

ONTARIO INFRASTRUCTURE AND
LANDS CORPORATION



Value for Money Assessment

Orléans Health Hub

August 2019



**Infrastructure
Ontario**

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I. EXECUTIVE SUMMARY

This report provides a summary of the procurement process for the Orléans Health Hub Project and demonstrates how value for money was achieved by delivering the project using Infrastructure Ontario's (IO) public-private partnerships (P3) 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.

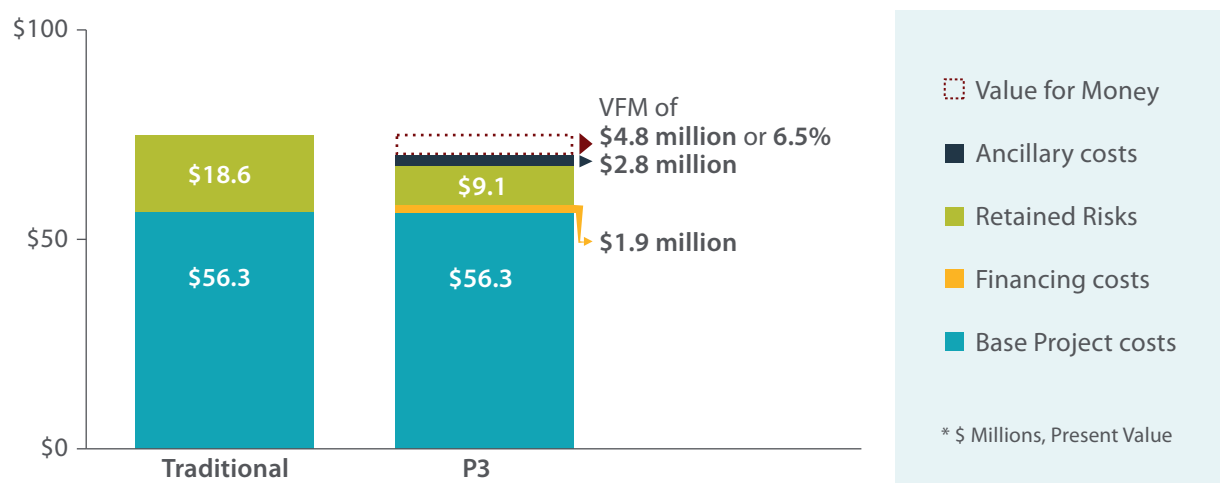
► Public-Private Partnerships in Ontario

IO delivers public infrastructure projects using a project delivery model called public-private partnerships. The 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 P3 approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

The decision to proceed with a P3 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 P3 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 P3 relative to the traditional delivery model.

► Achieving Value for Money

The VFM assessment of the Orléans Health Hub Project indicates an estimated cost savings of \$4.8 million or 6.5 percent by using the P3 approach compared to traditional delivery.





I. EXECUTIVE SUMMARY

➤ External Review

As part of the procurement process and VFM assessment, IO retained three external parties:

- ▶ P1 Consulting Inc. acted as the Fairness Monitor,
- ▶ Gowling WLG (Canada) LLP was retained as Legal Advisor, and
- ▶ Deloitte LLP was retained to complete the VFM assessment.

Hôpital Montfort also retained two parties during the procurement process:

- ▶ HDR Architecture Associates Inc. acted as the Architect / Prime Consultant, and
- ▶ ZW Project Management Inc. was retained as the Hospital's Project Manager.

II. PROJECT HIGHLIGHTS

► Orléans Health Hub



Courtesy of HDR Architecture Associates Inc.

Purpose	Once complete, residents of the greater Orléans area, from newborns to seniors, will have access to integrated programs close to home, focused on their needs and offered in both official languages.
Project Owner	Hôpital Montfort
Private Partner	EllisDon Infrastructure Healthcare ("Project Co")
Location	Orléans, Ontario
Project Type	Build-Finance
Infrastructure Type	Health Care
Contract Value	\$59.7 million
Construction Period	August 2019 to March 2021
Length of Project Agreement	2.75 years
Estimated Value for Money (Present Value)	\$4.8 million or 6.5%

► Background

The Orléans Health Hub Project involves the construction of a new facility at the corner of Mer-Bleue Road and Brian Coburn Boulevard. The 96,000 square foot facility will bring together services from the following health and community service partner organizations:

- Bruyère Continuing Care
- Champlain LHIN
- Children's Hospital of Eastern Ontario (CHEO)



II. PROJECT HIGHLIGHTS

- ▶ Eastern Ottawa Resource Centre (EORC)
- ▶ Geriatric Psychiatry Community Services of Ottawa (GPCSO)
- ▶ Hôpital Montfort
- ▶ Youth Services Bureau of Ottawa

➤ Objectives

Through the Protecting What Matters Most plan, the province is supporting infrastructure investments that will ensure patients and their families have access to the health care they need.

➤ Project Scope

The Hub will respond to client needs within a comprehensive service delivery model of care. The project is the first of its kind in Ontario, and is expected to drive community-based health care thinking across the Province. Services will include:

- ▶ A needs-based ambulatory program
- ▶ Diagnostic imaging
- ▶ Geriatric support and wellness
- ▶ Mental health and wellness
- ▶ Active rehabilitation

➤ Economic Benefits & Job Creation

The Orléans Health Hub Project is a significant economic opportunity for local suppliers and contractors. At the peak of construction, Project Co estimates that more than 200 workers will be on site daily.

III. ACHIEVING VALUE FOR MONEY

Value for money assessment for the Orléans Health Hub project demonstrates a project cost savings of:

\$4.8 million or 6.5%

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 P3 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: P3 Delivery

Estimated costs to the public sector of delivering the same project to the identical specifications using the P3 delivery model. Total risk-adjusted costs are known as P3 Costs.

$$\left\{ \text{Value for Money \$} = \text{PSC Costs} - \text{P3 Costs} \text{ or } \text{Value for Money \%} = \frac{(\text{PSC Costs} - \text{P3 Costs})}{\text{PSC Cost Costs}} \right\}$$

The difference between the total estimated PSC costs and the total estimated P3 costs is referred to as VFM. Positive VFM is demonstrated when the cost of delivery under P3 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 Orléans Health Hub Project 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)
 - ▼ 1.2. Financing Costs
- 2. P3 Ancillary Costs
- 3. Retained Risks

III. ACHIEVING VALUE FOR MONEY

1. Base Project Costs

▼ 1.1. Calculation of Base Costs

Traditional Delivery Model (PSC)		P3 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 P3 Model			PSC – P3

Base costs in this scenario include design and construction costs. 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 P3 models. These costs are then adjusted for:

- ▶ An innovation factor (DBF and DBF(O)M projects only) – the VFM methodology includes an innovation factor which recognizes that the base cost of the P3 model will be lower than the PSC model as a result of:
 - ▶ the use of performance-based specifications in P3 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;
 - ▶ an increased competitive environment on P3 projects which have resulted in cost reductions; and,
 - ▶ for the purposes of the Orléans Health Hub 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)		P3 Delivery Model	
Financing Costs	Public sector notional financing costs	Financing Costs	Private sector financing costs
Estimated Savings / (Costs) from Financing under the P3 Model			PSC – P3

One of the common elements of the P3 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 P3 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 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 P3 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 reflected in the discount rate used to assess and compare the project costs.

III. ACHIEVING VALUE FOR MONEY

- ▶ P3 Delivery Model – the private sector party borrows at private financing rates to pay for the 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 P3 model.

2. P3 Ancillary Costs

Traditional Delivery Model (PSC)		P3 Delivery Model	
P3 Ancillary Costs	N/A	P3 Ancillary Costs	P3 costs
Estimated Savings / (Costs) from Financing under the P3 Model			PSC – P3

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 P3 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)		P3 Delivery Model	
Retained Risks	PSC costs	Retained Risks	P3 costs
Estimated Savings / (Costs) from Retained Risks under the P3 Model			PSC – P3

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 P3 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 P3 model as “retained risks”. Risks retained under the P3 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.

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

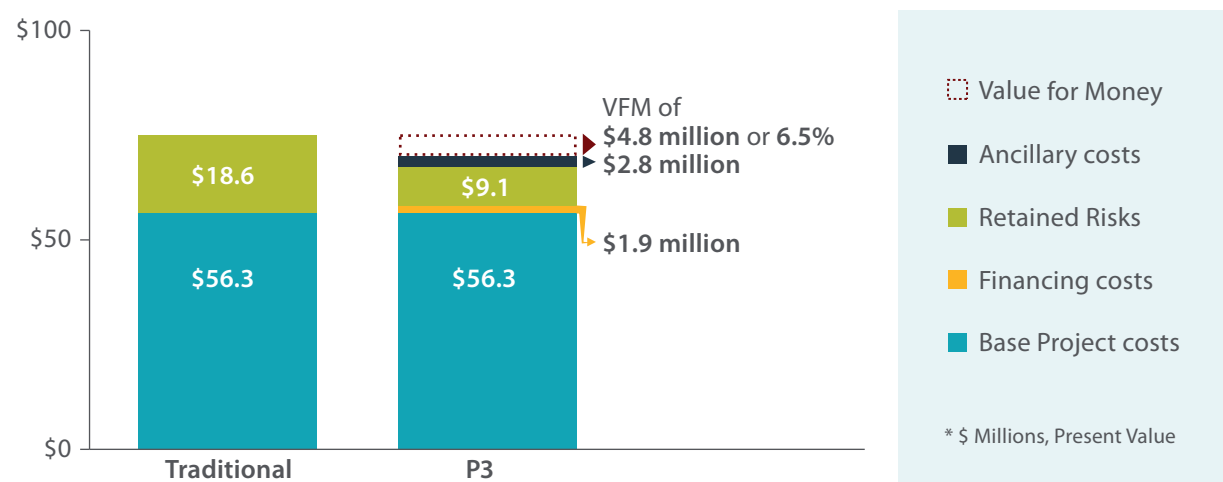
- ▶ Project Schedule – risk of a longer construction period and resulting in a higher total program cost.
- ▶ Due Diligence (by the owner in preparation of tender in RFP) – risk that an insufficient level of due diligence is undertaken and communicated to the proponents, resulting in reduced tolerance to risk and higher bid price.
- ▶ Quality Management – risk associated with meeting design standards and codes as they relate to long-term asset performance.

III. ACHIEVING VALUE FOR MONEY

➤ Hôpital Montfort Project Value for Money Results

The VFM assessment of the Orléans Health Hub Project indicates an estimated cost savings of \$4.8 million or 6.5 per cent by using the P3 approach compared to traditional delivery.

Traditional Delivery Model (PSC)	\$ Millions, Present Value	P3 Delivery Model	\$ Millions, Present Value
I. Base Project Costs (Adjusted Base Costs + Financing)	\$56.3	I. Base Project Costs (Adjusted Base Costs + Financing)	\$58.2
II. P3 Ancillary Costs	N/A	II. P3 Ancillary Costs	\$2.8
III. Retained Risks	\$18.6	III. Retained Risks	\$9.1
Total	\$74.9	Total	\$70.1
Estimated Value for Money (cost difference)		\$4.8	
Estimated Percentage Savings		6.5%	



➤ External Review

Deloitte LLP completed the VFM assessment for the project. Their assessment demonstrates projected cost savings of 6.5 per cent by delivering the project using the P3 model versus what it would have cost to deliver the project using a traditional delivery model (see letter on page 14).

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 letters on pages 15-18).

IV. PROJECT AGREEMENT

► Highlights of the Project Agreement

The Project Agreement (contract) signed between Hôpital Montfort and Project Co defines the obligations and risks of all parties involved. Key highlights that pertain to the construction terms are below:

- **Contract Price Certainty** – A \$59.7 million fixed-price contract to build and finance the project. Any extra costs incurred as a result of a schedule overrun caused by Project Co will not be paid by the Province.
- **Scheduling, Project Completion and Delays** – Project Co has agreed to a substantial completion date of March 16, 2021. 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 Project Co to complete construction on time.
- **Site Conditions and Contamination** – Project Co 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 Project Co or any of its parties.
- **Construction Financing** – Project Co is required to finance the construction of the project.
- **Commission and Facility Readiness** – Project Co must achieve a prescribed level of commissioning at substantial completion within the agreed-to schedule. This ensures Orléans Health Hub Project will be able to achieve operational service in 2021.

V. COMPETITIVE SELECTION PROCESS

The procurement process for the Orléans Health Hub Project, from RFQ to Financial Close, took approximately 19 months to complete.

After concluding a fair and competitive procurement process, Hôpital Montfort entered into a Project Agreement with Project Co to build and finance the project.

► Procurement Process

i. Request for Qualifications | January 8, 2018

- Hôpital Montfort and IO issued a Request for Qualifications (RFQ) to solicit interested parties to design and build the Orléans Health Hub Project.
- On February 22, 2018, the RFQ period closed and the Sponsors received statements of qualifications from five teams.
- RFQ submissions were evaluated by the Sponsors. High standards were set to ensure the shortlisted teams exceeded the technical and financial standards required for this complex and large project. The evaluation process resulted in five proponents being shortlisted:
 - Amico Affiliates
 - Buttcon Limited
 - EllisDon Corporation Inc.
 - PCL Constructors Canada Inc.
 - Pomerleau Inc

ii. Request for Proposals | October 10, 2018

- A Request for Proposals (RFP) was issued to the shortlisted 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 | March 7, 2019

- The RFP period closed on March 7, 2019 and four proponents submitted bids on time.
- March to June 2019: bids were evaluated using criteria as set out in the RFP by an Evaluation Committee comprised of subject matter experts from IO, Hôpital Montfort and technical consultants enlisted by the Sponsors. The evaluation process resulted in EllisDon Infrastructure Healthcare receiving the highest score.
- On June 11, the 'first-ranked proponent' – also referred to as the First Negotiations Proponent – EllisDon Infrastructure Healthcare was notified of their standing.

iv. Preferred Proponent Notification | June 25, 2019

- After successful negotiations with the First Negotiations Proponent, EllisDon Infrastructure Healthcare was selected as the Preferred Proponent. EllisDon Infrastructure Healthcare 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 | August 1, 2019

- ▶ Upon conclusion of negotiations and once a financing rate was set, a Project Agreement was executed between EllisDon Infrastructure Healthcare and Hôpital Montfort on August 1, 2019.

➤ Construction and Maintenance Phases

vi. Construction Phase | August 2019 to March 2021

- ▶ The construction phase will begin in August 2019 and will be carried out in accordance with the Project Agreement and the builder's schedule as approved by the Sponsors.
- ▶ 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 Project Co.
- ▶ Project construction will be overseen by the Hôpital Montfort and IO.

vii. Payment

- ▶ Project Co will receive a substantial completion payment expected in March 2021.



VI. CONCLUSION

This report provides a project overview and summary of the procurement process for the Orléans Health Hub Project, and demonstrates that a VFM of \$4.8 million or 6.5 percent will be achieved by using the P3 approach compared to traditional delivery.

Going forward, IO, Hôpital Montfort and Project Co will continue to work together to ensure the successful delivery of the Orléans Health Hub Project while ensuring value for the public is protected.



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August 16, 2019

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 – Orleans Health Hub BF

Deloitte LLP ("Deloitte") has prepared the Financial Close Value for Money Analysis ("VFM") assessment for the **Orleans Health Hub Build Finance** 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 Adjusted Shadow Bid.

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

1. A Base Risk Matrix developed for IO by MMM Group and adapted to reflect the Project specific risks;
2. Cost and other input assumptions developed by IO and its external advisors; and
3. Other VFM model assumptions provided by IO.

While Deloitte did not audit or independently verify the accuracy or completeness of the Information, Deloitte confirms, based on our familiarity with the application of VFM methodologies, the Information has been appropriately used in the VFM model. The VFM assessment demonstrates that the AFP approach will provide estimated value savings of 6.5% or \$4.8 million in comparison to the traditional delivery approach.

Sincerely,

Deloitte LLP

June 7th, 2019

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

Subject: Fairness Attestation - Request for Proposal to Build-Finance Orléans Health Hub Project (RFP No. 17-241)

Dear Mr. Inch:

P1-Consulting 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 Proposal to Build-Finance Orléans Health Hub Project (the "Project")** in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

Bringing services closer to the home, the Project is designed to support the needs of the Orléans community and surrounding areas in the East, and will be built on the principles of good governance and operating cost efficiency. The Project is the first of its kind in Ontario, and is expected to drive community-based health care thinking across the Province.

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

- Clarity and consistency of the RFQ, RFP and related documentation;
- Adherence to the processes described in the RFQ, 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 of conflict of interest and confidentiality during the procurement and evaluation processes;
- Security of information;
- Oversight to provide a process where the Proponents are treated fairly; and
- Oversight and advice on the clarification and scope reduction negotiations process

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

- Review of the draft RFQ, RFP and related documentation;
- Review of the Evaluation Framework;
- Review of the Submission receipt of process;
- Review of the Negotiations process; and

P1 Consulting Inc.

Mr. Inch
June 7th, 2019
Page 2 of 2



- Monitoring the proposal evaluation and the selection of the Preferred Proponent

As the Fairness Monitor for the **Request for Proposal to Build-Finance Orléans Health Hub Project**, we certify that, up until selection of the Preferred Proponent, 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,

A handwritten signature in black ink, appearing to read "S. Braithwaite", is positioned above the printed name.

Stephanie Braithwaite,
Fairness Monitor, P1 Consulting

cc: Jill Newsome, Senior Vice President, P1 Consulting
Louise Panneton, President, P1 Consulting





Hôpital Montfort
Infrastructure Ontario

Request for Proposal for
Orléans Health Hub

ADDENDUM
Fairness Monitor's Report
June 7, 2019

RFP Negotiations Process

1.0 Introduction

This addendum is in relation to our Fairness Report for the Orléans Health Hub Project dated April 15, 2019. In response to the budgetary constraints of the Orléans Health Hub Project, the Sponsors initiated a scope reduction Negotiations Process with the two highest ranked Proponents from the RFP evaluation, in accordance with RFP Section 8.1(1) (b) and (c). P1 Consulting was re-engaged as Fairness Advisor on May 6, 2019 to monitor this process.

2.0 Negotiations Process

In accordance with RFP Section 8.1(1)(b) and (c) of the RFP, the two highest ranked Proponents ("EllisDon Infrastructure Healthcare" and "Pomerleau Inc.", respectively) were identified as Negotiations Proponents and the Sponsors entered into separate but concurrent negotiations to identify a Preferred Proponent based on an established clarification and scope reduction process.

P1 Consulting reviewed the communications to Negotiations Proponents, reviewed and provided fairness advice on the process, validated the findings of the Financial Evaluation Team and attended the presentation of the results to the Evaluation Committee. P1 Consulting observed that the proceedings were conducted in accordance with the RFP and the established process and confirms that they were fair, transparent and unbiased.

3.0 Update to Final Result

In accordance with the RFP, Infrastructure Ontario's policies, the established process and the Evaluation Framework, the Evaluation Committee approved the Financial Evaluation Team's recommendation to identify EllisDon Infrastructure Healthcare as Preferred Proponent.

4.0 Conclusion

We confirm that we are satisfied that, from a fairness perspective, the negotiations processes undertaken related to the Orléans Health Hub Project (RFP No. 17-241) have been conducted in a fair, open and transparent manner. As Fairness Monitor for this Project we are satisfied that the Sponsors have followed the procedures in accordance with the applicable RFP, and policy documentation.



Stephanie Braithwaite, Fairness Monitor, P1 Consulting
cc: Jill Newsome, Senior Vice President, P1 Consulting
Louise Panneton, President, P1 Consulting

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