

ONTARIO INFRASTRUCTURE AND LANDS CORPORATION



Value for Money Assessment

Cooksville Station Redevelopment Project

January 2018

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I. EXECUTIVE SUMMARY

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

➤ Infrastructure Ontario

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

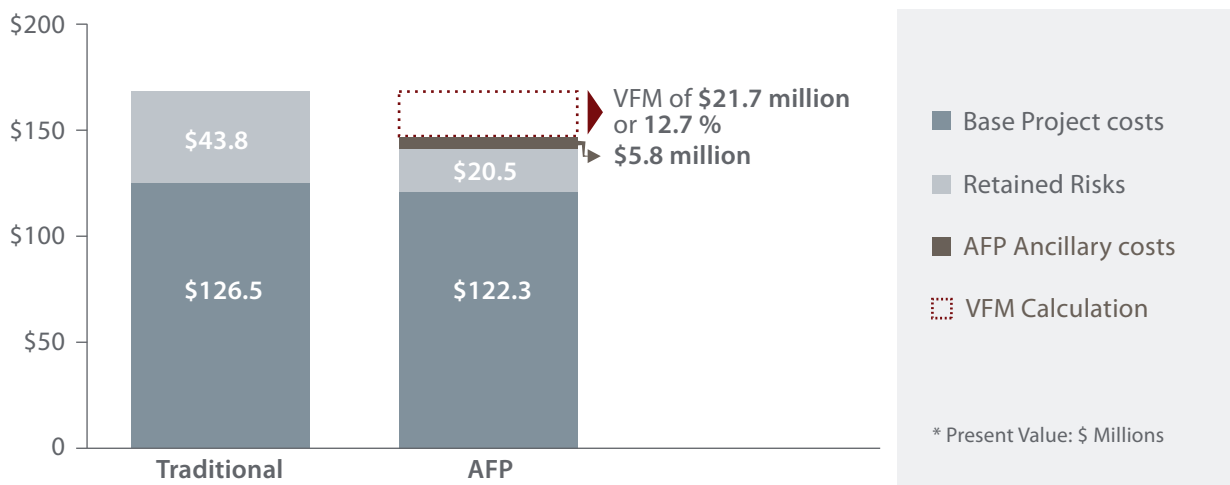
➤ Alternative Financing and Procurement in Ontario

IO delivers public infrastructure projects using a project delivery model called Alternative Financing and Procurement (AFP). The AFP model brings together private and public sector expertise in a unique structure that transfers to the private sector partner the risk of project cost increases and scheduling delays typically associated with traditional project delivery. The goal of the AFP approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

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

➤ Achieving Value for Money

The VFM assessment of the Cooksville Station project indicates an estimated cost savings of \$21.7 million or 12.7 percent (in present value terms) by using the AFP approach compared to traditional delivery.



I. EXECUTIVE SUMMARY

► External Review

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

- Ernst & Young was retained to complete the VFM assessment; and,
- P1 Consulting acted as the Fairness Monitor for the project.

II. PROJECT HIGHLIGHTS

➤ Cooksville Station Redevelopment Project



Courtesy of Metrolinx/ EllisDon Infrastructure CGS RER Inc.

Purpose	To deliver the Cooksville Station project, an integral component of Metrolinx's long-term plan for Regional Express Rail – an integrated transportation network in the Greater Toronto and Hamilton Area.
Project Owner	Metrolinx
Private Partner	EllisDon Infrastructure CGS RER Inc. (EllisDon Infrastructure)
Location	Toronto
Project Type	Design-Build-Finance (DBF)
Infrastructure Type	Transit
Contract Value	\$128.4 million (nominal/including inflation)
Construction Period	2017 to 2020
Length of Project Agreement	3.2 years
Estimated Value for Money (Present Value)	\$21.7 million or 12.7 percent

➤ Background

The Province announced the GO Transit RER program in 2014, which will provide faster and more frequent service across the GO rail network, and will include the electrification on core segments by 2024-25. GO RER is a transformative initiative that will change the GO rail network from being a commuter-focused rail service into an all-day, two-way regional transit service that will provide new transit options across the Greater Toronto and Hamilton Area (GTHA).

➤ Objectives

Work on the Cooksville Station along the Milton GO corridor, is part of a larger, system-wide plan to improve overall GO Transit service, including the delivery of the Province's GO Regional Express Rail program (RER) by 2024-25.

II. PROJECT HIGHLIGHTS

Key objectives of RER projects includes:

- ▶ Increase urban transit capacity
- ▶ Manage congestion
- ▶ Seamless customer experience
- ▶ Minimize disruption during construction
- ▶ Design excellence
- ▶ Deliver on-time, on budget
- ▶ Public ownership

GO RER will provide faster and more frequent service on the GO Rail network, with electrified service on core segments:

- ▶ Electric trains running every 15 minutes or better, all day and in both directions, within the most heavily travelled sections of the network
- ▶ Four times the number of trips outside of weekday rush-hour periods, including evenings and weekends
- ▶ Twice the number of trips during weekday rush-hour periods

▶ Project Scope

The scope of work includes:

- ▶ New station building designed to Leadership in Energy and Environmental Design (LEED® V4) Silver certification
- ▶ new six-storey parking structure and redevelopment of existing parking areas
- ▶ upgrades to pedestrian access tunnels
- ▶ platform expansion and upgrades to accommodate GO Transit rail
- ▶ bus loop with a minimum of eight bus bays for GO Transit and MiWay bus service

The project agreement with EllisDon Infrastructure contains their requirements to:

- ▶ Design and Construct – lead the design and construction of Cooksville Station for completion in Summer 2020;
- ▶ Finance – secure sufficient financing to finance the construction and capital costs over the term of the project;
- ▶ Third-Party Certification – obtain a third-party independent certification that the system is built to the requirements of the Province as outlined in the project agreement.

▶ Economic Benefits & Job Creation

The project is generating economic stimulus by creating and supporting jobs. At the peak of construction, EllisDon Infrastructure estimates that 150 workers will be on the site daily, with opportunities for subcontractors as the project progresses.

III. ACHIEVING VALUE FOR MONEY

Value for money assessment for the Cooksville Station project demonstrates a project costs savings of:

\$21.7 million or 12.7%

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

► Value for Money Concept

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

MODEL # 1:

Traditional Delivery

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

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

MODEL # 2:

AFP Delivery

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

Total risk-adjusted costs are known as AFP Costs.

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

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

► Calculating Value for Money – Inputs & Assumptions

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

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

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

III. ACHIEVING VALUE FOR MONEY

1. Base Project Costs

▼ 1.1. Calculation of Base Costs

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

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

- ▶ An innovation factor (DBF and DBFM projects only) – the VFM methodology typically includes an innovation factor which recognizes that the base cost of the AFP model will be lower than the PSC model as a result of:
 - ▶ the use of performance-based specifications in AFP projects allow contractors to consider innovative and alternative ways to deliver a project, such that project costs are lower as compared to a traditional delivery which uses more prescriptive specifications; and,
 - ▶ an increased competitive environment on AFP projects which have resulted in cost reductions.

▼ 1.2. Financing Costs

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

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

III. ACHIEVING VALUE FOR MONEY

Financing costs are reflected as follows:

Traditional Delivery Model or PSC - the public sector notionally incurs an “opportunity cost” for having paid earlier as compared to the AFP model. The notional public sector financing cost is calculated at the current Provincial cost of borrowing or weighted average cost of capital. This cost is also reflected in the discount rate used to assess and compare the project costs.

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

2. AFP Ancillary Costs

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

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

3. Retained Risks

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

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

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks under both delivery models, they are included in the estimated cost under the PSC and AFP model as “retained risks”. Risks retained under the AFP model are lower than risks retained by the public sector under the PSC model. This reflects the transfer of certain project risks from the public sector to the private sector and the appropriate allocation of risk between the public and private sectors based on the party best able to manage, mitigate, and/or eliminate the project risk.

III. ACHIEVING VALUE FOR MONEY

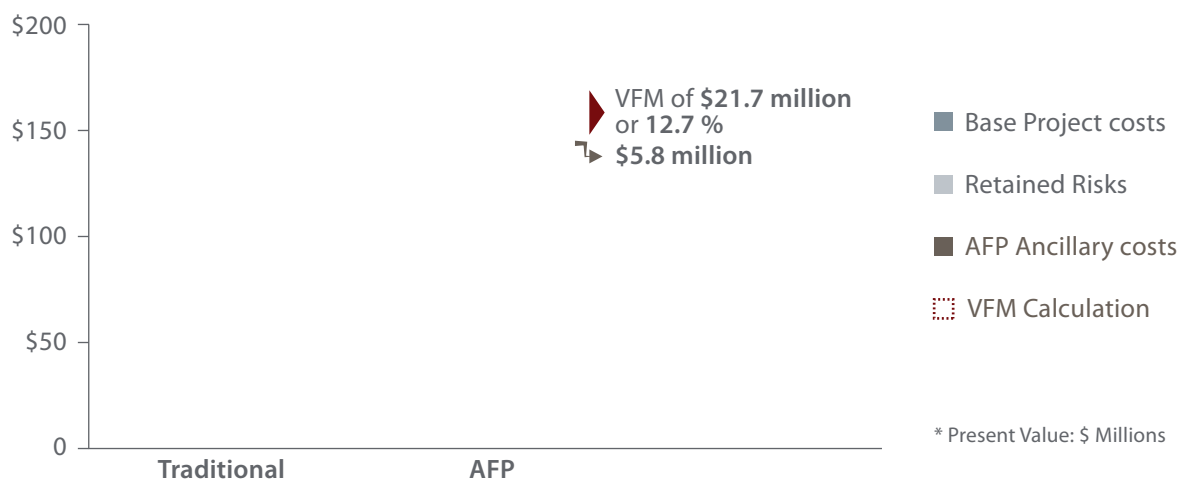
As a result of a comprehensive risk assessment, the following are examples of key project risks that have been transferred or mitigated under the project agreement to EllisDon Infrastructure:

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

▶ Cooksville Station Value for Money Results

The VFM assessment of the Cooksville Station project indicates an estimated cost savings of \$21.7 or 12.7 percent by using the AFP approach compared to traditional delivery.

Traditional Delivery Model (PSC)	\$ Millions Present Value	AFP Delivery Model	\$ Millions Present Value
I. Base Project Costs (Adjusted Base Costs + Financing)	\$126.5	I. Base Project Costs (Adjusted Base Costs + Financing)	\$122.3
II. AFP Ancillary Costs	N/A	II. AFP Ancillary Costs	\$5.8
III. Retained Risks	\$43.8	III. Retained Risks	\$20.5
Total	\$170.3	Total	\$148.6
Estimated Value for Money (cost difference)		\$21.7	
Estimated Percentage Savings		12.7%	



III. ACHIEVING VALUE FOR MONEY

➤ External Review

Ernst & Young completed the VFM assessment for the project. Their assessment demonstrates projected cost savings of 12.7 percent by delivering the project using the AFP model versus what it would have cost to deliver the project using a traditional delivery model (see letter on page 15).

P1 Consulting acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. P1 certified that these principles were maintained throughout the procurement process (see letter on page 16).

IV. PROJECT AGREEMENT

► Highlights of the Project Agreement

The Project Agreement signed between IO, Metrolinx and EllisDon Infrastructure defines the obligations and risks of all parties involved. Key highlights that pertain to the construction terms are below:

- **Contract Price Certainty** – A \$128.4 million fixed-price contract (includes inflation at contractually determined rate) to design, build and finance the Cooksville Station project. Any extra costs incurred as a result of a schedule overrun caused by the contractor will not be paid by the Province.
- **Scheduling, Project Completion and Delays** – EllisDon Infrastructure has agreed to a substantial completion date of Summer 2020. The schedule can be modified in limited circumstances in accordance with the project agreement. A sizeable payment will be made by the Province at substantial completion, providing further incentive for EllisDon Infrastructure to complete construction on time.
- **Site conditions and contamination** – EllisDon Infrastructure is responsible for managing and where required, remediating any contamination at the site. This includes contamination that was disclosed or reasonably anticipated from site condition reports, or that is caused by EllisDon Infrastructure or any of its parties.
- **Construction Financing** – EllisDon Infrastructure is required to finance the construction of the project and is responsible for any additional financing costs if there is a delay reaching substantial completion of the project.
- **Commissioning and Facility Readiness** – EllisDon Infrastructure must achieve a prescribed level of commissioning at substantial completion within the agreed-to schedule. This ensures Metrolinx will be able to achieve in-revenue service in Summer 2020.

V. COMPETITIVE SELECTION PROCESS

The procurement process for the Cooksville Station project, from RFQ to Financial Close, took 14 months to complete.

After concluding a fair and competitive procurement process, Metrolinx and IO entered into a project agreement with EllisDon Infrastructure to design, build and finance the project.

► Procurement Process

i. Request for Qualifications | September 13, 2016

- Metrolinx and IO issued a request for qualifications (RFQ) to solicit interested parties to design, build and finance the project.
- On October 31, 2016, the RFQ period closed and the Sponsors received statements of qualifications from three teams.
- RFQ submissions were evaluated by IO and Metrolinx. High standards were set to ensure the pre-qualified consortia exceeded the technical and financial standards required for this complex and large project. The evaluation process resulted in two proponents being pre-qualified.
 - EllisDon Infrastructure Transit
 - ▼ Developer: EllisDon
 - ▼ Constructor: EllisDon Build Design Inc.
 - ▼ Design: WalterFedy, Brodie & Associates, WSP/MMM
 - ▼ Financial Advisor: EllisDon Capital
 - Kenaidan Obayashi Transit Partners
 - ▼ Developer: Kenaidan, Obayashi Corporation
 - ▼ Constructor: Kenaidan Contracting Ltd., Obayashi Canada Ltd.
 - ▼ Design: IBI Group, RJC, Smith and Anderson
 - ▼ Financial Advisor: Rocklynn Capital

ii. Request for Proposals | January 10, 2017

- A request for proposals (RFP) was issued to the pre-qualified proponents, setting out the bid process and proposed project agreement for the project.
- The proponents spent a year to prepare high-quality, competitive submissions.

iii. Proposal Submission | May 23, 2017

- The RFP period closed on May 23, 2017. All proponents submitted bids on time.
- May-December 2017: bids were evaluated using criteria as set out in the RFP by an Evaluation Committee comprised of subject matter experts from IO, Metrolinx and technical consultants enlisted by the Sponsors. The extensive evaluation process resulted in EllisDon Infrastructure receiving the highest score.
- On August 2, 2017, the 'first-ranked proponent' – also referred to as the First Negotiations Proponent – EllisDon Infrastructure, was then notified of their standing.

V. COMPETITIVE SELECTION PROCESS

iv. Preferred Proponent Notification | September 11, 2017

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

v. Commercial and Financial Close | November 3, 2017

- ▶ Upon conclusion of negotiations and once a financing rate was set, a Project Agreement (contract) was executed between EllisDon Infrastructure, Metrolinx and IO on November 3, 2017.
 - ▶ EllisDon Infrastructure Transit
 - ▼ Applicant Lead: EllisDon Infrastructure CGS RER Inc.
 - ▼ Constructor: EllisDon Build Design Inc.
 - ▼ Design: WalterFedy, Brodie & Associates, WSP/MMM
 - ▼ Financial Advisor: EllisDon Capital Inc.

▶ Design and Construction Phase

vi. Construction Phase | 2017 – 2020

- ▶ The design and construction phase began November 3, 2017 and will be carried out in accordance with the project agreement and the builder's schedule as approved by the Sponsors.
- ▶ During the construction period, the builder's construction costs will be funded through their own equity, bond and lending arrangements, which will be paid in monthly installments based on the construction program set out by EllisDon Infrastructure.
- ▶ Project construction will be overseen by Metrolinx with IO providing contract management oversight.

vii. Payment

- ▶ EllisDon Infrastructure will receive substantial completion payment expected in Summer 2020.



VI. CONCLUSION

This report provides a project overview and summary of the procurement process for the Cooksville Station project, and demonstrates that a VFM of \$21.7 million or 12.7 percent will be achieved by using the AFP approach compared to traditional delivery.

Going forward, IO, Metrolinx and EllisDon Infrastructure will continue to work together to ensure the successful delivery of the Cooksville Station Redevelopment project.



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Ms. Divya Shah
Senior Vice President, Transaction Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, ON M5G 2C8

13 November 2017

Dear Ms. Shah:

Re: Value for Money Project Methodology - Design Build Finance/Build Finance Bundle - Regional Express Rail - Cooksville GO Station Project

Ernst & Young Orenda Corporate Finance ("EYOCF") has reviewed the Value for Money ("VFM") assessment for the Regional Express Rail - Cooksville GO Station Project (the "Project") at the Financial Close stage. The analysis was prepared for Infrastructure Ontario ("IO") and the Project using the IO VFM analytical framework, which is generally consistent with approaches used in other jurisdictions.

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

1. The traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") model; and
2. The Alternative Financing and Procurement ("AFP") model estimation of the total project costs, as reflected in the Successful Bid.

The VFM assessment as noted above was prepared using the following information (collectively the "Information") within the VFM model:

- i. A Risk Matrix developed for IO by MMM Group and adjusted to reflect project specific risks; and
- ii. Construction and other cost estimates as reflected in the Successful Bid. Other VFM model assumptions as provided by IO.

The cost information and underlying assumptions were not independently audited or verified for accuracy or completeness.

The results of the VFM assessment demonstrate an estimated VFM cost savings of 12.7% by using the AFP approach to deliver the Project in comparison to using the traditional delivery approach.

Yours sincerely,

*Ernst & Young Orenda
Corporate Finance Inc.*

ERNST & YOUNG ORENDA CORPORATE FINANCE INC.

August 11th, 2017

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

Subject: Fairness Attestation - Request for Proposals for Regional Express Rail - Cooksville Station Redevelopment Project (RFP No. 16-470)

Dear Mr. Inch:

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

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

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

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

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

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

P1 Consulting Inc.

Mr. Inch
August 11th, 2017
Page 2 of 2



- Overseeing Commercially Confidential Meetings;
- Overseeing the receipt of Proposals; and
- Overseeing the proposal evaluation and the selection of the First Negotiations Proponent.

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

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

As the Fairness Monitor for the **Cooksville Station Redevelopment Project**, we certify that, up until the date of this letter, the principles of fairness, consistency and transparency have been, in our opinion, maintained throughout the procurement process. Furthermore, no issues have emerged during the procurement process, of which we were aware, that would have impaired the fairness of this initiative.

Yours truly,

A handwritten signature in black ink, appearing to read "Stephanie Braithwaite", is written over a faint, circular watermark logo.

Stephanie Braithwaite
Lead Fairness Monitor
P1 Consulting

Cc:
Jill Newsome, Vice-President, P1 Consulting
Louise Panneton, President, P1 Consulting





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