



## Value for Money Assessment

Sheridan College  
Hazel McCallion Campus Expansion



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**PRIVATE & CONFIDENTIAL**

Ms. Jennifer Quinn  
Infrastructure Ontario  
777 Bay Street  
Toronto, Ontario  
M5G 2C8

**Re: Value for Money Assessment – Sheridan College Hazel McCallion Campus Phase 2 Project**

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Dear Ms. Quinn:

KPMG LLP (“KPMG”) has prepared the Value for Money (“VFM”) assessment for the Sheridan College Hazel McCallion Campus Phase 2 Project (“Project”) at the Financial Close stage, in accordance with our letter of engagement with Infrastructure Ontario (“IO”) and IO’s methodology *Assessing Value for Money: A Guide to Infrastructure Ontario’s Methodology*.

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

1. The traditional delivery approach, as reflected in the Public Sector Comparator (“PSC”) model; and
2. The Alternative Finance and Procurement approach (“AFP”), incorporating the Successful Bidder’s proposed costs.

The VFM assessment was calculated using the following information (collectively the “Information”) within the VFM model:

- i. A Risk Matrix developed for IO by Altus Group and adapted by IO to reflect Project specific risks; and
- ii. Cost and other input assumptions extracted from the bid submitted by the Successful Bidder and other VFM model assumptions as provided by IO.

We have not audited or attempted to independently verify the reasonableness, accuracy or completeness of the Information.



Page 2

Based on our understanding of IO's VFM methodology, we can confirm that, the Information has been appropriately used in the VFM model, and that the VFM assessment demonstrates the AFP approach provides estimated cost savings of 11.8% in comparison to the traditional delivery approach.

Yours very truly,

A handwritten signature in black ink that reads 'Will Lipson'.

KPMG LLP

Will Lipson  
Partner  
Toronto, Ontario  
October 30, 2014



Knowles

A Hill International Company

July 23, 2014

**Denise McNally, Senior Project Manager  
Infrastructure Ontario**

777 Bay Street, 6th Floor  
Toronto, ON M5G 2C8

Dear Ms. McNally:

Re: **Sheridan College Hazel McCallion Centre Phase 2–Design, Build & Finance Project  
Infrastructure Ontario RFP No. OILC-13-203P**

Knowles Consultancy Services Inc. was retained to provide fairness monitoring services for the captioned two-staged procurement process, which began with our oversight during the Request for Qualification stage and concluded with our monitoring of the Request for Proposals stage. This report will address the RFP stage that commenced with issue of the RFP on October 17, 2013.

We reviewed all applicable communications during the open period as well as proposal receipt and the evaluation of proposals to ensure that the process was administered in accordance with the provisions of the RFP documents. We provided advice on issues, including those touching on confidentiality and potential conflict of interest as they arose.

Only parties that were pre-qualified through the project's RFQ were eligible to participate in the RFP.

Our conclusions are based on our first hand observations of the process, the RFP documents and information provided by the project procurement team.

In our capacity as fairness monitor, we:

- Took the process established in the RFP as our point of reference;
- Attended all confidential meetings with Proponents;
- Reviewed communications with Proponents; and,
- Monitored the evaluation of the proposals.

We can attest that the overall process followed was generally consistent with the stipulations of the RFP and principles of procedural fairness. This includes the following aspects of the process:

- Communications with Proponents, including commercially confidential meetings;
- Management of conflict of interest;
- Preservation of the confidentiality of documents and information;
- Structure and qualifications of the evaluation committee and evaluation teams to prevent any individual from having undue influence over the process;
- Competent, diligent and consistent application of only the criteria published in the RFP in performing the evaluation;
- General adherence to the evaluation process set out in the RFP; and,
- General consistency of treatment of Proponents throughout the process.

As a result of the procurement process:

- Three proposals were received from the pre-qualified Proponents for this competition;
- All three proposals met the mandatory requirements of the RFP; and,
- After evaluation, and in accordance with the Final Proposal Scores achieved, Sheridan Creative Partnership was selected as First Negotiations Proponent and Integrated Team Solutions was named Second Negotiations Proponent.

In conclusion, we can attest that, within the framework established by the RFP, the procurement was conducted in a procedurally fair, open and transparent manner.

Yours truly,  
Knowles Consultancy Services Inc. (Knowles Canada)



Don Solomon  
Fairness Monitor

## Sheridan College Hazel McCallion Campus (HMC) Expansion Artist's Rendering



*Courtesy of Moriyama & Teshima Architects/Montgomery Sisam Architects*

### Project Highlights

A 220,000 square-foot facility that offers:

- Capacity to accommodate up to an additional 3,200 full-time students, for a total enrolment of approximately 5,500 students
- classrooms, computer laboratories, meeting rooms, a centre of creative thinking, faculty and administrative offices and a gallery space to celebrate student creativity and innovation
- the new home for Sheridan's Sustainable Built Environment Program, including Architecture, Interior Design, Interior Decorating and Visual Merchandizing programs of study
- The building will function as a Living Laboratory – a teaching tool that will allow students to experience and understand the positive impacts of sustainable design strategies

### Environmentally Sustainable Design

Alignment to Sheridan's Mission Zero sustainability plan, which establishes aggressive targets for energy conservation and a plan towards zero waste in the future. Designed to Leadership in Energy and Environmental Design (LEED®) Silver certification, highlights include:

- building materials with recycled content and a 75 per cent diversion rate for construction waste from the landfill
- reducing indoor water use by 35 per cent using highly efficient plumbing fixtures including low-flush toilets, faucets and showers
- minimizing solar heat gain by installing reflective roofing
- enhanced occupant health by use of low-emitting materials for adhesives, sealants, paints, coatings and carpets
- design elements that respond to climate conditions including: prevailing winds, site orientation, seasonal sun paths and precipitation, surface water drainage and solar gain
- aggressive energy targets to achieve lower energy consumption
- integrated and holistic design for a highly efficient building system

# Table of Contents

Summary ..... 8  
Project description ..... 10  
Competitive selection process timeline ..... 11  
Project agreement..... 12  
Achieving value for money ..... 14

## Summary

Sheridan College is a partner in 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 postsecondary 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 expects to continue significant investments in public infrastructure, and will begin by investing more than \$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.

The Hazel McCallion Campus Expansion project is being delivered under the Province's AFP model. The project consists of a new 220,000 square foot building to expand the existing Hazel McCallion Campus in Mississauga which opened in 2011.

Infrastructure Ontario is working with Sheridan College to develop the new building, which will remain publicly owned, publicly controlled and publicly accountable.

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 project through the AFP process.

The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models, which are

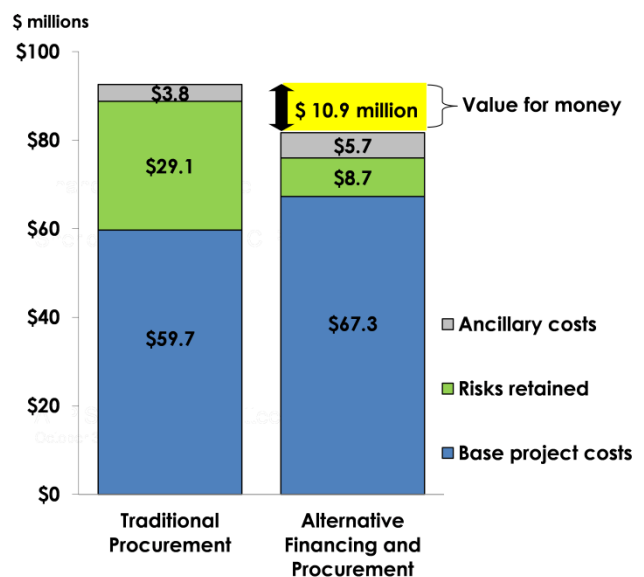
expressed in dollar values measured at the same point in time.

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

Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative Financing and Procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

The cost difference between model #1 and model #2 is the estimated value for money for this project.

The value for money assessment of the Sheridan College HMC Expansion project indicates estimated cost savings of 11.8 per cent or \$10.9 million, by using the AFP approach in comparison to traditional delivery.





KPMG LLP completed the value for money assessment of the Sheridan HMC Expansion project. Their assessment demonstrates projected cost savings of 11.8 per cent by delivering the project using the AFP model, versus what it would have cost to deliver the project using a traditional delivery model.

Knowles acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Sheridan HMC Expansion project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Knowles certified that these principles were maintained throughout the procurement process (see letter on page 4).

## 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.

### Project Scope

Sheridan College is a leading postsecondary institution, offering over over 100 diploma, certificate, and bachelor degree programs to 18,000 full-time and 35,000 continuing and part-time students. Its Creative Campus approach seeks to foster innovative and creative learning opportunities to prepare students for work and life.

The new HMC expansion project will provide a state-of-the-art facility that will build upon an environment that is:

- student and civic centred – supporting students on their educational journey and engaging their creativity and contributions.
- A great place to learn – where students, staff and the community have opportunities to pursue education and extra-curricular activities.
- A great place to work – where faculty staff can collaborate and work effectively in a supportive environment.
- Flexible in its design – so that the new building can meet current and future needs.
- A community asset – environmentally sustainable and integrated with the mixed-use urban environment.

Highlights of the expansion project include space for faculty and administrative offices, 29 new classrooms, 28 new studios, labs and production spaces, and a creative campus complex that consists of:

- a central learning and collaborative meeting space known as the Creativity Commons.
- Research and leadership centres such as the Institute for Creativity.
- A gallery space to showcase student creativity and innovation.

### Job Creation

The project is generating economic stimulus by creating and supporting jobs. At the peak of construction, it is estimated that 120 workers will be on the site daily.

## Competitive selection process timeline

Sheridan College has entered into a project agreement with Sheridan Creative Partnership to design, build and finance the College's Hazel McCallion Campus Expansion. The procurement stages for the project were as follows:

### **January 30, 2013**

Request for Qualifications

Infrastructure Ontario issued a request for qualifications for the project which resulted in three building teams being short-listed:

#### **Integrated Team Solutions**

- Developer/Construction: EllisDon Corp./Capital Inc.
- Design: Kearns Mancini Architects Inc.
- Financial Advisor: Fengate Capital

#### **Progressive Learning Partnership**

- Developer/Construction: Walsh Construction Canada ULC
- Design: Stantec Architecture Ltd.
- Financial Advisor: Walsh Group Ltd.

#### **Sheridan Creative Partnership**

- Developer/Construction: Bondfield Construction Company Limited
- Design: Moriyama & Teshima Architects/ Montgomery Sisam Architects
- Financial Advisor: Rocklynn Capital Inc.

### **October 17, 2013**

*Request for Proposals*

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

### **May 15, 2014**

*Proposal submission*

The RFP period closed and three bids were received. The bids were evaluated using the criteria set out in the RFP.

### **September 15, 2014**

*Preferred proponent notification*

Sheridan Creative Partnership was selected as the first ranked (preferred) proponent, based on predetermined criteria in the RFP, including technical requirements, construction schedule, price and financial backing, in accordance with the evaluation criteria set out in the RFP.

The **Sheridan Creative Partnership** consortium includes:

- Developer/Construction: Bondfield Construction Company Limited
- Design: Moriyama & Teshima Architects/ Montgomery Sisam Architects
- Financial Advisor: Rocklynn Capital Inc.

### **October 15, 2014**

*Commercial and Financial Close*

A project agreement was executed between Sheridan Creative Partnership and Sheridan College.

### **October 2014 – fall 2016**

*Construction Phase*

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

Construction will be carried out in accordance with the project agreement. The project will be overseen by a joint building committee made up of representatives from Infrastructure Ontario and Sheridan College.

*Completion and payment*

Sheridan Creative Partnership will receive payment from the Province when the project reaches substantial completion, which is expected in fall 2016.

## Project agreement

### ***Legal and commercial structure***

The Province entered into a project agreement with Sheridan Creative Partnership, comprising approximately 24 months of site work and construction. Under the terms of the project agreement, Sheridan Creative Partnership will:

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

Sheridan Creative Partnership will receive payment at substantial completion of the project which is expected in fall 2016.

### ***Design, build and completion risk***

All infrastructure projects have risks. Some project risks are retained in varying magnitude by the public sector. Examples of risks retained by the public sector under either the AFP or traditional model include planning, unknown site conditions, changes in law, public sector initiated scope change, and force majeure (shared risk).

Under the AFP model, some key risks that would have been retained by the public sector are contractually transferred to Sheridan Creative Partnership. On a traditional project, these risks and resource availability can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

### Design and build phase price certainty

Sheridan Creative Partnership will design, build and finance the new facility, and will then receive payment from the government at substantial completion, which is expected in fall 2016.

### Scheduling, project completion and delays

Sheridan Creative Partnership has agreed to reach substantial completion of the project by fall 2016.

The project schedule can only be modified in very limited circumstances, in accordance with the project agreement. Final payment to Sheridan Creative Partnership will not proceed until the HMC Expansion has been certified as substantially complete by an independent consultant.

Costs associated with delays that are the responsibility of Bondfield Construction must be paid by Sheridan Creative Partnership.

### Site conditions and contamination

Sheridan Creative Partnership accepted the site and the site conditions and shall not be entitled to make claims against the Province on any grounds relating to the site. Furthermore, Sheridan Creative Partnership is responsible for remediation of any contamination at the site that was disclosed in or could have been reasonably anticipated from the environmental report or any of the geotechnical reports, or that is caused by Sheridan Creative Partnership or any of its parties.

### Development approvals

Sheridan Creative Partnership is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

### Construction financing

Sheridan Creative Partnership is required to finance the construction of the project until the facility is substantially complete. Sheridan Creative Partnership will be responsible for all increased financing costs should there be any delay in reaching substantial completion. This shifts significant financial risk to Sheridan Creative Partnership in the case of late delivery.

Activity protocols

Sheridan Creative Partnership and Infrastructure Ontario have established a schedule for project submittals taking into account the time for review needed by Infrastructure Ontario's compliance architect.

This protocol mitigates against Sheridan Creative Partnership 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 from Infrastructure Ontario;
- 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; and
- approval by Infrastructure Ontario for any change order.

In addition to the transfer of the above key risks to Sheridan Creative Partnership under the project documents, the financing arrangement entered into between Sheridan Creative Partnership and its lenders 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; and
- 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

KPMG 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](http://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 KPMG LLP 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 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.

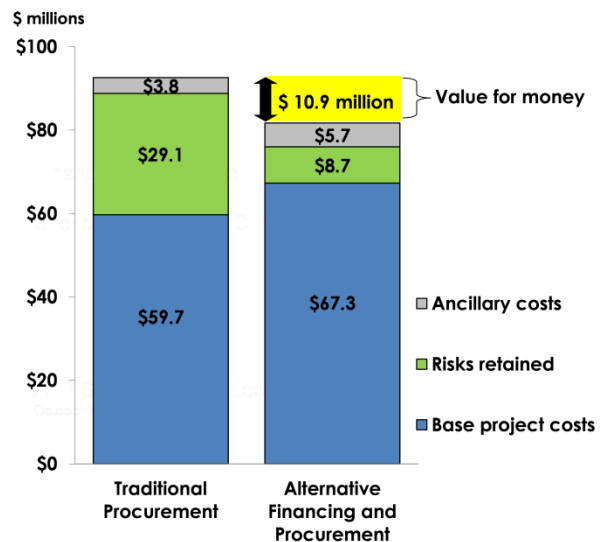
Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative Financing and Procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public 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 both models, 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 project management and construction project management. Components of the total project costs under each delivery model are illustrated below:



KPMG LLP’s Value for Money assessment for the Sheridan College Hazel McCallion Campus Expansion project demonstrates a projected cost savings of 11.8 per cent, or \$10.9 million, by using the alternative financing and procurement approach (AFP) approach in comparison to traditional delivery.

It is important to keep in mind that Infrastructure Ontario's value for money calculation methodology does not attempt to quantify a broad range of qualitative benefits that may result from using the AFP delivery approach. For example, the use of the AFP approach will more likely result in a project being delivered on time and on budget. The benefits of having a project delivered on time cannot always be accurately quantified.

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

### **Value for money analysis**

For a fair and accurate comparison, the traditional delivery costs and AFP costs are present-valued to the date of financial close to compare the two methods of delivering a design, build and finance project at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information on how project costs are time-valued and the value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at [www.infrastructureontario.ca](http://www.infrastructureontario.ca).

### **Base costs**

Base project costs are taken from the price of the contract signed with Sheridan Creative Partnership and include all design, 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 private capital. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks.

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 HMC Expansion project, these were \$67.3.

If the traditional model had been used for the HMC Expansion project, net base costs are estimated to be \$59.7.

### **Risks retained**

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs.

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 are keys 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 detailed 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 11-12, 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 Sheridan Creative Partnership:

- design compliance with the output specifications;

- design and build price certainty;
- scheduling, project completion and potential delays;
- design and build co-ordination;
- site conditions and contamination;
- development approvals;
- construction period financing;
- schedule contingency;
- activity protocols;
- deployment of solution

Examples of these risks include:

- *Design and build coordination/completion:* Under the AFP approach, the developer is responsible for design and build activities to ensure that the facility is constructed in full accordance with the output-based specifications in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the design and build submittals.
- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide Sheridan College with a completed facility by 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 the builder will not be paid by the Province, thus providing the builder 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.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Helyar, to develop a template for assessing the project risks that the public sector relinquishes under AFP compared to the traditional approach. Using data from actual projects as well as its own knowledge base, the firm established a risk profile under both approaches for infrastructure facilities.

It is this risk matrix that has been used for validating the risk allocation for the specific conditions of the college project.

Using the AFP model reduces these risks to the public sector. For example, had this project been delivered using the traditional approach, design coordination risks that arise 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 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 Sheridan Creative Partnership.

A detailed risk analysis of the project concluded that the average value of project risks retained by the public sector under traditional delivery is \$29.1 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$8.7 million.

#### *Ancillary costs*

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. Architectural and engineering advisory fees are also incurred to ensure the facility is being designed and built according to the output specifications.



The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence. The ancillary costs for the project under the traditional delivery method are estimated to be \$3.8 million as compared to \$5.7 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](http://www.infrastructureontario.ca)

### ***Calculating value for money***

The analysis completed by KPMG 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, and controls imposed by both the lenders and Infrastructure Ontario's standardized AFP procurement process.

Once all the cost components 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 Sheridan College Hazel McCallion Campus Expansion project, the estimated traditional delivery cost (i.e. PSC) is \$92.7 million as compared to \$81.8 million under the AFP delivery approach.

The positive difference of \$10.9 million or 11.8 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.