopment Project and demonstrates how value for money was achieved by delivering the project using Infrastructure Ontario's (IO) Alternative Financing and Procurement approach.

➤ Infrastructure Ontario

IO is a Crown agency owned by the Province of Ontario that provides a wide range of services to support the Ontario government's initiatives to modernize and maximize the value of public infrastructure and realty. Projects delivered by IO are guided by five key principles: transparency, accountability, value for money, public ownership and control, and public interest are paramount.

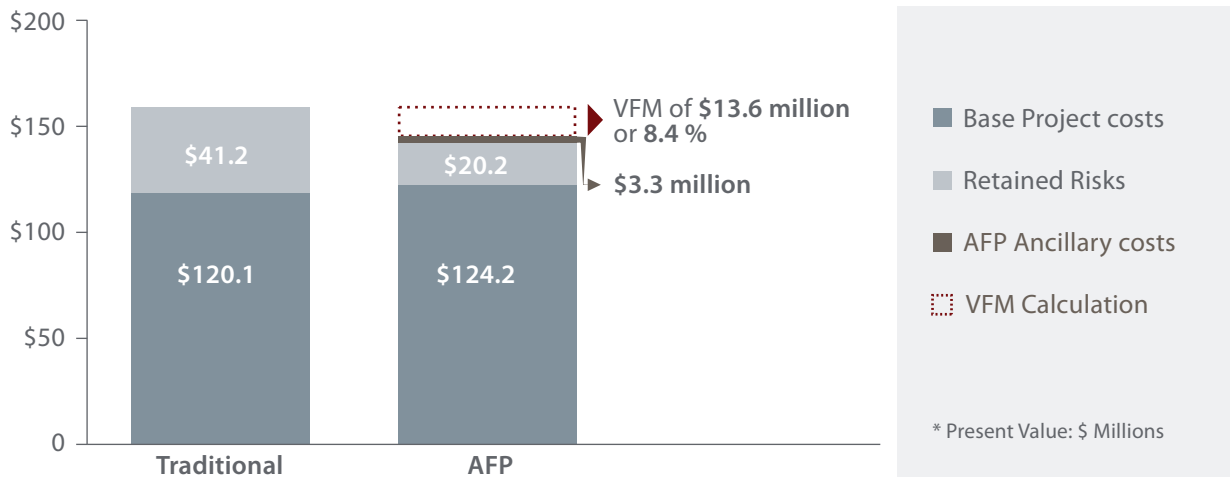
➤ Alternative Financing and Procurement in Ontario

IO delivers public infrastructure projects using a project delivery model called Alternative Financing and Procurement (AFP). The AFP model brings together private and public sector expertise in a unique structure that transfers to the private sector partner the risk of project cost increases and scheduling delays typically associated with traditional project delivery. 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.

All projects with a cost greater than \$100 million are screened for their suitability in being delivered as an AFP project. The decision to proceed with an AFP delivery model is based on both qualitative considerations (e.g., size and complexity of the project) and a quantitative assessment. The quantitative assessment, called Value for Money (VFM), is used to assess whether the AFP delivery model will achieve greater value to the public compared to a traditional public sector delivery model. VFM compares the estimated total project costs of delivering public infrastructure using AFP relative to the traditional delivery model.

➤ Achieving Value for Money

The VFM assessment of the Brockville General Hospital Phase 2 Redevelopment Project indicates an estimated cost savings of \$13.6 million or 8.4 percent by using the AFP approach compared to traditional delivery.



I. EXECUTIVE SUMMARY

► External Review

As part of the procurement process and VFM assessment, 10 external parties were retained by IO:

- Deloitte was retained to complete the VFM assessment,
- P1 Consulting acted as the Fairness Monitor for the project,
- Borden Ladner Gervais LLP. acted as the Legal/Transaction Advisor, and
- Deloitte. acted as the Financial Advisor.

II. PROJECT HIGHLIGHTS

➤ Brockville General Hospital



Courtesy of Stantec Architecture

Purpose	To deliver the Brockville General Hospital Phase 2 Redevelopment Project
Project Owner	Brockville General Hospital
Private Partner	EllisDon
Location	Brockville
Project Type	Build-Finance
Infrastructure Type	Health Care
Contract Value	\$131.2 million
Construction Period	March 2018 – August 2020
Length of Project Agreement	2.5 years
Estimated Value for Money (Present Value)	\$13.6 million or 8.4%

➤ Background

Brockville General Hospital provides a comprehensive continuum of care and currently operates on four campuses: Charles Street, Garden Street, Front Street and the MacDougall Building. One of the primary objectives for the redevelopment is to consolidate the various campuses to the main Charles Street site.

➤ Objectives

Through the Moving Ontario Forward plan, the province is investing in health care projects that will provide Ontarians with access to high quality health care close to home.



II. PROJECT HIGHLIGHTS

► Project Scope

The project involves the construction of a four-story addition of approximately 175,000 square feet and approximately 20,000 square feet of renovations. Project features include:

The scope of the project includes:

- Increased inpatient beds in the Complex Continuing Care, Palliative Care, and Rehabilitation departments
- An expanded Acute Mental Health and Addictions Program
- Relocation of support services and facilities

The construction will result in an overall net increase of 22 beds.

► Economic Benefits & Job Creation

The project is generating economic stimulus by creating and supporting jobs. At the peak of construction, EllisDon estimates that 250 workers will be on the site daily.

III. ACHIEVING VALUE FOR MONEY

Value for money assessment for the Brockville General Hospital's Phase 2 Redevelopment Project demonstrates a project cost savings of:

\$13.6 million or 8.4%

The VFM assessment methodology is outlined in Assessing Value for Money – An Updated Guide to Infrastructure Ontario's Methodology, which can be found at www.infrastructureontario.ca.

► Value for Money Concept

The VFM compares the estimated total-risk adjusted project costs, expressed in dollars measured at the same point in time, of delivering the same infrastructure project under two delivery models: the Traditional Design, Bid, Build (DBB) model and the AFP model.

MODEL # 1:

Traditional DBB Delivery (PSC)

Estimated costs to the public sector of delivering an infrastructure project using a traditional procurement delivery model.

Total risk-adjusted costs are known as the Public Sector Comparator or PSC Costs.

MODEL # 2:

AFP Delivery

Estimated costs to the public sector of delivering the same project to the identical specifications using the AFP delivery model.

Total risk-adjusted costs are known as AFP Costs.

$$\left\{ \text{Value for Money \$} = \text{PSC Costs} - \text{AFP Costs} \text{ or } \text{Value for Money \%} = \frac{(\text{PSC Costs} - \text{AFP Costs})}{\text{PSC Cost Costs}} \right\}$$

The difference between the total estimated PSC costs and the total estimated AFP costs is referred to as VFM. Positive VFM is demonstrated when the cost of delivery under AFP is less than PSC.

► Calculating Value for Money – Inputs & Assumptions

The VFM is assessed and refined throughout the entire procurement process to reflect updated information and the project's actual bid costs. All costs and risks in this report are expressed in present value terms and have been discounted back to present terms.

The VFM assessment relies on a number of inputs and assumptions, including:

- 1. Base Project Costs
 - ▼ 1.1. Adjusted Base Costs (design, construction, lifecycle and maintenance, as applicable)
 - ▼ 1.2. Financing Costs
- 2. AFP Ancillary Costs
- 3. Retained Risks

III. ACHIEVING VALUE FOR MONEY

1. Base Project Costs

▼ 1.1. Calculation of Base Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
Base Costs adjusted for:	(\$)	Base Costs adjusted for:	(\$)
Innovation Factor	N/A	Innovation Factor	↓ to Construction Costs
Adjusted Base Costs	Base Costs (\$) +/- Adjustments	Adjusted Base Costs	Base Costs (\$) +/- Adjustments
Estimated Savings / (Costs) in Base Costs under the AFP Model			PSC – AFP

Base costs in this scenario include design and construction cost. In the estimation of base costs, IO relies on external cost consultants to estimate the costs of the project. This becomes the starting point for both the PSC and AFP models. These costs are then adjusted for:

- ▶ An innovation factor (DBF and DBFM projects only) – the VFM methodology typically includes an innovation factor which recognizes that the base cost of the AFP model will be lower than the PSC model as a result of:
 - ▶ the use of performance-based specifications in AFP projects allow contractors to consider innovative and alternative ways to deliver a project, such that project costs are lower as compared to a traditional delivery which uses more prescriptive specifications; and,
 - ▶ an increased competitive environment on AFP projects which have resulted in cost reductions
 - ▶ for the purposes of the Brockville General Hospital Phase 2 Redevelopment Project, an innovation factor was not applied to VFM given this project was procured under IO’s Build Finance (BF) model. This is consistent with IO’s VFM methodology

▼ 1.2. Financing Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
Financing Costs	Public sector notional financing costs	Financing Costs	Private sector financing costs
Estimated Savings / (Costs) from Financing under the AFP Model			PSC – AFP

One of the common elements of the AFP model is the use of private finance for some or all of the project period. Under the traditional delivery model, the public sector makes progress payments throughout construction. Whereas under the AFP model, the government pays a portion of construction costs during construction as interim payments or milestone payments and/or pays the entire amount at the end of the

III. ACHIEVING VALUE FOR MONEY

construction period.

Financing costs are reflected as follows:

- ▶ Traditional Delivery Model or PSC – the public sector notionally incurs an “opportunity cost” for having paid earlier as compared to the AFP model. The notional public sector financing cost is calculated at the current Provincial cost of borrowing or weighted average cost of capital. This cost is also reflected in the discount rate used to assess and compare the project costs.
- ▶ AFP Delivery Model – the private sector party borrows at private financing rates to pay for project costs during construction and carries that financing until fully repaid by the public sector. This private sector financing cost is ultimately passed through to the public sector as a cost and reflected in the AFP model.

2. AFP Ancillary Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
AFP Ancillary Costs	N/A	AFP Ancillary Costs	AFP costs
Estimated Savings / (Costs) from Financing under the AFP Model			PSC – AFP

There are significant costs associated with the planning and delivery of a large complex project. The VFM methodology quantifies the incremental ancillary costs arising under the AFP delivery model only. Ancillary costs typically incurred include legal, capital markets, fairness, transaction, and the cost of IO services.

3. Retained Risks

Traditional Delivery Model (PSC)		AFP Delivery Model	
Retained Risks	PSC costs	Retained Risks	AFP costs
Estimated Savings / (Costs) from Retained Risks under the AFP Model			PSC – AFP

The concepts of risk transfer and mitigation are key to understanding the overall VFM assessment. To estimate and compare the total cost of delivering a project under the traditional delivery model versus the AFP model, the risks borne by the public sector, which are called “retained risks”, are identified and quantified. Details on how retained risks are identified and quantified are in Assessing Value for Money – An Updated Guide to Infrastructure Ontario’s Methodology, which can be found at www.infrastructureontario.ca.

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 under both delivery models, they are included in the estimated cost under the PSC and AFP model as “retained risks”. Risks retained under the AFP model are lower than risks retained by the public sector under the PSC model. This reflects the transfer of certain project risks from the public sector to the private sector and the appropriate allocation of risk between the public and private sectors based on the party best able to manage, mitigate, and/or eliminate the project risk.

III. ACHIEVING VALUE FOR MONEY

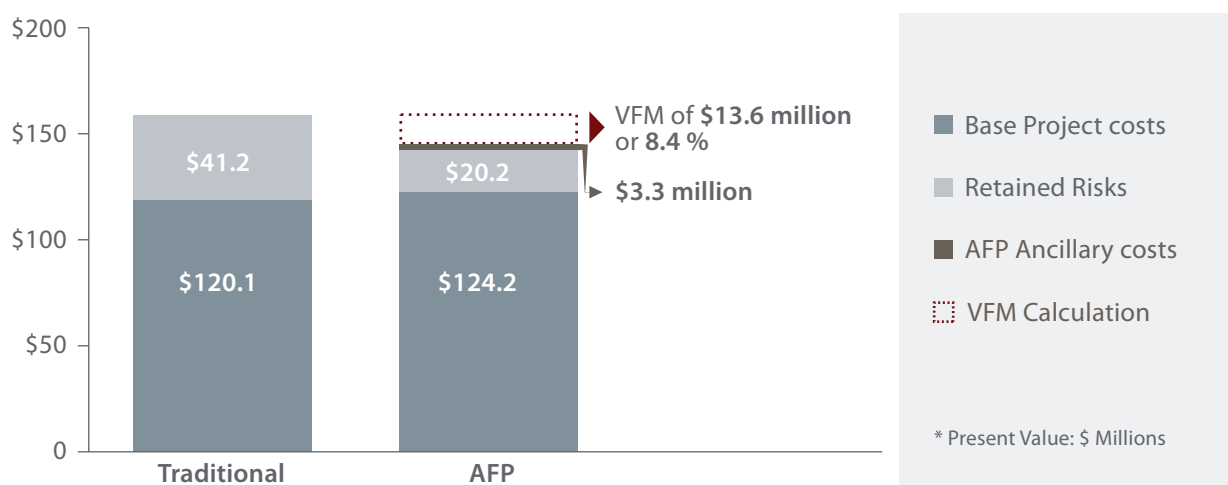
As a result of a comprehensive risk assessment, the following are examples of key project risks that have been transferred or mitigated under the project agreement to EllisDon:

- ▶ Project Schedule – risk of a longer construction period, resulting in a higher total program cost.
- ▶ Due Diligence (by the owner in preparation of tender in RFP) – risk that an insufficient level of due diligence is undertaken and communicated to the proponents, resulting in reduced tolerance to risk and higher bid price.

▶ Brockville General Hospital Phase 2 Redevelopment Project Value for Money Results

The VFM assessment of the Brockville General Hospital Phase 2 Redevelopment Project indicates an estimated cost savings of \$13.6 million or 8.4 percent by using the AFP approach compared to traditional delivery.

Traditional Delivery Model (PSC)	\$ Millions Present Value	AFP Delivery Model	\$ Millions Present Value
I. Base Project Costs (Adjusted Base Costs + Financing)	\$120.1	I. Base Project Costs (Adjusted Base Costs + Financing)	\$124.2
II. AFP Ancillary Costs	N/A	II. AFP Ancillary Costs	\$3.3
III. Retained Risks	\$41.2	III. Retained Risks	\$20.2
Total	\$161.3	Total	\$147.7
Estimated Value for Money (cost difference)		\$13.6	
Estimated Percentage Savings		8.4%	



III. ACHIEVING VALUE FOR MONEY

➤ External Review

Deloitte completed the VFM assessment for the project. Their assessment demonstrates projected cost savings of 8.4 percent by delivering the project using the AFP model versus what it would have cost to deliver the project using a traditional delivery model (see letter on page 15).

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 project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. P1 Consulting Inc. certified that these principles were maintained throughout the procurement process (see letter on page 16).

IV. PROJECT AGREEMENT

► Highlights of the Project Agreement

The Project Agreement signed between Brockville General Hospital and EllisDon defines the obligations and risks of all parties involved. Key highlights that pertain to the construction terms are below:

- **Contract Price Certainty** – A \$131.2 million fixed-price contract (without inflation) fixed-price contract to build and finance the Brockville General Hospital Phase 2 Redevelopment Project. Any extra costs incurred as a result of a schedule overrun caused by EllisDon will not be paid by the Province.
- **Scheduling, Project Completion and Delays** – EllisDon has agreed to a substantial completion date of August 10, 2020. The schedule can be modified in limited circumstances, in accordance with the terms of the Project Agreement. Project Co has the obligation to mitigate impact on the Project schedule as much as possible on the occurrence of particular delays, as specified in the Project Agreement. A sizeable payment will be made by the Province at substantial completion, providing further incentive for EllisDon to complete construction on time.
- **Site Conditions and Contamination** – EllisDon is responsible for maintaining and managing and where required, remediating any contamination, at the Site. This includes contamination that was disclosed from Site Condition Reports or readily apparent/discoverable from inspecting the Site, or that is caused by EllisDon or any of its parties.
- **Construction Financing** – EllisDon is required to finance the construction of the project.
- **Commission and Facility Readiness** – EllisDon must achieve a prescribed level of commissioning at substantial completion within the agreed-to schedule. This ensures Brockville General Hospital will be able to achieve operational service by the agreed upon schedule.

V. COMPETITIVE SELECTION PROCESS

The procurement process for the Brockville General Hospital Phase 2 Redevelopment Project, from RFQ to Financial Close, took approximately 32 months to complete.

After concluding a fair and competitive procurement process, Brockville General Hospital and IO entered into a project agreement with EllisDon to build and finance the project.

► Procurement Process

i. Request for Qualifications | June 18, 2015

- ▶ Brockville General Hospital and IO issued a Request for Qualifications (RFQ) to solicit interested parties to build and finance the Phase 2 Redevelopment Project at Brockville General Hospital.
- ▶ In April 2015, the RFQ period closed and the Sponsors received statements of qualifications from 6 teams.
- ▶ RFQ submissions were evaluated by IO and Brockville General Hospital. High standards were set to ensure the prequalified teams exceeded the technical and financial standards required for this complex and large project. The evaluation process resulted in five proponents being shortlisted:
 - ▶ EllisDon
 - ▶ M. Sullivan and Son, Ltd.
 - ▶ PCL Constructors Canada, Inc.
 - ▶ Pomerleau Inc.
 - ▶ Walsh Canada

ii. Request for Proposals | May 18, 2017

- ▶ A Request for Proposals (RFP) was issued to the prequalified proponents, setting out the bid process and proposed project agreement for the project.
- ▶ The proponents spent approximately five months to prepare high-quality, competitive submissions.

iii. Proposal Submission | October 19, 2017

- ▶ The RFP period closed on October 19, 2017 and four proponents submitted bids on time.
- ▶ May to October, 2017: bids were evaluated using criteria as set out in the RFP by an Evaluation Committee comprised of IO and Brockville General Hospital representatives. The evaluation process resulted in EllisDon receiving the highest score.
- ▶ In December 2017, the 'first-ranked proponent' – also referred to as the First Negotiations Proponent – EllisDon was notified of their standing.

iv. Preferred Proponent Notification | January 26, 2018

- ▶ After successful negotiations with the First Negotiations Proponent, EllisDon was selected as the preferred proponent. EllisDon best demonstrated the ability to meet the specifications outlined in the RFP, including technical requirements, construction schedule, price and financial backing.

V. COMPETITIVE SELECTION PROCESS

v. Commercial and Financial Close | March 1, 2018

- ▶ Upon conclusion of negotiations and once a financing rate was set, a Project Agreement (contract) was executed between EllisDon and Brockville General Hospital on March 1, 2018.
- ▶ The EllisDon team including identified subcontractors comprises more than 16 companies.

▶ Construction Phases

vi. Construction Phase | 2018 – 2020

- ▶ The construction phase began in March 2018 upon signing of the contract and will be carried out in accordance with the Project Agreement and the builder's schedule as approved by the Brockville General Hospital and IO.
- ▶ During the construction period, the builder's construction costs will be funded through their own lending arrangements, which will be paid in monthly installments based on the construction program set out by EllisDon.
- ▶ Project construction will be overseen by Brockville General Hospital and IO.

vii. Payment

- ▶ EllisDon will receive a substantial completion payment expected in August 2020.



VI. CONCLUSION

This report provides a project overview and summary of the procurement process for the Brockville General Hospital Phase 2 Redevelopment Project, and demonstrates that a VFM of \$13.6 million or 8.4 percent will be achieved by using the AFP approach compared to traditional delivery.

Going forward, IO, Brockville General Hospital and EllisDon will continue to work together to ensure the successful delivery of the Brockville General Hospital Phase 2 Redevelopment Project while ensuring value for the public is protected.

June 4, 2018

Private and confidential

John Traianopoulos
Senior Vice President, Transaction Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto M5G 2C8
Canada

Dear Mr. Traianopoulos,

Subject: Financial Close Value for Money Analysis - Brockville General Hospital BF

Deloitte LLP ("Deloitte") has prepared the Financial Close stage Value for Money ("VFM") assessment for the Brockville General Hospital Project (the "Project"), in accordance with Infrastructure Ontario's ("IO") value for money assessment methodology ("VFM Methodology") outlined in *Assessing Value for Money: An Updated Guide to Infrastructure Ontario's Methodology (April 2017)*. The VFM Methodology appears consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the present value of estimated total project costs under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator (PSC) model; and
2. The Alternative Finance and Procurement (AFP) approach, as reflected in the Preferred Proponent's Bid at Financial Close.

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

- A. A Base Risk Matrix developed for IO by Altus Group and adapted to reflect the Project specific risks;
- B. Cost and other input assumptions extracted from the Preferred Proponent's Bid at Financial Close; and
- C. Other VFM model assumptions provided by IO.

While Deloitte did not audit or attempt to independently verify the accuracy or completeness of the Information, Deloitte confirms, based on our familiarity with the application of VFM methodologies, that the Information has been appropriately used in the VFM model. The VFM assessment demonstrates that the AFP approach will provide estimated value savings of 8.4% or \$13.6 million in comparison to the traditional delivery approach.

Sincerely,



Deloitte LLP

December 20th, 2017

Mr. Michael Inch
Vice President, Procurement
Infrastructure Ontario
1 Dundas Street West, Suite 2000
Toronto, Ontario, M5G 2L5

Subject: Fairness Attestation - Request for Proposals for Brockville General Hospital Phase 2 Development Project (RFP No. 17-019)

Dear Mr. Inch:

P1Consulting acted as the Fairness Monitor to review and monitor the communications, evaluations and decision-making processes associated with the procurement process for **the Request for Proposals (“RFP”) in connection with the Request for Proposals for Brockville General Hospital Phase 2 Development Project (the “Project”)**. This was done with the aim of ensuring fairness, equity, objectivity, transparency and adequate documentation in the evaluation process.

The Request for Qualifications (“RFQ”) preceded the RFP process, with the intent of identifying the Pre-qualified Proponents who would be eligible to participate in RFP process. P1 Consulting was engaged in the procurement process prior to the release of the RFQ, and monitored and reviewed the process up until the selection of the Preferred Proponent.

To date, in our role as Fairness Monitor, P1 Consulting has made certain that the following steps were taken to ensure a fair and transparent process:

- Clarity and consistency of the RFQ and RFP, Evaluation Framework and related documentation;
- Adherence to the processes described in the RFQ and RFP and Evaluation Framework, including the evaluation process;
- Objectivity and diligence during the procurement process in order to ensure that it was conducted in a transparent manner;
- Compliance of participants with strict requirements regarding conflict of interest and confidentiality during the procurement and evaluation processes;
- Security of information; and
- Oversight to provide a process where the Proponents are treated fairly.

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

- Participation in the project kick-off meeting;
- Review of the draft RFQ and RFP and related documentation;
- Review of the Evaluation Frameworks;
- Overseeing Commercially Confidential Meetings;

P1 Consulting Inc.

Mr. Inch
December 20th, 2017
Page 2 of 2


- Overseeing the receipt of Proposals; and
- Overseeing the proposal evaluation and the selection of the Preferred Proponent.

In accordance with our mandate to monitor all evaluation criteria, procedures, and written communications between the Sponsors and the proponents, we have reviewed all of the documents that we were provided, and deemed acceptable from a fairness perspective the following:

- RFP
- Requests for Information/Q&A
- Addenda
- Evaluation Framework
- Requests for Clarification and Responses
- Subject Matter Expert Reports
- Evaluation Committee Presentations

As the Fairness Monitor for the Request for Proposals for Brockville General Hospital Phase 2 Development Project, we certify that, up until the date of this letter, the principles of fairness, consistency and transparency have been, in our opinion, maintained throughout the procurement process. Furthermore, no issues have emerged during the procurement process, of which we were aware, that would have impaired the fairness of this initiative.

Yours truly,



Stephanie Braithwaite
Fairness Monitor
P1 Consulting

Cc: Louise Panneton,
President, P1 Consulting





Infrastructure Ontario

1 Dundas Street West, Suite 2000,
Toronto Ontario M5G 2L5
www.infrastructureontario.ca