



BUILDING HEALTHCARE FOR TODAY AND TOMORROW — CAPITAL PROJECTS NEWSLETTER



Investing in healthcare

Construction of the new health-care complex in west St. Catharines is closer than ever, with the contract to be awarded to the winning bidder later this year. Pending weather conditions, the shovel should be in the ground by the end of 2008!

As we draw closer to building a state-of-the-art health-care facility, this issue of the newsletter is dedicated to explaining the Provincial government's role in the project, as well as its new alternative financing and procurement model being used to deliver closer-to-home care for the people of Niagara.

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***Pictured:** Fencing at the corner of First Street and Fourth Avenue marks the location of the new health-care complex in west St. Catharines.*



Infrastructure investment in Ontario

The new St. Catharines health-care complex project is currently one of the largest infrastructure projects in Ontario. It is also the first full Design, Build, Finance and Maintain (DBFM) project to receive approval under the Provincial government's new Alternative Financing Procurement (AFP) delivery model.

Years of neglect have left Ontario's infrastructure in a critical state of disrepair. To address this deficit, the Ontario government created a five-year \$30-billion infrastructure investment plan called ReNew Ontario.

Infrastructure Ontario (IO), an arms-length Crown agency, was created in 2005 to deliver AFP projects under the ReNew Ontario platform. In this model, IO leads the procurement and implementation of infrastructure projects on behalf of the Ministry of Public Infrastructure Renewal and the Ministry responsible for the individual infrastructure project as assigned by the Ontario government.

Commonly asked questions and answers

In order to provide clarity around this new model of funding, several questions and answers with regards to the financing and process of the build are provided.

Q What is Alternative Financing and Procurement (AFP)?

A. In 2005, the Provincial government introduced AFP as an innovative way to finance and carry out large infrastructure projects. This approach has many benefits; most importantly, it uses private sector resources and expertise to build projects on time and on budget. As well, it minimizes cost and schedule overruns by transferring risks to the party best able to manage them. All transactions conducted using the AFP method are conducted in an open and transparent manner.

In the past, the public sector assumed responsibility for many of the building risks that lead to cost and schedule overruns on large infrastructure projects. Building risks include design errors and omissions, project management and sub-contractor coordination, increases in construction material prices and labour costs, schedule and project completion delays, and other related construction risks. These risks, which can significantly increase construction costs, are now transferred to the contractor.

Under the AFP model, IO, the MOHLTC and the hospital are working with experienced experts in hospital architecture, construction, building maintenance and project finance at every step to ensure on-time, on-budget project delivery and ultimately, the best deal for Ontarians.

Q What is project procurement and at what stage is NHS in the procurement process?

A. Project procurement refers to the bidding or tendering process, which is the schedule of events the bidding teams follow to win the award to build the project. The entire procurement process is overseen by an independent, third party fairness monitor.

The key milestones are described below.

Request for Qualifications (RFQ)

The start of the NHS procurement process began with three project teams pre-qualifying through an RFQ to prove they have exemplary skills in project development and construction, as well as the financial capacity to undertake a project of significant size and complexity.

Request for Proposals (RFP)/In-market phase

Following successful completion of the RFQ stage, the successful short-listed bidders were invited to participate in a competitive RFP stage where they are asked to submit a proposal demonstrating how they will satisfy the four essential DBFM components: the design, construction, finance and maintenance of the building.





Evaluation period

Once the proposals are received, currently expected at the end of March 2008, NHS and IO will jointly evaluate the bids based on a variety of criteria set out in the RFP to assess the quality of each proposal from a technical and financial perspective.

Commercial close

The evaluation period takes a few months to complete and leads to the commercial close of the deal. This milestone signals that a successful bidder has been chosen and relevant contracts have been signed.

Financial close

The last stage of the procurement process involves awarding the tender and implementing the Project Agreement, which is a defining contract of terms and conditions agreed to between the winning bidder and the NHS.

At this milestone, a financing rate is set, which allows us to finalize the project costs and disclose the amount to the public. A Value for Money (VFM) report about the project will be posted to IO's website within weeks of financial close. The VFM report is a third-party comparison of the value achieved by completing the project under the AFP model compared to a traditional procurement model.

Once the signing parties have executed the Project Agreement, this guides the terms of the relationship over the construction period required to build the new facility, and then for a 30-year maintenance term. Construction will begin shortly after financial close is reached.

Q How does the new AFP model allow risks to transfer to the private sector?

A. Like all other governments in Canada, Ontario uses private sector construction firms to build public projects. However, under the AFP model, the private sector construction company initially finances the project throughout construction and it assumes increases to project costs that are related to construction risks, such as cost overruns and late delivery.

The AFP model has transferred some of the risks of commissioning the new hospital to the private sector. As well, for design, build, finance and maintain projects, the private sector becomes responsible for the long-term maintenance of the hospital.

Construction risks

In previous private-public partnerships (P3s), the public sector assumed responsibility for many of the building risks that lead to cost and schedule overruns. Under the AFP model, construction risks related to design errors and omissions, project management and sub-contractor coordination, increases in construction material prices and labour costs, schedule and project completion delays are now transferred to the contractor.

Examples of construction risks

For instance: in other hospital projects, risks related to the procurement and installation of hospital equipment caused substantial cost increases. Often, hospitals didn't identify the types of equipment required until the hospital drawings were completed or the facility was close to completion. Selecting equipment at this stage required the contractor to make significant changes to the facility to accommodate the new equipment. Hospitals in this situation were unable to source a competitive rate for the work.

AFP will help the NHS project to avoid this pitfall. Under AFP, we will identify our equipment needs in a manner which will not cause the contractor to make significant changes to the facility, thereby enabling the hospital to avoid extra costs. As well, the successful project team will be responsible for ordering equipment, obtaining delivery insurance, and ensuring that third party vendors deliver required equipment on time. This is an important risk to transfer to the private sector because it reduces change orders and increases in costs.

Some geotechnical risks (anything below the ground) have also been transferred to the private sector under the AFP model. For example, large rocks and other known site conditions become the responsibility of the private sector.

Long-term maintenance risks

Under AFP's design, build, finance and maintain model, the private sector becomes responsible for maintaining the hard facilities of the new hospital for the first 30 years. Hard facilities maintenance includes roofing, elevator, electrical and ventilation services and grounds maintenance.

The public sector has built in a 30-year guarantee for these physical features, which previously had a one-year guarantee only.



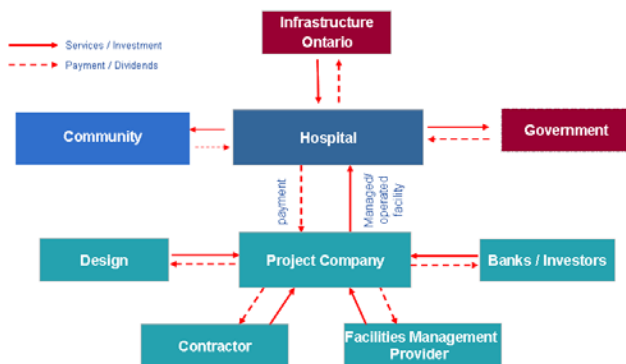
The hospital remains responsible for soft maintenance services (housekeeping, laundry and waste service) and non-clinical support services (patient transportation, patient food services and medical equipment maintenance).

Commissioning risks

The AFP model has transferred some of the risks of commissioning a new hospital to the private sector. AFP introduced a turnkey approach that requires the project company to ensure the new hospital is fully operational following substantial completion. The project company assists with the transition of patients and equipment to the new hospital. In other models, the private sector’s responsibility ends at substantial completion and the hospital is solely responsible for the transition strategy and any additional costs that are incurred for getting the hospital up and running.

Q We keep hearing that this is a ‘DBFM’ project; what does that mean?

A. For the NHS project, the bidders will be required to submit proposals to design, build, finance and maintain (DBFM) the new health-care complex. This means that the winning bidder will be responsible for designing the facility, constructing the facility, arranging financing for its construction and maintaining the hard facilities of the health-care complex over a 30-year period.



Hard facilities maintenance relates to the maintenance of equipment that helps the physical building to operate. This equipment includes elevators, HVAC systems and other functions related to the building’s structure.

Under AFP, the private sector will **not** be responsible for maintaining clinical care and services, patient food, patient laundry, portering, housekeeping, medical equipment maintenance, diagnostic services or hospital management.

Upon substantial completion of construction, the government will pay monthly, performance-based payments to the building management company over the term of the agreement. Performance standards will be included in the contract with an agreed mechanism for measuring this performance. If necessary, payments will be withheld if performance standards are not met.

Transferring most construction-related cost and schedule risks and entering into maintenance arrangements with the winning project team will ultimately benefit the public by ensuring the new hospital is built on time, on budget and well maintained over the 30-year period.

Q What is the difference between the NHS AFP project and the Brampton Civic Hospital?

A. The new Brampton Civic Hospital was not procured and built under the AFP model.

Under the AFP model, IO, the MOHLTC and NHS staff are working with experienced experts in hospital architecture, construction, building maintenance and project finance at every step to ensure on-time, on-budget project delivery and ultimately, the best deal for Ontarians.

As well, the selected contractor will be required to take out a loan to finance the project. As part of the loan agreement, the contractor will have to commit not only to the hospital, but also to its financial lender to complete the project by a fixed date, for a fixed price. Should the contractor not be able to complete the St. Catharines health-care complex by the fixed date, additional interest charges will accumulate – and the contractor will be solely responsible to its lender.

This financial risk that the contractor will assume, along with the lender’s oversight, provides greater due diligence and motivation to get the project completed on time and on budget.

Q How can we be sure that the beds and operating rooms that we require are actually built?

A. The NHS and the MOHLTC worked together to determine the scope and size of the new health-care complex, including the number of beds and operating rooms. This process also involved consultation with countless NHS physicians and staff (called user groups) to develop a functional program for the



new health-care complex. The functional program describes future functions, operations, activity, staffing and space requirements for each service to be provided at the new health-care complex.

The RFP that was issued to the bidders outlines the approved scope of the new hospital project and bidders will be submitting their proposals and cost estimates for the project based on the approved project scope. Tender documents provided to the bidders as part of this process included the functional program, as well as project output specifications, which extensively describe the necessary components of the hospital and its functionality.

Q Will final project costs be shared with the public once financial close is reached?

A. Yes, the cost of the construction contract with the successful bidder will be released after financial close on the contract has been reached, along with the costs for the successful bidder to maintain the building over a 30-year term. The contract will be posted on IO's website within weeks of financial close.

The total project budget, which includes other costs related to the project such as furniture, equipment, permits, architectural and engineering fees, and transaction costs, will be summarized in the VFM report which will provide an assessment of the benefits or value derived using AFP as compared to a traditional procurement model. The report will be posted on IO's website, along with the project contract, within weeks of financial close.

Q When will the new health-care complex be completed?

A. It is difficult for us to commit to a completion date before a construction company has been selected and a schedule has been agreed to. The new health-care complex is currently scheduled to be substantially complete in 2011.

Q What does substantial completion mean?

A. Under the AFP model, the project company does not get paid until they reach what is called "substantial completion." This is the point at which the building is ready for use in accordance with the hospital's contractual requirements. Since the project company starts to incur additional financing costs after the substantial completion date, they have high incentives to meet the hospital's required completion date.

*For more information and Q&As related to the development of the new health-care complex and AFP model, please go to the Building Up section of the NHS website:
http://www.niagarahealth.on.ca/buildingup/new_complex.html*

For further information about Alternative Financing and Procurement, please contact Infrastructure Ontario at info@infrastructureontario.ca or consult www.infrastructureontario.ca.

We are interested in your feedback!

What would you like to know about the new health-care complex project or service improvement and redevelopment at our NHS sites? If you have an idea for an issue of this publication, or have a question, please contact the Editor:

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