

P3 Value for Money Assessment and Project Report

Building Alberta Schools Construction Program – Phase I



August 2014

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Value for Money Assessment and Project Report on Public Private Partnership (P3) for 19 New Schools

August 2014

1. Summary: Using a P3 for 19 new schools.

Financial models and the experience of three previous school Public Private Partnership (P3) projects indicated that the P3 approach towards project delivery could quickly deliver high-priority schools and offer cost savings over traditional project delivery. On August 21, 2013 Treasury Board approved Alberta Education and Alberta Infrastructure to proceed with a Request for Qualifications for Design-Build-Finance-Maintain (DBFM) procurement of 19 new schools in Blackfalds, Calgary, Cochrane, Davisburg, Edmonton, Leduc, St. Albert and Spruce Grove under phase one of the Building Alberta Schools Construction Program (BASCP-I).

The 19 schools are part of a total 120 new school projects (50 new schools and 70 modernizations) government announced in 2013-14, benefiting families and communities throughout the province. These school projects were identified by their respective school boards as high priority projects to meet demand for educational programming in areas of the communities experiencing high enrolment growth. Elementary and middle schools, including P3 schools, are typical built based on a standard core design to allow for future expansion if needed.

Due to tight market conditions, only one qualified consortium, Build to Learn, responded to the Request for Qualifications. Build to Learn was evaluated as meeting all prescribed criteria and the government approved proceeding with the Request for Proposal with Build to Learn as the single proponent. The Request for Proposal was issued to them on November 21, 2013. Build to Learn was evaluated as meeting all technical and financial requirements throughout the Request for Proposal process.

Build to Learn's financial bid was opened on June 10, 2014. Their bid was \$14.1 million (Net Present Value) more than the cost of government delivering the schools using a conventional design-bid-build process. On June 17, 2014 Treasury Board determined that the bid did not offer value for money (VFM) compared to the Public Sector Comparator and decided not to award the P3 contract.

Government's rigorous procurement process demonstrated that, in this instance, using a P3 to design, build, finance and maintain the 19 schools would cost more over 32 years (in today's dollars) than a traditional design-bid-build approach. The government's cost, referred to as the Public Sector Comparator, was \$556.6 million, compared to the bid of \$570.7 million received from Build to Learn. Having the government oversee delivery of the school projects will save \$14 million (a 2.5% savings)¹.

This report explains what a P3 is and why it may be used and provides a value for money assessment of the P3 for 19 new schools.

¹ This savings calculation is based on the amounts in the bid for the BASCP-I Request for Proposals.

2. Background

What is a P3?

A P3 is a non-traditional way for government to create capital assets such as roads, schools, and other types of government facilities. In the case of a school P3, the government enters into one agreement with a contractor responsible for designing, building, partially financing, and maintaining the schools over a 32-year period (2 years design and construction; 30 years maintenance).²

A P3 can save time and money and reduce risk to the government by having one contractor design, build, finance, and maintain a facility. For Alberta P3 projects, the public sector owns the facility and provides public services to Albertans, the same as it does with a traditional approach. In a school P3, the school boards own the schools and deliver education as they do in their other schools. The school board both operates and provides the custodial services in a P3 school.

What is a traditional approach?

In a traditional approach, the public sector (either the school board or the government directly) hires an architect to design a school and then hires a construction contractor to build it. Once the facility is built, the school board operates and maintains it, typically by awarding numerous individual contracts for repairs and renewal over the life of the building. The architect and construction contractor receive progress payments as the work progresses. Provincial grant funding is used to operate and maintain the facility.

What does a Value for Money (VFM) assessment do?

A VFM assessment measures whether a P3 is the best option for a particular project. In this project, it compared the estimated costs of building and maintaining the same schools using the two different methods: traditional and P3. The VFM for a project is the difference between these two costs. The goal of a P3 is to provide value: to do so, the P3 must cost less – measured by net present value – than the traditional method over the life of the contract.

What is net present value?

Net present value is the current value of a future sum of money. It is a standard method to compare the value of money over time (a dollar today is worth more than a dollar tomorrow because of interest and inflation) to assess long-term projects. It is produced by applying an interest rate and an inflation rate (collectively called the “discount rate”) to a future sum. The amount and timing of cash flows differ in the two options for delivering the schools (traditional and P3) and the calculation of net present value accounts for those differences. The net present value of the cost to produce and maintain a facility using the traditional approach is called the Public Sector Comparator (PSC).

What is a shadow bid?

A shadow bid is the government’s internal estimate of the P3 bid. The shadow bid is used during the initial VFM assessment; and, in the situation of a single proponent, as a benchmark for the financial bid.

² For detailed discussion on P3s, see the Annual Report of the Auditor General of Alberta 2003–2004, at pages 49 to 72 (www.oag.ab.ca/files/oag/ar2003-2004.pdf).

What is risk allocation?

An important factor in the differentiation between P3 delivery and traditional delivery is the allocation of risks between the private or public parties. Table 1 (Appendix A) shows an example of the risk allocation between the contractor and government for the two different delivery approaches. This list is not comprehensive. The P3 contract, available on the Alberta Infrastructure website, identifies all the allocated risks.

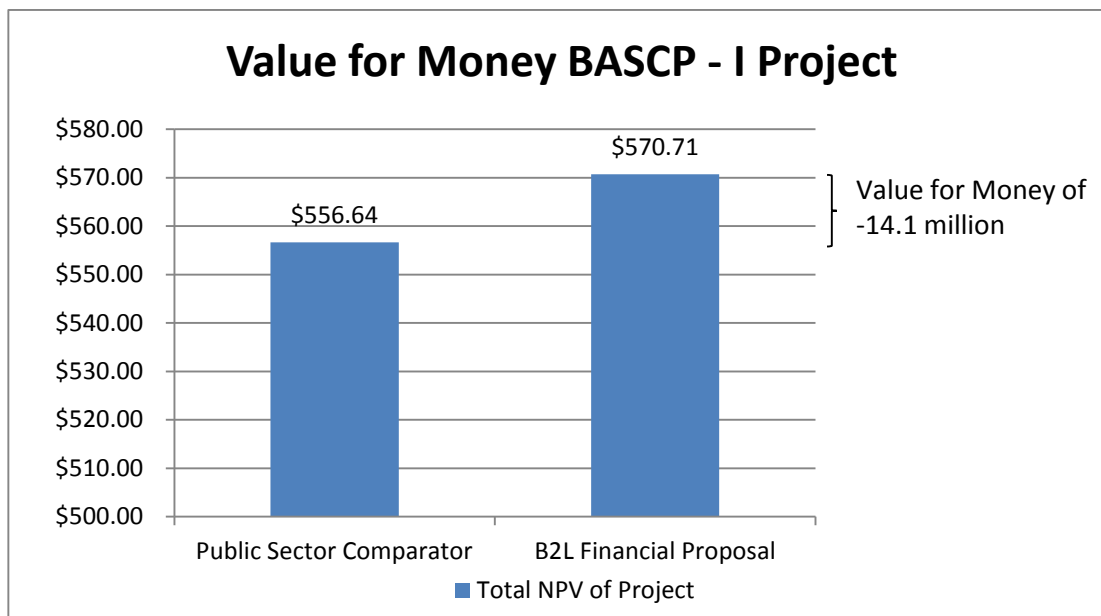
3. VFM Assessment of the P3 used for 19 new schools

Money and time saved by using P3: Quantitative measures of value

This VFM assessment uses net present value as of June 10, 2014, when the bid was opened. It includes the costs to design, build, partially finance, and maintain the schools for the 32-year agreement term. It also includes the impact of risk transfer and the cost of procurement but excludes costs common to both methods, such as broadband connections, land costs, and furniture and equipment.

The cost of delivering the project through P3 delivery method would be \$570.7 million which represents an extra cost of \$14.1 million (-2.5%) in today's dollars (confirmed by Deloitte LLP – see Appendix B) over the traditional procurement model. The P3 selection process is based on the net present value of the project or the total value of all aspects of the project over the life of the agreement, expressed in today's dollars.

Value for Money 19 BASCP- I Project



Single Proponent for BASCP-I 19 P3 Schools

The school P3 delivery model has previously proven successful with three projects totaling 40 new schools saving Alberta taxpayers more than \$245 million. Twenty eight of the schools are already completed and opened, with a further 12 opening for students for the 2014/15 school year. Market soundings conducted in the spring of 2013 indicated strong, continuing interest in school packages and that BASCP-I would build on the success of the three earlier contracts. Construction market conditions shifted during the summer and early fall of 2013 with numerous other development opportunities available or anticipated for constructors and sub-trades in Alberta and western Canada. The school P3 approach was seen, by the construction industry, as very competitive in nature. This robust construction

market resulted in only one proponent, Build to Learn (B2L), responding to the Request for Qualifications (RFQ) in October 2013.

Decision to proceed with a single proponent: following the receipt of the single RFQ submission, analysis indicated that there were cost and schedule risks associated with all options available. These options included proceeding with the P3 procurement, splitting the project into smaller more geographically constrained P3 bundles and reverting to a traditional approach. As Build to Learn had successfully delivered on time and on budget the first two tranches of 28 schools at considerable savings to the government, and was evaluated as having met all the criteria laid out in the RFQ, it was determined that continuing with the P3 procurement was the most appropriate approach for the 19 new schools.

Single proponent expectations: the government recognized the concerns and challenges of proceeding with a procurement of this type with a single proponent. On November 28, 2013 Alberta Infrastructure issued a letter of expectations to Build to Learn. This letter advised that:

- The Government of Alberta would follow the processes established in Alberta's Public Private Partnership Framework and Guideline.
- The P3 contract would be substantially the same as used for the three previous school P3 projects.
- The financial bid would be measured against benchmarks established through the successful completion of three other Alberta schools P3 procurements.
- The procurement would need to show value for money when measured against a public sector comparator generated by the government.

Fairness, transparency, ethics and value: the government also identified the need to be able to demonstrate the fairness, transparency, ethics and value of proceeding with the P3 procurement strategy with a sole proponent. To achieve this:

- Corporate Internal Audit Services commissioned an independent cost estimate to support the value for money assessment;
- Alberta Infrastructure consulted with the Office of the Auditor General regarding the proposed procurement strategy;
- The role of the Fairness Auditor was adapted to focus his activities on testing the process that is intended to ensure that the Alberta taxpayer is getting value for money. This required more detailed review of every aspect of the procurement strategy until financial close; and
- A Deputy Ministers' Project Steering Committee provided comprehensive oversight of the procurement process.

The Request for Proposal (RFP) was issued to Build to Learn on November 21, 2013. The government conducted the RFP process in accordance with these stipulated conditions. Build to Learn was evaluated as meeting all technical and financial requirements throughout the RFP process.

The Fairness Auditor has provided a report to the Deputy Minister, Alberta Infrastructure providing his opinions on the fairness, transparency and value. The Fairness Auditor report is attached as Appendix C.

Decision not to award the P3 contract: the financial bid was opened on June 10, 2014. Their bid was about \$14 million (Net Present Value) more than the cost of government delivering the schools using a conventional design-bid-build process. On June 17, 2014 Treasury Board determined that the bid did not offer value for money compared to the Public Sector Comparator. The financial bid was 9% higher than the benchmark shadow bid (confirmed by Deloitte LLP – see Appendix B). In accordance with the stipulated conditions the P3 contract was not awarded to Build to Learn.

4. Project Report

Government of Alberta Strategic Goals³

Goal 1 Under “Investing in Communities and Families” – Honour Alberta Communities
- *Our Communities are safe, prosperous, welcoming, culturally diverse and desirable places to live or destinations to visit.* New schools provided by BASCP-I help to enhance communities and their desirability as places to live and visit.

Goal 4 Under “Securing Alberta’s Economic Future” – Invest in Learning- *Alberta’s education system is sustainable and meets the lifelong learning needs of Albertans as well as the needs of the province.* BASCP-I is a significant step toward better offering a sustainable education system that meets the needs of Alberta.

Goal 5 Under “Securing Alberta’s Economic Future” – Living within our Means – *Alberta has well-managed finances, wise provincial program and infrastructure spending.* BASCP-I seeks to provide schools in a way that offers value for money to Albertans.

Alberta Education Ministry Goals

Continue government’s commitment to provide 50 new schools and modernize 70 existing facilities in collaboration with other ministries and community partners. (Goal 4: Priority Initiative 4.2). The BASCP-I project provides 19 of the 50 new schools in areas where they are needed.

Project goals

- **Build 19 schools for students in the K-12 education system, in high-growth areas of Alberta for completion by June 30, 2016.** The BASCP-I project aims to put new schools in the areas that need them.
- **Commitment to building these schools in a fiscally responsible manner.** Government will only move forward with a P3 if value for Alberta taxpayers is shown.
- **Use innovative design, project delivery, and funding** to meet the need for schools in various regions across Alberta.
- **Ensure standard and consistent schools by modifying core school designs with flexible student capacity.** The designs are of a consistent quality for all 19 schools. Flexible student capacity comes from modular classrooms that can be added to or subtracted from the core schools, as enrolments change over the life of the schools.

Table 2 (Appendix D) lists the 19 new schools in the project.

³ 2014-17 Government of Alberta Strategic Plan

Approaches considered

The government considered two approaches to deliver the 19 schools:

1. **Traditional Design-Bid-Build approach**, with the usual “pay-as-you-go” financing by the government and delivery by school boards. Private-sector architects and consultants, hired by school boards, design the schools. Stipulated-price construction contracts are awarded through a traditional open-bidding process tendered by school boards to private-sector contractors, likely in bundles of 1-3 projects. The province approves the contracts under the *School Buildings and Tendering Regulation*. Daily operations and maintenance, and infrastructure maintenance and renewal, are funded by provincial grants.
2. **Design-Build-Finance-Maintain approach** (the basis of the P3), with the winning private-sector proponent (the contractor) forming a consortium or group to handle the project from start to the end of the contract. Once construction is complete, the contractor is responsible for the ongoing maintenance of the schools for a set period of time (in this project, 30 years), and for having a renewal plan for school components to ensure they meet the performance requirements. School boards still handle daily cleaning and operations of the schools. The government makes monthly payments to the contractor during the 30-year maintenance phase of the contract. Payments start after the schools reach total availability in June 2016 and cover the project’s capital, maintenance and renewal costs. The government can reduce payments based on performance criteria such as whether the schools are available for use and whether the buildings meet certain standards.

Selection process

The government’s selection process was open, competitive, timely, fair and transparent. A Fairness Auditor, Mr. Richard Innes, an independent CA, was appointed Fairness Auditor for this project and prepared a report on the fairness of the process (Appendix C).

A Request for Qualifications was publicly issued on August 22, 2013. One team responded and was evaluated on experience, personnel qualifications, past performance and financial capability.

The Request for Proposal (RFP) process ran from November 23, 2013 to June 6, 2014. The “made-in-Alberta” approach to P3s ensures the process is competitive throughout. During the RFP process, the proponent made financial and technical submissions to ensure that they met the project’s minimum specifications. The government issued a draft form of the contract during the RFP process. The proponent provided comments on it. Before receiving the financial bid, the government issued the final form of the contract that a successful proponent would be required to sign. No negotiations on this contract were allowed after financial bid was received.

Once the proponent provided RFP submissions, they submitted a financial bid based on the final form of the contract. The bid was measured against the Public Sector Comparator and found not to provide value for money over the 32 years term of the agreement (2 year construction, 30 year maintenance and renewal).

Public Sector Delivery

Project schedule: By not proceeding with the P3 for this project, the government will directly manage a number of the 19 schools and provide grant funding to a number of school boards who will manage their own projects. The schools will be delivered using a combination of design-bid and design-bid-build methods. The government and school boards are working together to determine the optimal make-up of the bundles and delivery responsibilities.

Considerable planning and work has been underway since the schools were first announced.

- Municipal development permits have been obtained for all 19 schools.
- School facility drawings specific to the development permits are complete.
- Site investigations, environmental assessments and geotechnical testing have been completed.

This work has been provided to the school boards and can be used in the tender packages. This will allow the designers and constructors to expeditiously start construction either in fall 2014 or spring 2015.

Many of the school designs are based on the standard core school/modular classroom designs that have been adjusted to suit the unique requirements of each school board. These designs were approved by the respective school jurisdictions and used to apply for municipal development permits. Any revisions to these school facility drawings could require reapplication for municipal development permits. The development permit approval process can take up to six months.

Constructors are responsible for their own construction schedule. Stipulated-price construction contracts do not include penalties for late completion. The target date to deliver these 19 schools is 2017 however the government is working with school boards to build them sooner if possible.

After the schools are completed, the school boards assume responsibility for operating, maintaining, and renewing the schools, using traditional grant funding.

School boards own the schools: The school boards can use the schools for education purposes and for community and other purposes as defined between the municipalities and the respective school boards. School boards are publicly accountable for delivering education programs for all schools in their jurisdictions.

Accounting treatment: The accounting treatment for public sector delivery follows generally accepted accounting principles set out by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The obligation is “on-book”, so the province records the cost of building the schools on its consolidated balance sheet as a capital asset.

Project outcomes

- **Construction of schools in some of the fastest growing communities.** Across Alberta, many areas have experienced significant growth in population. One of the main outcomes of this project is to build schools in these communities to address the needs of increasing school-aged populations.

- **Continued support for improving high school completion rates.** This project supports the goal of Alberta Education to improve high school completion rates. Improved high school completion is a key component of Alberta Education's Accountability Framework. Students are considered high school completers if they have received a high school diploma or equivalent, or have enrolled in an Alberta post-secondary institution or apprenticeship program within the tracking period. Provision of new schools in communities where students live is considered a positive outcome towards this Ministry's goal.
- **Enhanced State-of the Art School Facilities.** This project provides opportunities for students and communities to benefit from state-of-the-art facilities that support current and future education programs, wrap around services and more inclusive education environments.
- **Enhanced Partnership Opportunities.** This project provides enhanced opportunities for partnership contributions to the design, use and funding of the schools.
- **Fiscal responsibility.** The schools will be delivered in the way that offers best value to the Alberta taxpayer.

Appendix A: Risk Allocation

Table 1: Sample Risk Allocations between Government and Contractor

	Conventional		Public-Private Partnership	
	GOA	Contractor	GOA	Contractor
Construction				
Design interaction with site conditions	•			•
Construction interaction with site conditions		•		•
Site safety		•		•
Construction methodology		•		•
Construction costs	•			•
Unforeseen conditions	•			•
Labour availability		•		•
Material issues		•		•
Design errors	•			•
Construction delays by Contractor	•			•
Construction quality issues		•		•
Scope changes	•		•	•
Delayed site access	•		•	•
Material inflation	•			•
Wage inflation	•	•		•
Not meeting agreed milestone dates		•		•
Adverse weather conditions	•	•		•
Labour disputes	•			•
Fire during construction (due to contractor)		•		•
Vandalism/theft/arson during construction (3 rd party)		•		•
Damage and/or injuries to third party		•		•
Damage to work		•		•
Damage and/or loss to utilities		•		•
Defective materials	•	•		•
Public interface	•	•		•
Workplace health and safety		•		•
Insufficient performance bonding	•			n/a
Subcontractor insolvency		•		•
General				
Land acquisition	•		•	
Life cycle management	•			•
Stakeholders management	•			•
Coordination and approvals through users	•			•
Third party objections	•			•
Patent infringement	•	•		•
GOA supplied data – accuracy	•			•
GOA supplied data – sufficiency	•			•
GOA supplied data – interpretation	•	•		•
Utilities hook up/connections	•			•
General site layout	•		•	
Approvals				
Development permits		•	•	•
Building permits		•		•
Occupancy permits		•		•
Environmental permits	•			•
Utilities crossing requirements and permits	•	•		•
Other regulatory requirements	•	•		•
Municipal/City requirements	•	•		•
Building Code compliance	•			•
Land Use approvals	•		•	
Utilities approvals	•			•
Site - Known				
Geotechnical	•			•
Soil Contamination	•			•
Archaeological	•			•
Flood plain analysis	•			•
Site - Unknown				
Geotechnical	•		•	
Contamination	•		•	
Archaeological	•		•	
Flood plain analysis	•		•	

	Conventional		Public-Private Partnership	
	GOA	Contractor	GOA	Contractor
Technical				
Core school design	•			•
Modular design and performance	•			•
Structure safety	•	•		•
Design quality issues	•			•
Design Errors	•			•
Material behaviour	•			•
Construction process innovation	•			•
Construction performance specification	•		•	
Operation performance specification	•		•	
Lack of building system integration	•			•
Aggressive schedule	•			•
Delayed schedule	•		•	
Future IT risk	•		•	
Financial and Economic				
Sourcing of capital – construction	•			•
Allocation of capital – operations	•			•
Cash flow management – construction	•			•
Cash flow management – operations	•			•
Inflation risks prior to financial close	•		•	
Exchange rate risks	n/a			•
Interest rate changes before Agreement	•		•	
Interest rate changes after financial close	•			•
Inflation on operations, maintenance and renewal	•		•	•
Inflation on construction	•			•
Insurance - insufficient	•	•		•
Insurance - unobtainable	•		•	
Change orders	•		•	
Government withdrawing from P3s	•		•	
Force Majeure	•	•	•	•
Demand Risks				
Modular additions above original projections	•		•	
Modular additions (escalation impact)	•		•	
Growth in student population over design capacity	•		•	
Changes in school programming	•		•	
Under-utilized school facilities	•		•	
Appropriateness of school's requirements	•		•	
Operations and Maintenance				
Changes in legislation - discriminatory	•		•	
Changes in legislation – non discriminatory	•			•
Damage to property	•			•
Increased maintenance costs	•			•
Performance issues	•			•
Change in performance standards	•		•	
Labour issues	•			•
Material issues	•			•
Non-availability of facility or portions thereof	•			•
Vandalism during O&M period	•		•	
Fire damage	•		•	
Flood and other natural disasters	•			•
Water, air and/or soil pollution	•			•
Labour disputes	•		•	•
School security issues	•		•	
Unplanned major replacements	•			•
Soft maintenance issues	•		•	
School Board labour relations	•		•	
Consequential damage due to contractor non-performance		•		•
Facility condition risk at 20/25/30 years	•			•
Third party damages risk	•		•	
Liability insurance	•		•	•
Business				
Non-performance/insolvency of contractor	•		•	•
Subcontractor default	•			•



BASCP – SR3

Comparison of Financial Offer and Calculation of Final Value for Money

Private and Confidential

June 25, 2014

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CONFIDENTIAL i

Introduction

Scope of report

This report presents the comparison of the Financial Offer received from the Proponent (Build to Learn or "B2L") with the Public Sector Comparator (PSC) of Building Alberta's School Construction Program (BASCP). It also calculates the Value for Money (VfM) realized by the Proponent's SR3 Financial Offer. The purpose of this report is to provide a concise summary of the Financial Offer evaluation.

Timing and PSC updates

The cost estimates and financing assumptions that form the basis of the PSC were updated by Alberta Infrastructure on May 07, 2014. Using the updated assumptions, the PSC was finalized. The PSC expressed as a net present value (NPV) as of June 10, 2014 was \$549.7 million.

The PSC was recalculated on May 30, 2014, using the discount rate and inflation rate that was determined by Alberta Finance as the basis for calculating the net present value of B2L's Financial Offer. None of the other input assumptions (costs, etc.) were altered. Using the updated assumptions, the PSC was finalized prior to receipt of the Proponent's SR3 submission, and was deposited with the Deputy Attorney General and Associate Deputy Minister for Justice on May 30, 2014. The PSC expressed as a net present value (NPV) as of June 10, 2014 was \$556.6 million. The PSC referred to herein is this value.

The B2L's SR3 submission was submitted on June 5, 2014.

Following the ITP requirement and for purposes of evaluation, the NPV of B2L's SR3 submission is calculated to a base date of June 10, 2014 to match the SR3 deadline date and make it comparable to the PSC.

Limitations

This report was prepared for the exclusive use of Alberta Infrastructure, and is not to be reproduced or used without written permission of Deloitte with the exception of its use with regard to the procurement process for the BASCP project. No third party is entitled to rely, in any manner or for any purpose, on this Report. Deloitte's services may include advice or recommendations, but all decisions in connection with the implementation of such advice and recommendations shall be the responsibility of, and be made by, Alberta Infrastructure.

Deloitte's scope of work related to the PSC and VfM was limited to development of a spreadsheet to calculate and compare the net present value of the BASCP project costs and the Financial Offer using Alberta Infrastructure's methodology.

This report relies on certain information provided by Alberta Infrastructure and by B2L in their SR3 submission, and Deloitte has not performed an independent review of this information. It does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination or compilation of, or the performance of agreed upon procedures with respect to prospective financial information, an examination of or any other form of assurance with respect to internal controls, or other attestation or review services in accordance with standards or rules established by the CPA or other regulatory body.

Calculation of financial offer and Value for Money

Method

The Financial Offer consists of the following payments:

- Monthly payment stream over the operating period July 1, 2016 to June 30, 2046 (both inclusive), consisting of:
 - Capital Payments (identical monthly payments stated in nominal dollars)
 - Maintenance Payments (monthly payments with timing as needed for Maintenance, stated in 2014 dollars)
 - Renewal Payments (monthly payments with timing as needed for Renewal, stated in 2014 dollars)
- Total Provincial Funding, calculated by multiplying the amount of one full month's Capital Payment by 163.

The total cost of the Financial Offer on a NPV basis was determined by calculating the sum of the NPVs (as at the SR3 submission date of June 10, 2014) of:

- the Capital Payments;
- the Maintenance Payments, after first adjusting each payment for inflation using a fixed assumed inflation rate of 2.05% per annum determined by Alberta Finance;
- the Renewal Payments, after first adjusting each payment for inflation using the fixed assumed inflation rate of 2.05% per annum determined by Alberta Finance; and
- the Provincial Funding, after first calculating the amount and distributing it into a number of separate progress payments using a pre-determined schedule of payment dates and percentages. The schedule of payment dates and amounts is taken from the Shadow Bid (SB) model, which meets the Project Agreement requirements considering the construction spend curve¹ of the SB.

The discount rate used to calculate net present values is 4.05% per annum, determined by Alberta Finance based on the Province's borrowing costs.

Process

To determine the Proponent's total cost on a NPV basis, B2L's Form G1 cash flows (Columns B, D, and E) were value-copied into the bid comparison spreadsheet that was developed by Deloitte in advance.

An electronic version of Form G1 was created by extracting Form G1 from the Proponent's Final Financial Model spreadsheet. The payments were not rounded by the Proponent to two decimal places (i.e. "to the cent") as requested by the ITP, so this rounding was performed by the evaluation team.

¹ The approach has been kept same as in previous Alberta Infrastructure P3 projects. Since actual progress payments will be made according to the Contractor's verified progress in the field, an assumed schedule is required to evaluate different bids. The same schedule is usually used for all bidders because Proponents do not bid an enforceable construction schedule.

The payment cash flows as copied into the bid comparison spreadsheet were compared to and spot-checked against the Proponent's Form G1 (paper version) to confirm agreement between the Proponent's electronic and paper copy of the Financial Offer and the accuracy of the value-copy process. The sum of each cash flow in the bid comparison spreadsheet was also compared to the sum of the cash flow in the B2L's Form G1 spreadsheet to again ensure the accuracy of the value-copy process.

To further verify that the basis for the NPV calculations was consistent with B2L's Financial Offer, cross checking of payment stream totals between the evaluation spreadsheet and the Proponent's Financial Model was conducted – the purpose of which was to identify discrepancies that may call into question any of the previous procedures. None were found.

These comparisons confirm that the NPVs of each cash flow have been calculated according to the payments indicated on the paper copy of the Proponent's Form G1.

Determination of Proponent total cost

The bid comparison spreadsheet calculates the NPV of the Proponent's payments as of June 10, 2014, which is the basis for determination of the Preferred Proponent. Since there is only one offer, we have included the Shadow Bid for comparison purposes. The results are as follows:

Net Present Values for Offer Comparison (NPVs to 10-Jun-2014)	PSC	SB	B2L
Total Cost on Net Present Value Basis	\$556.64	\$522.95	\$570.71

The result as indicated in the above table is that B2L Financial Offer has a higher total cost on an NPV basis than the PSC and a significantly higher than that of the SB.

Calculation of Value for Money

VfM is determined by comparing the Preferred Proponent's Financial Offer to the PSC and is defined by Alberta's Public-Private Partnership Framework and Guideline as follows:

Value for money must be determined through a net present value comparison of the comparable costs and risks of the proposed P3 project with the Public Sector Comparator.

The cost of conventional project delivery for the Project is established as the PSC. The cost of P3 project delivery is estimated at several points in the project development process with a Shadow Bid, allowing VfM to be estimated and refined as project information improves. The final VfM analysis replaces the SB's estimated cost with the cost of the Preferred Proponent's Financial Offer (i.e. the actual bid rather than the SB).

The VfM compares the risk-adjusted cost of the Preferred Proponent's Financial Offer to the cost of the PSC. The VfM is therefore as follows:

Net Present Values for Offer Comparison (NPVs to 10-Jun-2014)	PSC	B2L
Total Cost on Net Present Value Basis	\$556.64	\$570.71
Total Estimated Value for Money		(\$14.07)
As % of PSC NPV		-2.53%

The VfM is negative of \$14.07 million, or -2.53% of the PSC. Absent any SR3 submission compliance concerns, B2L would not be the Preferred Proponent since its Financial Offer does not provided the expected VfM and the Government of Alberta is not receiving the anticipated value.

Appendix C: Commentary by the Fairness Auditor

July 17, 2014

Marcia Nelson
Chair - Deputy Minister Steering Committee - BASCP DBFM
Alberta Infrastructure
3rd Floor, 6950 – 113th Street
Edmonton, Alberta, Canada
T6H 5V7

Building Alberta's School Construction Program DBFM (BASCP DBFM). Final Fairness Report

The enhanced role as Fairness Auditor for the BASCP DBFM was intended to add oversight to ensure that Alberta taxpayers were getting value for money. Areas of focus were:

- to determine and opine on whether the procurement process as set out in various documents governing P3 procurement in Alberta was applied fairly, consistently, and in an unbiased manner, and
- to ensure that the creation and updating of the Public Sector Comparator (PSC) created an unbiased and objectively reasonable process for the determination of the cost estimate for the PSC and
- to review the independent cost review commissioned by Corporate Internal Audit Services (CIAS) to determine if there were material variances from the costs included in the PSC.
- to opine on the results of the financial bid received from the sole Proponent, Build to Learn (B2L)

The role also included providing proactive advice and recommendations to support the fairness of the procurement process including the management and reporting of the PSC.

The procurement process

- The Request for Qualification (RFQ) process generated a single Respondent, B2L. B2L was evaluated under the RFQ protocol and qualified to become a Proponent. In the absence of other Proponents a letter of expectation was issued setting out the additional oversight that would be undertaken. It also clarified that the procurement process would be the same as though there were three Proponents. It identified that B2L's financial bid needed to provide value for money and would be matched against benchmarks established from prior P3 projects.

- B2L completed the various Submission Requirements set out in the standard Request for Proposal (RFP) and participated in scheduled technical and document review meetings.
- B2L submitted a compliant Financial Bid prior to the June 6th, 2014 deadline set out in the RFP.

In my opinion the P3 procurement process was carried out in a fair and unbiased manner. The process was consistent with that carried out in previous multi Proponent P3's with no special considerations given.

The PSC cost estimate determination

- The PSC is based on the school boards building the schools using the traditional Design, Bid, Build (DBB) method.
- Deloitte, as financial advisor, prepared the original PSC in the summer of 2013 from information provided by Tech Cost Consultants, Alberta Finance, and the results of the risk workshop they facilitated at that time. The PSC was updated with input from the previous sources to take into account inflation and the results of the risk workshop reviews held on December 6, 2013 and April 28, 2014. Deloitte completed an analysis of the current PSC against the PSC's of prior P3 school projects and established benchmarks. The PSC was updated to May 30, 2014 using discount and inflation numbers provided by Alberta Finance as of that date.
- I reviewed the detail of the initial PSC amount and all subsequent updates and provided input as required. I attended the December 2013 and April 2014 risk workshops and challenged the determination of the various risk amounts where appropriate.

In my opinion the PSC creation was done without bias and was objectively carried out. The overall PSC process generated a reasonable estimate of the cost of GoA doing the schools under the traditional DBB method.

The construction and renewal cost comparison

- CIAS retained Hanscomb, an independent cost consultant, in early March 2014 to provide their estimate of the costs for the nineteen schools being built in the BASCP project on a DBB basis.
- Hanscomb provided their report to me through CIAS at the end of March. I compared their cost estimates to the costs provided by Tech Cost included in the PSC in the December update. Neither party was made aware of the other company's comparative amounts. Infrastructure has not been provided with a copy of Hanscomb's report.

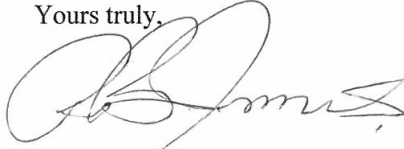
The cost comparison was carried out to determine if there were any material differences between the two estimates. While the determination of materiality is subjective, an amount is material if it would influence the economic decision of the users of the information if the amount were included or omitted. In my opinion the differences in the cost estimates were not material.

Financial bid results

The financial bid received of \$570.7 million received from B2L was \$14 million higher than the PSC of \$556.6 million on an NPV basis and did not offer value for money.

It is my opinion the B2L financial bid be rejected as it does not provide value for money to Alberta taxpayers, a stated requirement of proceeding with a single Proponent. Any further negotiation with either the B2L consortium or their DB contractors to continue with the 19 schools would breach the stated objectives of being fair, transparent, and ethical.

Yours truly,

A handwritten signature in black ink, appearing to read 'R. Innes', written over a horizontal line.

R.B. (Dick) Innes, CA
Fairness Auditor
BASCP DBFM

Appendix D: Schools included in the Project

Table 2: School jurisdictions and communities served

BASCP School Boards	Municipality	Approximate Address	Grade Structure	Approximate Initial Capacity of School
Black Gold Regional Division No. 18	City of Leduc	West Leduc	K-9	500
Calgary Roman Catholic Separate School District No. 1	City of Calgary	Auburn Bay	K-9	900
Calgary Roman Catholic Separate School District No. 1	City of Calgary	Evanston	K-9	750
Calgary School District No. 19	City of Calgary	Saddle Ridge	5-9	900
Calgary School District No. 19	City of Calgary	New Brighton	K-4	600
Calgary School District No. 19	City of Calgary	Copperfield	K-4	600
Calgary School District No. 19	City of Calgary	Rocky Ridge	5-9	900
Calgary School District No. 19	City of Calgary	Evanston	K-4	600
Christ the Redeemer Catholic Separate Regional Division No. 3	Davisburg, Alberta – Municipal District of Foothills	Heritage Heights	K-9	400
Edmonton Catholic Separate School District No. 7	City of Edmonton	Lewis Farms	K-9	750
Edmonton School District No. 7	City of Edmonton	Terwillegar Heights	K-9	900
Edmonton School District No. 7	City of Edmonton	Heritage Valley	K-9	600
Greater North Central Francophone Education Region No. 2	City of St. Albert	Erin Ridge	7-12	400
Greater Southern Public Francophone Education Region No. 4	City of Calgary	NE Calgary	K-6	300
Lethbridge School District No. 51	City of Lethbridge	West Lethbridge	K-5	500
Parkland School Division No. 70	City of Spruce Grove	Spruce Grove	K-9	750
Rocky View School Division No. 41	Town of Cochrane	Cochrane	K-8	800
St. Albert Public School District No. 5565	City of St. Albert	Erin Ridge	K-6	600
Wolf Creek School Division No. 72	Town of Blackfalds	Blackfalds	K-6	400