



VALUE FOR MONEY ASSESSMENT

QUINTE CONSOLIDATED COURTHOUSE PROJECT



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Infrastructure Ontario
777 Bay Street
Toronto, Ontario
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Attn: Jim Cahill

Re: Final Value for Money Assessment – Quinte Consolidated Courthouse

Dear Mr. Cahill:

KPMG LLP (“KPMG”) has prepared the Value for Money (“VFM”) assessment for the Quinte Consolidated Courthouse 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*. This methodology is consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the total project costs at the Financial Close Date 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.



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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 6.0% in comparison to the traditional delivery approach.

Yours very truly

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

KPMG LLP

Will Lipson
Managing Director
Toronto, Ontario
July 15, 2011



Knowles

A Hill International Company

July 22, 2011

Mr. Robert Price
Project Manager
Infrastructure Ontario
777 Bay Street,
Toronto, ON M5G 2C8

Re: Quinte Consolidated Courthouse RFP

Dear Robert,

Knowles Consultancy Services Inc. was retained to provide Fairness Monitoring services for the above-mentioned project. Our role was to review Infrastructure Ontario's procurement process during the RFP open period leading to the submission of proposals and the selection of the Preferred Proponent. This was done to ensure that the processes used were in accordance with the provisions of the RFP document.

This was a two step procurement initiated with a Request for Qualifications (RFQ) which was then followed by the Request for Proposals (RFP). Only the three parties that were successful in the RFQ process were allowed to participate in the RFP. The RFP was issued by Infrastructure Ontario (IO) in conjunction with the Ministry of the Attorney General (the Sponsor).

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

In our capacity as Fairness Monitor, we:

- Took the process as outlined in the RFP as our starting point;
- Attended meetings with Proponents;

- Monitored communications with Proponents;
- Monitored the evaluation process.

As Fairness Monitor we can attest to the fact that the overall process used was consistent with the stipulations of the RFP. This includes:

- The diligence applied to the overall evaluation process;
- The consistent application of the evaluation criteria among Proponents as well as the use of only the published evaluation criteria in making judgements;
- The consistency of Proponent treatment, and;
- The communications with Proponents, including notification of changes in requirement.

In addition, the Evaluators used were appropriately qualified and IO staff and external advisors adhered to conflict of interest and confidentiality requirement.

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

As a result of the procurement process:

Proposals were received from the three pre-qualified Proponents for this competition.

- All three Proponents passed the Legal and Completeness Review;
- Two of the Proponents did not meet the threshold scores requirement for the Design portion of the rated evaluation;
- The wording of the RFP Schedule 3, Section 2.0 provides permissive language, through the inclusion of the word "may," regarding the use of thresholds to prevent a Proponent from becoming the Preferred Proponent. In this instance the Sponsor decided to name the third Proponent, which had passed all thresholds, as the first Negotiations Proponent and the next highest scoring Proponent, as the Second Negotiations Proponent.

Yours truly,
Knowles Consultancy Services Inc.



Quinte Consolidated Courthouse Artist's Rendering



Brookfield Infrastructure Partnerships Quinte

Project Highlights

The new Quinte Consolidated Courthouse, located at 15 Bridge Street West, will improve access to courthouse services by consolidating the Superior Court of Justice and Ontario Court of Justice, which are currently operating in four court locations – three in Belleville and one in Trenton. Consolidating local courthouses into a single location will provide a new, modern and accessible courthouse to the community. As well, it will provide a more effective use of resources.

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Summary

The Quinte Consolidated Courthouse 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 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 Quinte Consolidated Courthouse is being delivered under the Province's alternative financing and procurement (AFP) method.

The project includes:

- new construction of a state-of-the-art courthouse;
- the new courthouse will consolidate the Superior Court of Justice and Ontario Court of Justice, which are currently operating in four court locations—three in Belleville and one in Trenton providing a new, modern and accessible courthouse to the community.

Once completed, the Quinte Consolidated Courthouse will be better able to meet the needs of the growing population and enhance access to court services.

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 Quinte Consolidated Courthouse through the AFP process.

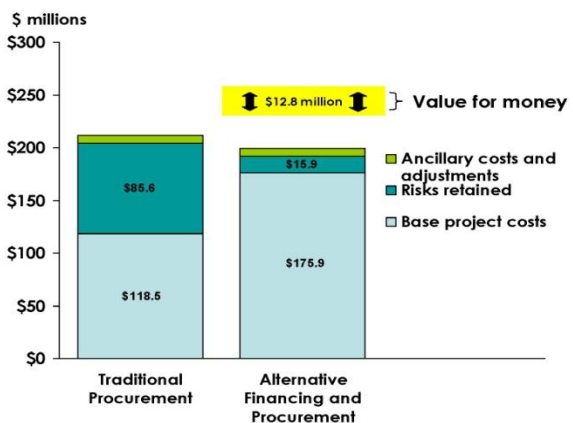
The value for money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point of time and related to two delivery models.

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

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

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

The value for money assessment of the Quinte Consolidated Courthouse indicates estimated cost savings of 6.0 per cent or \$12.8 million, by using an AFP approach in comparison to a traditional delivery.



"This new state-of-the-art facility will significantly improve the delivery of justice services in the Belleville area for years to come. By housing all court services under one roof and increasing the number of available courtrooms, we are improving access to justice for Ontarians."

— Honourable Chris Bentley, Attorney General

KPMG LLP (KPMG) completed the value for money assessment of the Quinte Consolidated Courthouse project. Its assessment demonstrates projected cost savings of 6.0 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 Consultancy Services Inc. acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Quinte Consolidated Courthouse project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Knowles certified that these principles were maintained throughout the procurement process.

Infrastructure Ontario will work with the Ministry of the Attorney General on the development of the new courthouse, 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.

Infrastructure Ontario has the task of delivering the Quinte Consolidated Courthouse on time and on budget. The Quinte Consolidated Courthouse will be delivered using an Alternative Financing and Procurement (AFP) delivery model - a public-private partnership model. 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 Quinte Consolidated Courthouse

The Quinte Consolidated Courthouse will consolidate the Superior Court of Justice and the Ontario Court of Justice which is currently operating in four locations – three in Belleville and one in Trenton.

There will be space for the judiciary, court services, as well as, offices for the Crown attorneys, the Victim Witness Assistance Program and space for the Hastings County Law Association, Adult Probation and Parole, and in-custody accused.

In addition, the new courthouse will have day offices for Children's Aid Society workers, Legal Aid Officers, John Howard Society, Salvation Army and

mental health workers. The Federal Crown may also make use of the day office space.

The Quinte Consolidated Courthouse aims to achieve Leadership in Energy and Environmental Design (LEED®) Silver certification for construction of the new courthouse. LEED® standards focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources.

Job Creation

The project will create hundreds of construction jobs and economic spin-off with the employment of local trades and construction related suppliers. At the height of construction, as many as 200 workers are expected to be on site daily. Labour and materials for the project will be drawn largely from the Belleville area and the surrounding communities.

Project Scope

At six stories high and 162,000 square feet, the new courthouse will have the space to accommodate 11 courtrooms and five conference settlement rooms. It will be designed with capacity for expansion and internal flexibility to ensure maximum usefulness throughout its lifetime.

Competitive process selection timeline

Infrastructure Ontario has entered into a project agreement with Brookfield Infrastructure Partnerships Quinte to design, build, finance and maintain the new courthouse project. The procurement stages for the project were as follows:

August 31, 2009

Request for Qualifications

In 2009, the Ministry of the Attorney General and Infrastructure Ontario issued a request for qualifications (RFQ) for the new courthouse project.

The Ministry of the Attorney General and Infrastructure Ontario then evaluate and identify project teams that have the required design, construction and facilities management capability and experience, and the financial capacity to undertake a project of this size and complexity. This can take several months.

For the Quinte Consolidated Courthouse project three proponents were qualified:

- **Balfour Beatty Capital – Canada-** Balfour Beatty Capital – Canada, a division of Balfour Beatty Holdings Canada Ltd.; Balfour Beatty Communities LLC; Balfour Beatty Construction; Carruthers & Wallace, a Trow Company; Eastern Construction Ltd.; Heery International, Inc.; Investec North America Ltd.; Martin Facility Services, a division of Compass Group Canada; Kasian Architecture Ontario Inc.; MCW Consultants Ltd.; Mulvey & Banani International, Inc.; and Sutherland-Schultz, a Vollmer Company
- **Brookfield Infrastructure Partnerships Quinte-** Brookfield Financial; Halsall Associates Ltd.; Hidi Rae Consulting Engineers; Modern Niagara Ottawa Inc.; Morguard Investments Ltd.; PCL Constructors Canada Inc.; Plan Group Inc.; The Mitchell Partnership Inc.; and WZMH Architects
- **Carillion Courthouse Solutions-** +VG Toronto, Carillion Canada Inc.; Carillion Construction Inc.; Carillion Private Finance; HOK Architects;

MMM Group; Sprint insight; and Univex Group of Companies

May 13, 2010

Request for Proposals

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

Proposal submission

The RFP period closed on December 17, 2010. Three bids were received by Infrastructure Ontario and The Ministry of the Attorney General. The bids were evaluated using the criteria set out in the RFP. It takes several months to evaluate bidders' proposals and then negotiate a final contract.

April 26, 2010

Preferred proponent notification

Brookfield Infrastructure Partnerships Quinte was selected as the successful RFP proponent based on predetermined criteria, including construction schedule, technical requirements, price, operational and management plans and financing packing, in accordance with the evaluation criteria set out in the RFP.

June 21, 2011

Commercial and financial close

A project agreement was executed by the Ministry of the Attorney General and Brookfield Infrastructure Partnerships Quinte.

The building team, led by Brookfield Infrastructure Partnerships Quinte represents a joint venture between Brookfield Financial Corp. and Morguard Corporation, with PCL Constructors Canada providing construction services. The facility was designed by WZMH Architects, with Morguard also providing facilities management. Brookfield Financial Corp. also acted as the financial advisor to Brookfield Partnerships Quinte.

July 2011 – May 2013

Construction

Construction began in July 2011. During the construction period, the builder's construction costs

will be funded through financing, which will be paid in monthly instalments based on the construction program set out by Brookfield Infrastructure Partnerships Quinte.

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 the Ministry of the Attorney General and Infrastructure Ontario.

Completion and payment

Brookfield Infrastructure Partnerships Quinte will receive a payment from the Province at substantial completion of the new Quinte Consolidated Courthouse, which is expected in May 2013. The payment will be followed by monthly service payments over a 30-year period for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

2013-2043

Maintenance

Brookfield Infrastructure Partnerships Quinte will maintain the new courthouse for 30 years and be responsible for building maintenance, repair and lifecycle replacement during that 30-year period.

Project agreement

Legal and commercial structure

Infrastructure Ontario entered into a project agreement with Brookfield Infrastructure Partnerships Quinte, comprising approximately 25-months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, Brookfield Infrastructure Partnerships Quinte will:

- design and build the new Quinte Consolidated Courthouse;
- finance the construction and capital costs of the new courthouse over the term of the project;
- obtain a third-party independent certification that the new courthouse is built in accordance with the requirements in the project agreement;
- provide facility management and lifecycle maintenance for the new courthouse for the 30-year service period under pre-established maintenance performance standards in the project agreement; and
- ensure that, at the end of the contract term, the building meets the conditions specified in the project agreement.

Brookfield Infrastructure Partnerships Quinte will receive a payment from the Province at substantial completion of the new courthouse, which is expected in May 2013. This payment will be followed by monthly service payments over a 30-year period for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

The Province will make monthly payments to Brookfield Infrastructure Partnerships Quinte, based on performance requirements defined in the project agreement. The Province will not commence these payments until the new courthouse is substantially completed. Moreover, if Brookfield Infrastructure Partnerships Quinte does not meet the standards set in the agreement, it will face financial deductions.

The Quinte Consolidated Courthouse will continue to be publicly owned and publicly controlled. Court services will continue to be publicly funded and publicly administered – this is non-negotiable for the Government of Ontario and more importantly, for the people of Ontario.

The building and maintenance team will be granted a licence to access the site and courthouse in order to provide the construction and facility maintenance services during the term of the agreement. However, as noted above, the new courthouse will at all times remain publicly owned and the building and maintenance team are contractually bound to follow the terms of the project agreement.

Facility management and maintenance

Facility management

Services associated with the day-to-day management of the physical facility, such as maintaining the elevator, electrical and mechanical systems, ventilation systems and other similar maintenance work.

Lifecycle maintenance

Lifecycle maintenance represents the total cost of replacing, refurbishing and refreshing building structure and systems over their useful life. With respect to this project, "lifecycle costs" will involve the replacement of the facility's base building elements that have exceeded their useful life (e.g., floor finishes and certain mechanical and electrical components); these components must be left in a state acceptable to the government at the completion of the 30-year maintenance agreement. Lifecycle costs are typically capital costs.

Construction 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 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 the private sector. These risks, such as design co-ordination and resource availability, could have led to cost overruns and delays in traditional projects. Other examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

Brookfield Infrastructure Partnerships Quinte will finance and construct the new courthouse. Brookfield Infrastructure Partnerships Quinte will receive a payment from the Province at substantial completion of the courthouse, which is expected in May 2013. This payment will be followed by monthly service payments over a 30-year period for the design and construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

Brookfield Infrastructure Partnerships Quinte's 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

Brookfield Infrastructure Partnerships Quinte has agreed to reach substantial completion of the new courthouse by May 2013. The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Payment for the project will not commence until substantial completion in accordance with the project agreement has been achieved.

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

Site conditions and contamination

Brookfield Infrastructure Partnerships Quinte accepted the site and the site conditions and shall have limited recourse against the Province related to site conditions. Furthermore, Brookfield Infrastructure Partnerships Quinte shall be 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 Brookfield Infrastructure Partnerships Quinte or any of its parties.

Development approvals

Brookfield Infrastructure Partnerships Quinte is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

Design co-ordination

The project agreements provide that Brookfield Infrastructure Partnerships Quinte is responsible for all design coordination activities to ensure that the facility is constructed in accordance with the design.

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

Construction financing

Brookfield Infrastructure Partnerships Quinte is required to finance the construction of the project until the new courthouse is substantially complete and the Ministry of the Attorney General can occupy the courthouse. Brookfield Infrastructure Partnerships Quinte will be responsible for all increased financing costs should there be any delay in Brookfield Infrastructure Partnerships Quinte reaching substantial completion. This shifts significant financial risk to Brookfield Infrastructure Partnerships Quinte in the case of late delivery.

Schedule contingency

The project documents provide Infrastructure Ontario and the Ministry of the Attorney General with a schedule contingency, also known as a schedule cushion, which shields the Ministry of the Attorney General for delay costs for which the Ministry of the Attorney General is responsible. While delays caused by the Ministry of the Attorney General are expected to be minimal, the schedule cushion provides the Ministry of the Attorney General with some protection from the risk of delay claims by the builder.

Mechanical and electrical systems responsibility

Brookfield Infrastructure Partnerships Quinte shall be responsible for:

- any issues with respect to the functionality, durability, maintainability and lifecycle cost of the mechanical and electrical systems specified in their design, including whether such systems will be adequate to meet the output specifications on a consistent basis for the duration of the operational term; and
- the operation and periodic replacement of all elements of the facility, whether part of the mechanical and electrical systems or otherwise, including finishes, seals, structural components, hardware and building fabric, as required to achieve the output specifications for the duration of the operational term.

Commissioning and facility readiness

Brookfield Infrastructure Partnerships Quinte must achieve a prescribed level of commissioning of the new facility at substantial completion and must coordinate the commissioning activity within the agreed upon construction schedule. This ensures that the Ministry of the Attorney General will receive a functional facility at the time payment is made.

Activity protocols

Brookfield Infrastructure Partnerships Quinte and Infrastructure Ontario have established a schedule for project submittals by the builder, taking into account the time for review needed by Infrastructure Ontario's compliance architect, the

Ministry of Attorney General's architect and local courthouse users.

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

Change order protocol

Infrastructure Ontario's change order protocol sets out the principles for any changes to the project work/scope during the construction period, including:

- requiring review and approval of change orders from Infrastructure Ontario and the Ministry of the Attorney General;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of potential change orders to Infrastructure Ontario;
- timely review by Infrastructure Ontario for owner-initiated scope changes;
- approval by Infrastructure Ontario for any change orders that exceed pre-determined thresholds; and
- approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

Facilities maintenance risk

As part of the project agreement, key risks associated with the maintenance responsibility (including life-cycle renewal) of the new courthouse over the 30-year service period have been transferred to Brookfield Infrastructure Partnerships Quinte. Brookfield Infrastructure Partnerships Quinte's maintenance of the building's lifecycle repair and renewal must meet the performance requirements set out in the project agreement. Under the project agreement, Brookfield Infrastructure Partnerships Quinte faces deductions to its monthly payments if it does not meet its performance obligations.

In addition to the transfer of the key risks to Brookfield Infrastructure Partnerships Quinte, the financing arrangement between Brookfield Infrastructure Partnerships Quinte and its lenders ensures the project has 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’s value for money assessment demonstrates a projected cost savings of 6.0 per cent, or \$12.8 million, by using an alternative financing and procurement (AFP) approach, compared to a traditional procurement approach.

KPMG 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. Its 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 KPMG on page 1.

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 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.

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.

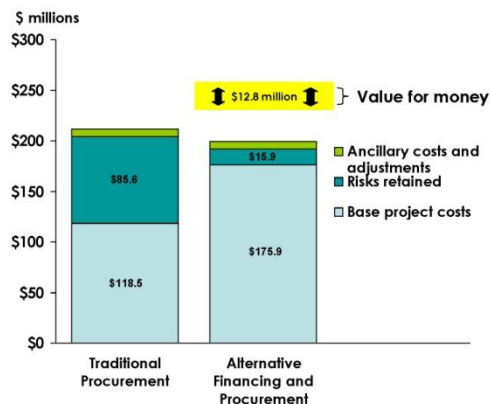
The cost difference between model #1 and model #2 is referred to as “value for money.” If the total cost to deliver a project under an AFP approach (model #2) is less than the total cost to deliver a project under a traditional delivery approach (model #1), there is said to be positive value for money. 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 not included in the AFP contract and 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 courthouse management and construction project management.

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

The value for money assessment of the Quinte Consolidated Courthouse indicates estimated cost savings of 6.0 per cent or \$12.8 million, by using an AFP approach in comparison to a 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 an 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. For example, it would be difficult to put a dollar value on the people of Ontario gaining access to a new courthouse sooner than would be the case with a traditionally delivered project.

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, finance and maintain 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.

Base costs

Base project costs are taken from the price of the contract signed with Brookfield Infrastructure Partnerships Quinte, and include all construction and financing costs. The base costs between AFP and a traditional delivery model mainly differ as follows:

1. 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. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks.
2. The financing rate that the private sector is charged is higher than the financing rate of the public sector and not included in the traditional model delivery base costs.

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 Quinte Consolidated Courthouse, this is \$175.9 million.

If a traditional model had been used for this project, base costs for the Quinte Consolidated Courthouse are estimated to have been \$118.5 million.

Risks retained

Historically, for projects delivered using a traditional delivery model, the public sector has always had to bear costs that go beyond a project's base costs. This is because contingencies were not 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 a traditional delivery method versus an AFP method, 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 thorough value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors ensure that the party best able to manage, mitigate and/or eliminate the project risks is allocated those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant.

Below are risks transferred to the builder under the project agreement using the AFP model:

- design compliance with the output specifications;
- construction price certainty;
- scheduling, project completion and potential delays;
- design co-ordination;
- site conditions and contamination;
- development approvals;
- design and lifecycle responsibility;
- mechanical and electrical systems responsibility;
- construction financing;
- schedule contingency;
- coordination of equipment procurement installation;
- commissioning and facility readiness; and
- activity protocols.

Examples of these risks include:

- *Design coordination/completion:* Under an AFP approach the builder is responsible for design coordination activities to ensure that the facility is constructed in full accordance with the design in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the contract documents particularly in the plans, drawings and specifications; and for design completion issues that are specified in the contract documents but erroneously left out in the drawings and specifications.

- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by the Ministry of the Attorney General 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 public sector, thus providing the builder clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

Under some traditional approaches, design coordination risks that materialize during construction would be managed through a series of change orders. 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. AFP reduces and transfers these risks and related costs, to the private sectors.

The added due diligence brought by the private party's lenders, together with the risk transfer provisions in the project documents result in overall cost savings as these transferred risks will either be better managed or completely mitigated by the private sector builder.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Group to develop a template for assessing the project risks that the public sector assumes 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 generic risk matrix that has been used for validating the risk allocation for the specific conditions of the Quinte Consolidated Courthouse project.

A detailed risk analysis of the Quinte Consolidated Courthouse project concluded that the average

value of project risks retained by the public sector under a traditional delivery is \$85.6 million.

The analysis also concluded that the average value of project risks retained by the public sector under an AFP delivery model decreases to \$15.9 million.

For more information about the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Group Limited's *Build-Finance Risk Analysis and Risk Matrix*, available at www.infrastructureontario.ca.

Ancillary costs and adjustments

There are significant ancillary costs associated with the planning and delivery of a large complex project that could vary depending on the project delivery method. For example, there are costs related to each of the following:

- *Project management:* These are essentially fees to manage the entire project. Under an 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 built according to specifications.

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence.

The ancillary costs for the Quinte Consolidated Courthouse project, under the traditional delivery method are estimated to be \$3.2 million as compared to \$7.2 million under the AFP approach.

An adjustment is made when estimating costs under traditional delivery. This adjustment is referred to as competitive neutrality and accounts for items such as taxes paid under AFP that flow back to the public sector and are not taken into account under the traditional model. In the case of the Quinte

Consolidated Courthouse, this adjustment is made by adding \$3.6 million to the traditional delivery costs.

For a detailed explanation on 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 KMPG concludes that the additional costs associated with the AFP model are more than offset by its benefits, which include: a much more rigorous upfront due diligence process, reduced risk to the public sector and more stringent controls imposed by both the lender's and Infrastructure Ontario's standardized AFP procurement process and oversight.

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at substantial completion date.

In the case of the Quinte Consolidated Courthouse project, the estimated traditional delivery cost (i.e. PSC) is \$211.8 million as compared to \$199.0 million under the AFP delivery approach.

The positive difference of \$12.8million or 6.0 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.