



making projects
happen

VALUE FOR MONEY ASSESSMENT

**WATERLOO REGION CONSOLIDATED
COURTHOUSE**



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Infrastructure Ontario
777 Bay Street
Toronto, Ontario
M5G 2C8
Attn: Jim Cahill

Re: Final Value for Money Assessment – Waterloo Region Consolidated Courthouse

Dear Mr. Cahill:

KPMG LLP (“KPMG”) has prepared the Value for Money (“VFM”) assessment for the Waterloo Region Consolidated Courthouse (“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 Helyar 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 8.43% 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
March 22, 2010



Knowles

A Hill International Company

June 17, 2010

Richard Couldrey, Project Manager

Infrastructure Ontario

777 Bay Street, 6th Floor

Toronto, ON M5G 2C8

Dear Mr. Couldrey:

Re: **Waterloo Regional Consolidated Courthouse**
Infrastructure Ontario RFP No. 09-38-M081

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 from submission to the evaluation of proposals. This was done to ensure that the process was in accordance with the provisions of the RFP documents.

Only parties that were pre-qualified through the project's Request for Qualifications process that preceded the RFP were eligible to participate.

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 point of reference;
- Attended the site visits and all meetings with proponents;
- Monitored communications with proponents; and,
- Monitored the evaluation process.

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

- Communications with proponents;
- Diligence applied to the overall evaluation process;
- Consistent application of the evaluation criteria among proponents as well as the use of only the published criteria in performing the evaluation; and,
- General consistency of treatment of proponents.

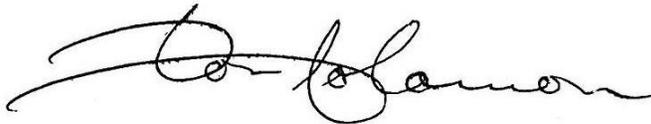
Evaluators employed were appropriately qualified. IO staff and external advisors adhered to conflict of interest and confidentiality requirements.

In conclusion, we can attest 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:

- Three proposals were received from the pre-qualified proponents for this competition; and,
- After evaluation, the highest ranking proponent was named Preferred Proponent.

Yours truly,
Knowles Consultancy Services Inc.

A handwritten signature in black ink, appearing to read "Don Solomon". The signature is fluid and cursive, with a large initial "D" and "S".

Don Solomon

cc. Roger Bridges

ARTIST'S RENDERING OF THE WATERLOO REGION CONSOLIDATED COURTHOUSE



Courtesy of ITS

Highlights of the Waterloo Region Consolidated Courthouse

Square Footage	420,000 sq. ft.
Courthouse Features	<p>The Waterloo Region Consolidated Courthouse will be a new multi-storey building including:</p> <ul style="list-style-type: none"> • 30 courtrooms and 8 conference settlement rooms. • Barrier free design including no courthouse steps, five fully barrier free courtrooms, infrared hearing assistance and barrier free witness stand, jury box and spectator positions in all courtrooms. • Enhanced accommodation for interpretation including one jury room permanently equipped for simultaneous interpretation and three portable interpretation booths.
Environmentally Sustainable Design	<p>A commitment to meet the Leadership in Energy and Environmental Design (LEED) Silver standard, including:</p> <ul style="list-style-type: none"> • Focus on energy efficiency. • A high quality indoor environment through building material selections. • Green housekeeping practices.

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Summary

ReNew Ontario 2005-2010 is a \$30-billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure.

Infrastructure Ontario is an essential component of the *ReNew Ontario* plan. The Crown Corporation ensures that new infrastructure projects are delivered on time and on budget.

The new Waterloo Region Consolidated Courthouse is being delivered under the Province's Alternative Financing and Procurement (AFP) model.

The new facility, to be located at Duke and Frederick Streets in downtown Kitchener, will improve courthouse services by consolidating the Superior Court of Justice and Ontario Court of Justice, currently operating in three locations across Waterloo Region.

It has been designed with environmentally responsible and sustainable features and will be certified under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System.

The public sector retains ownership, control and accountability for the hospital, including the new facilities.

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 Waterloo Region Consolidated Courthouse project through the AFP process.

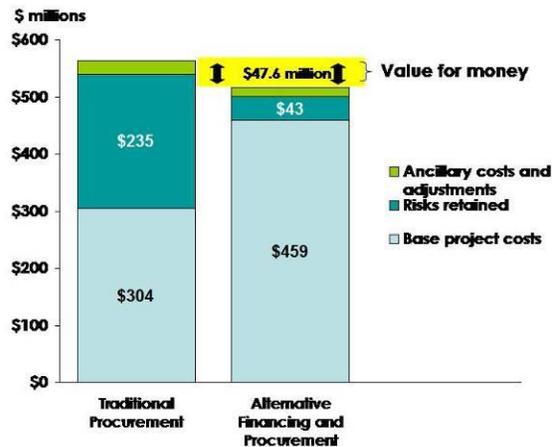
The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models expressed in dollar values measured at the same point in time.

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

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 Waterloo Region Consolidated Courthouse project indicates estimated cost savings of 8.43 per cent or \$47.6 million, by using the AFP approach in comparison to traditional delivery.



KPMG LLP completed the value for money assessment of the Waterloo Region Consolidated Courthouse project. Their assessment demonstrates projected cost savings of 8.43 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 Waterloo Region 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 (please see letter on page 3).

Infrastructure Ontario will work with the Ministry of the Attorney General to develop the new courthouse, which will remain publicly owned, publicly controlled and publicly accountable.

Project description

Background

ReNew Ontario 2005-2010 is a \$30-billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure.

Infrastructure Ontario is an essential component of the ReNew Ontario plan. The Crown Corporation was created in 2005, to ensure that infrastructure projects are delivered on time and on budget.

Under the ReNew Ontario plan, projects are assigned to Infrastructure Ontario by the provincial government, which uses a made-in-Ontario project delivery model called Alternative Financing and Procurement (AFP). 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.

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.

Waterloo Region Consolidated Courthouse

The new Waterloo Region Consolidated Courthouse will be located at the corner of Duke and Frederick Streets in downtown Kitchener, Ontario. The new facility will consolidate the Superior Court and Ontario Courts of Justice currently operating in three locations across the Waterloo Region.

Consolidating court services into a single location will provide a modern, effective and accessible courthouse for the community. It will also benefit court users and the community, by allowing for a more effective use of resources and reducing costs.

Job Creation

The project will provide a sizeable boost to the regional and Ontario economies during construction by directly and indirectly supporting and creating thousands of jobs. At the peak of construction, it is estimated that 250 workers will be on site daily.

Project Scope

The Waterloo Region Consolidated Courthouse has been designed with environmentally responsible and sustainable features and will be certified under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. The design includes a focus on energy efficiency, healthy indoor environments and reduced greenhouse gas emissions.

At 7 storeys high and 420,000 square feet, the new courthouse will have the space to accommodate 38 judicial rooms, comprised of 30 courtrooms and eight conference settlement rooms. It will be designed with capacity for expansion and internal flexibility to ensure maximum usefulness throughout its lifetime.

The courthouse features a contemporary design that fits into the downtown context and provides a new civic plaza in the heart of downtown Kitchener.

The Waterloo Region Consolidated Courthouse features barrier free design, including:

- no courthouse steps
- five fully barrier free courtrooms
- infrared hearing assistance
- barrier free witness stand, jury box and spectator positions in all courtrooms.

The Waterloo Region Consolidated Courthouse project will improve and expand courthouse facilities in Waterloo Region for all users by consolidating all justice services in one facility that is designed to provide a healthy, productive environment.

Competitive selection process timeline

The Ministry of the Attorney General has entered into a project agreement with Integrated Team Solutions (ITS) to design, build, finance and maintain the project. The procurement stages for the project were as follows:

June 16, 2008

Request for Qualifications

In June 2008, the Ministry of the Attorney General and Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three building teams were short-listed:

- **Access Justice Waterloo** – Meridiam and John Laing, WZMH Architects/Cannon Design, PCL Constructors, Honeywell.
- **Integrated Team Solutions (ITS)** – Fengate Capital Management/LPF Infrastructure Fund, CIT, NORR Ltd./Aecom Services, EllisDon, SNC Lavalin Profac.
- **Plenary Justice** - Plenary Group and Innisfree, Adamson Associates/Ricci Greene Associates, BYBIRD (JV Bouygues Building Canada Inc., and Bird Construction Company Ltd.), Johnson Controls and Sodexo Canada.

January 29, 2009

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, finance and maintain the project.

Proposal submission

The RFP period closed on August 4, 2009. 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.

December 2009

Preferred proponent notification

ITS 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.

February 26, 2010

Commercial close

A project agreement was executed by ITS and the Ministry of the Attorney General.

March 1, 2010

Financial close

Financing for the project is being provided by Sun Life Assurance Company of Canada and The Canada Life Assurance Company as bond underwriters, together with a banking group consisting of Bank of Montreal, CIBC, Laurentian Bank of Canada and National Bank of Canada. Equity is being provided by Fengate Capital Management/LPF Infrastructure Fund and EllisDon Incorporated.

March 2010 – January 2013

Construction

During the construction period, the builder's construction costs will be funded by its lenders in monthly instalments based on the construction program set out by EllisDon Corporation.

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

ITS will receive a payment from the province at substantial completion of the new Waterloo Region Consolidated Courthouse, which is expected in early 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.

January 2013 – January 2043

Maintenance

ITS will maintain the new courthouse for 30 years and be responsible for building maintenance, repair and lifecycle replacement during that period.

Project agreement

Legal and commercial structure

Infrastructure Ontario entered into a project agreement with ITS, comprising approximately 34.5 months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, ITS will:

- design and build the Waterloo Region Consolidated Courthouse project;
- 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 project agreement;
- provide facility management and lifecycle maintenance for the new courthouse for the 30-year service period under pre-established maintenance performance standards set out in the project agreement; and
- ensure that, at the end of the contract term, the building meets the conditions specified in the project agreement.

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

ITS will receive a payment from the Province at substantial completion of the new courthouse, which is expected in early 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 Waterloo Region Consolidated Courthouse will continue to be publicly owned, publicly controlled and publicly accountable. 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 construction and facility management team will be granted a licence to access the site and courthouse in order to provide the construction and facility maintenance services over the term of the agreement. However, as noted above, the new courthouse will at all times remain publicly owned and the construction and facility management team are contractually obligated 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 ITS. On a traditional project, these risks and resource availabilities can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

ITS will finance and construct the new courthouse. ITS will receive a payment from the Province at substantial completion of the new courthouse, which is expected in early 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.

ITS'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

ITS has agreed to reach substantial completion of the facility by early 2013.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. ITS's final payment will not commence until substantial completion (i.e., until it has completed building the new courthouse and it has been certified as substantially complete by an independent consultant).

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

Site conditions and contamination

ITS accepted the site and the site conditions and shall have highly limited recourse against the Province related to site conditions. Furthermore, ITS 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 ITS or any of its parties.

Development approvals

ITS is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

Mechanical and electrical systems responsibility

ITS 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.

Construction financing

ITS 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 facility. ITS will be responsible for all increased financing costs should there be any delay in ITS reaching substantial completion. This shifts significant financial risk to ITS in the case of late delivery.

Commissioning and facility readiness

ITS must achieve a prescribed level of commissioning of the new courthouse at substantial completion and must co-ordinate the commissioning activity within the agreed-upon

construction schedule. This ensures that the Province will receive a functional building facility at the time payments to ITS commence. ITS will work closely with the Ministry of the Attorney General to facilitate transition from the existing facilities to the new facility.

Activity protocols

ITS 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 ITS 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 the Ministry of the Attorney General;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario; and
- approval by Infrastructure Ontario for owner-initiated scope changes.

Facilities maintenance risk

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

In addition to the transfer of the above key risks to ITS under the project documents, the financing arrangement entered into between ITS 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

For the Waterloo Region Consolidated Courthouse project, KPMG’s value for money assessment demonstrates a projected cost savings of 8.43 per cent, or \$47.6 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.

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. 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 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.

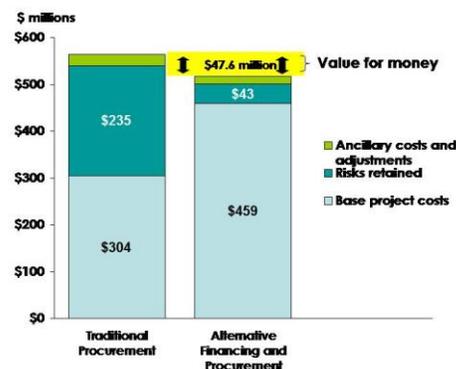
The cost difference between model #1 and model #2 is referred to as the value for money. If the total cost to deliver a project under the AFP approach (model #2) is less than the total cost to deliver a project under the traditional delivery approach (model #1), there is said to be positive value for 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:

The value for money assessment of the Waterloo Region Consolidated Courthouse project indicates estimated cost savings of 8.43 per cent or \$47.6 million, by using the 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, 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 ITS, and include all construction, maintenance and financing costs. The base costs between AFP and the 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 under AFP is higher than the financing

rate of the public sector and is not included in the traditional 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 Waterloo Region Consolidated Courthouse project, these were \$458.7 million.

If the traditional model had been used for the Waterloo Region Consolidated Courthouse project, base costs are estimated to be \$304.4 million.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs because of the contingencies necessary developed to respond to the project risks.

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost. The concept of risk transfer and mitigation is key to understanding the overall value for money assessment. To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

Comprehensive risk assessment not only allows for a fulsome value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors to determine the party best able to manage, mitigate and/or eliminate the project risks and to appropriately allocate those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 12-13, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement to ITS:

- 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 the 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 these design documents, particularly in the plans drawings and specifications; and for design completion issues that are specified in these design documents but erroneously left out.
- *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 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 generic risk matrix that has been used for validating the risk allocation for the specific conditions of the Waterloo Region Consolidated Courthouse project.

Using the AFP model reduces these results 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 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 ITS.

A detailed risk analysis of the Waterloo Region Consolidated Courthouse project concluded that the average value of project risks retained by the public sector under traditional delivery is \$235.1 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$43.0 million. This is a savings of \$192.1 million for Ontario taxpayers.

For more information on the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Helyar's Risk Assessment Template

DBFM projects, 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 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 Waterloo Region Consolidated Courthouse project under the traditional delivery method are estimated to be \$11.3 million as compared to \$15.2 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, and private sector insurance premiums that can be used as a proxy for valuing insurance costs when the public sector self-insures under the traditional method. In the case of the Waterloo Region Consolidated Courthouse project, this adjustment is made by adding \$13.7 million to the traditional delivery costs (i.e. on the PSC side).

For a detailed explanation of ancillary costs, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca

Calculating value for money

The analysis completed by 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 and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at financial close. In the case of the Waterloo Region Consolidated Courthouse project, the estimated traditional delivery cost (i.e. PSC) is \$564.5 million as compared to \$517.0 million under the AFP delivery approach.

The positive difference of \$47.6 million or 8.43 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.