



# For the Record

## Infrastructure Ontario Discusses Approach and Deal Flow for Alternative Financing & Procurement

**Infrastructure Ontario was formed in November 2005 as an arms-length agency responsible for the project and contract management of complex infrastructure projects identified by the Government of Ontario as being delivered through its Alternative Financing and Procurement (AFP) model. David Livingston, President & CEO, and his team spoke at a Council-sponsored event in Toronto on April 6, 2006 about the agency's role and the future opportunities for the private sector in Ontario's \$30 billion infrastructure program over the next five years.**

Mr. Livingston said the Government was motivated by three main factors when it formed Infrastructure Ontario in November 2005.

The first was the number and complexity of infrastructure projects that it wanted to develop over a relatively short time frame. These would involve a variety of ministries (e.g. health, justice, transportation). The agency was set up to improve the government's record of on time, on budget delivery for major complex projects.

Second, the agency is not encumbered by normal government processes. As a private company with a single public shareholder, it is not subject to regular government procurement policy and employees are not public servants. "This gives it tremendous freedom to operate," noted Mr. Livingston.

Finally, the agency is better aligned to engage the private sector. In fact, if it is not able to mobilize private sector capital and expertise, then "it has done the taxpayers a disservice," acknowledged Mr. Livingston.

He said that the projects assigned to the agency by the government are truly handed over. He stressed that "we have

been given a strong mandate to execute these projects." Responsibility for the Ontario Strategic Infrastructure Financing Authority (OSIFA), which provides loans for municipal infrastructure projects, was also given to Infrastructure Ontario. Thus, the agency is essentially handling the two ends of the infrastructure financing continuum - municipal lending and alternative finance. The "middle" part is left to individual ministries to deliver as they normally have. However, an important function that the government did not assign to Infrastructure Ontario is the identification of which projects will be procured under AFP. As a result, "We aren't left having to convince the ministries to use AFP, we just execute it," noted Mr. Livingston.

The government's dedication to working with the private sector", he pointed out, "was seen in the recent agreement reached with 407 ETR." That dispute no longer acts as an impediment to partnering with the private sector and entering long term contracts.

As John McKendrick, Senior Vice President, Project Delivery, travelled around the province looking at hospitals he noted they basically fall into three categories: those that are very old; those

that are relatively new but need greater capacity to accommodate population growth; and those that have experienced significant cost overruns in recent redevelopment projects.

The projects under AFP will basically be broken into build-finance and design-build-finance-maintain (DBFM) models. In the build-finance model, Mr. McKendrick said it is more appropriate for a renovation or addition. For example, at the Sunnybrook and Women's College Health Sciences Centre, two floors will be added to an existing building, which makes accountability for the structural and mechanical performance less clear. He noted that they are encouraging the hospital boards to include facility management in these models as an incentive for life cycle costing. In the build-finance model, the architects report to Infrastructure Ontario and the public sector proponent. The risk for design coordination, however, is assigned to the private sector, who is better able to handle it. These costs are factored in, rather than having change orders down the road. At the end of the construction, the private sector faces a penalty if it does not reach substantial completion on time.

Under the design-build-finance-maintain model, the consortium accepts the key risks for design, construction quality / facility management, schedule, budget and financing. Individual hospital boards will determine if any other non-medical services such as catering, portering and housekeeping will be included. In response to concern from hospital management about the encouragement to outsource non-medical services, Mr. McKendrick argues that most of these types of services are already being outsourced anyway. There are no government architects, constructors or financiers on the government payroll - the DBFM model is just "baby steps" to what already occurs in the sector, he said.

Infrastructure Ontario recognizes the value of using output specifications when it comes to design, but wants to do so in a practical manner. Competition will bring innovation and cost savings to bear as the consortium members are able to work together, but Mr. McKendrick recognizes that bidding costs can be high if substantial design work is required. As a result, design work will advance to a certain point before calling for proposals. Standardized documentation and the inclusion of major equipment in the projects is also being considered to achieve value for money. When asked about a covenant for the lenders, which proved challenging in the current Royal Ottawa and William Osler Health Centre

Hospitals, Mr. McKendrick stressed that to date, the Province has not allowed investors to "flap in the wind" and if the private sector meets its commitments, "we'll be there to back you up." As for paying honoraria to bidders, Mr. Livingston affirmed that it was being considered but that they would prefer to pay for advisors up front to ensure better deal structures than to pay consortia for their bid costs.

Mr. McKendrick cited the agency's experience with Hôpital Montfort in Ottawa, which showed the benefit of alternative financing in that project. The banks did an extensive review of the budget and determined that it was not adequate to deliver the project as specified. He said that this highlights a main contributor to cost overruns - bad budgets. A cost consultant results in better monitoring and means the hospital can't make changes on its own. Mr. McKendrick admitted it is the private sector's money at risk, so they will bring better project management to the table.

Jim Dougan, Senior Vice President of Project Development and Construction, outlined the projected deal flow for the agency (see "Project Tracker" below for project details). Overall, Infrastructure Ontario will improve procurement processes through such innovations as addressing construction capacity, bundling projects and advisors, developing standardized documentation and engaging financial advisors early in the process

to ensure projects are credit worthy to investors. In terms of project staging, no more than three Request for Proposals (RFPs) of all types will be issued in a quarter and DBFM RFPs will be spaced by at least three months. Request for Qualifications (RFQs) will generally be issued first and run for four to six weeks, followed by an RFP two to three months later. Mr. Dougan stressed that they want to keep commercial and financial close time down to one to two months, which is tight, but will help control inflation.

Infrastructure Ontario has been assigned over 40 major infrastructure projects throughout the government's five-year plan. Projects range in size from \$50 million to hundreds of millions: 1/4 between \$50 and \$100 million; 1/4 over \$250 million and the remaining half between \$100 million and \$250 million. Smaller projects will tend to be build-finance.

When asked about an advisory role for the industry, Mr. Dougan noted the discussions with the Ontario Association of Architects and the Ontario General Contractors Association, and Mr. McKendrick said they had never been approached to appoint a formal industry advisory group.

Of the \$30 billion investment targeted for infrastructure over the next five years, Mr. Livingston predicts about one quarter to be done under AFP, which may increase if the track record goes well.

## For more information:

To view a summary of each project identified as Alternative Financing and Procurement, go to The Canadian Council for Public-Private Partnerships "PPP Project Tracker" at: [www.pppcouncil.ca/pdf/tracker.pdf](http://www.pppcouncil.ca/pdf/tracker.pdf).



## The Canadian Council for Public-Private Partnerships

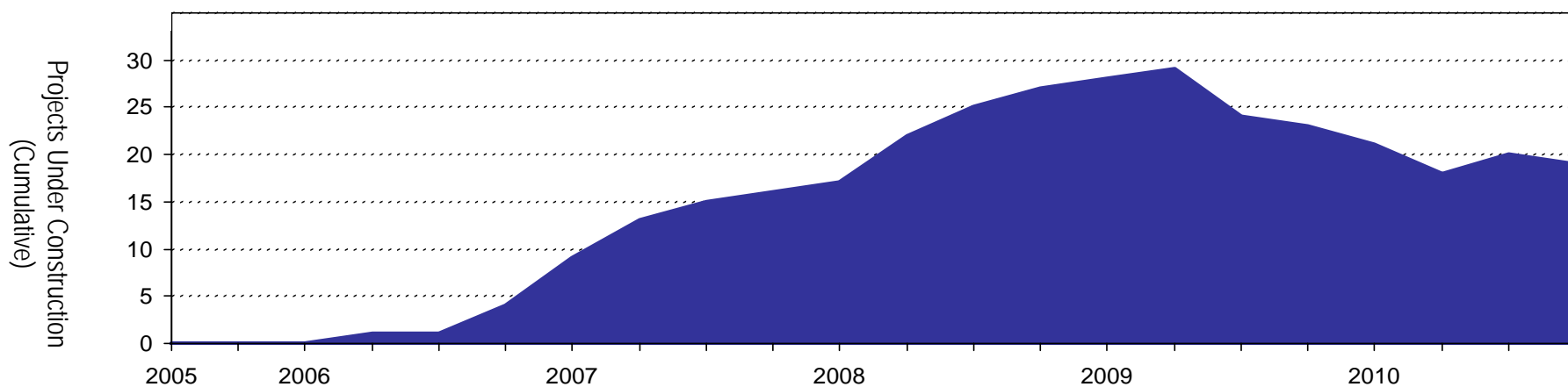
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# Construction Activity by Quarter

		2005		2006				2007				2008				2009				2010					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Build Finance	RFP Issue		1		3	3	2	2	1	2	2	3	2	1	1										23
	Construction Start				1		2	4	1	3	1	1	3	3	2	1	1								23
D/BFM	RFP Issue			2			1		1		1		1	1		2	1	2	1						13
	Construction Start						1	1	1				2				1	1		2	1	2	1		13



**Note: This chart represents only projects that have been publicly announced thus far.**

**April 6, 2006**