

Memo

Date:	October 21, 2013
To:	Alberta Infrastructure – BASCP Project Team
Subject:	BASCP – RFQ Debrief Findings

Background and Purpose of this Memo

On August 22, 2013, Alberta Infrastructure ("INFRA") issued a Request for Qualifications ("RFQ") for the Design-Build-Finance-Maintain ("DBFM") of 19 schools located in Southern and North Central Alberta (the Building Alberta's School Construction Program "BASCP" or the "Project"). The procurement process was to culminate in awarding the successful proponent responsibility to design, construct and finance the Project, and to maintain it for a term of 30 years.

The procurement process for the Project was to be based in large measure upon the successful processes and project agreements for past Alberta P3 projects, including the bundled schools (Alberta Schools Alternative Procurement (ASAP) I, II, and III). The RFQ for the Project closed on October 3, 2013, and the response rate was lower than expected – only one response was received.

The procurement process has been halted and INFRA is now considering a range of different procurement options for the 19 schools initially considered for DBFM, as well as nine additional schools, which could include, without limitation, any combination of one or more DBFM and/or Design-Build ("DB") bundles. The timeline for delivery of the 19 schools continues to be paramount.

To inform a decision on how to proceed, INFRA requested Deloitte undertake a post-RFQ debrief ("RFQ Debrief") with lead developers/equity providers, contractors, design builders, and M&R providers active in the P3 market in western Canada to obtain feedback on key issues related to the Project, including the possible reasons for the low response rate to the RFQ.

Summary of Findings

The primary reasons identified by market participants for the low response to the RFQ were the following:

1. Limited constructor/sub-trade capacity in Alberta at the time of RFQ issuance relative to the size of the bundle;
2. A continued reduction in margins from increased price competition in previous ASAP projects; and
3. A robust construction market in Alberta with numerous other development opportunities offering lower opportunity cost and risk.

Certain market participants suggested the response rate might have been higher had the schools been packaged into numerous DB bundles of 2 or 3 schools per bundle given there are numerous smaller contractors who have the capability (and interest) to undertake a project of that magnitude.

Approach

Deloitte, in consultation with INFRA, identified a number of lead developers, contractors, and sponsors to contact in relation to the RFQ Debrief exercise. This selection was based on the Project Team's view that those participants would likely have a good understanding of market conditions in the Province for a project of this scope and magnitude. All participants selected for the exercise have had prior experience with similar projects.

The RFQ Debrief involved telephone interviews with various market participants between October 8th and October 17th using a list of questions (the "RFQ Debrief Material") sent to them in advance of the interview (see Appendix A).

The RFQ Debrief Material, which included a general description of the Project as well as a list of up to six questions addressing procurement concerns and considerations, was circulated in advance of market calls. The questions were modified for participants according to their expertise, so that Design Build contractors were not asked about DBFM specifics. Each interview lasted approximately 30 minutes. Table 1 includes the companies that participated in the calls. Also participating in each call was the Fairness Advisor for the procurement process and Project Team members from INFRA.

Table 1 - Participating Companies

Company	Key interests
Hochtief and Clark Builders	Equity, and Design-Builder
Gracorp Capital Advisors and Graham	Equity, and Design-Builder
Plenary Group	Equity, Developer
Concert Infrastructure	Equity, Developer
Balfour Beatty	Equity, Design-Builder
Bouygues Building Canada	Equity, Design-Builder
Honeywell	Facility Manager
Johnson Controls	Facility Manager
Stuart Olson	Design Builder
Aman Building	Design Builder
Jen-Col	Design Builder
Marshall-Lee	Design Builder
Chandos Construction	Design Builder
Pentagon Structures	Design Builder

Table 2 includes the names of other companies that were contacted in relation to the RFQ Debrief, but did not participate either due to unavailability for a call or lack of response to Deloitte's request.

Table 2 - List of Companies Contacted

Company	Key Interests
PCL	Equity, Design-Builder
Ellisdon Inc.	Design-Builder
Black & McDonald	Facility Manager
Ainsworth	Facility Manager
Dragados	Equity, Design-Builder
Ledcor	Design-Builder

Overall Findings

Based on feedback received during the interview process, a number of key findings have been identified based on aggregating the common views of the participants. It is worth noting that opinions were fairly consistent amongst the various participants.

The main factors that contributed to the low response to the RFQ can be summarized as follows:

- Alberta's construction market is extremely robust:** There are currently a significant number of non-P3 opportunities with lower procurement participation costs that market participants are directing their time and resources toward securing. In addition, participants noted they expect the construction industry in Alberta to ramp up further and do not foresee any slow-down in the near to medium term (into 2014);
- The Alberta Schools P3 model has become a victim of its own success:** The increasingly price competitive nature of the ASAP P3 model has resulted in diminishing margins / returns that simply do not provide enough incentive for proponents to bid;
- Too many resources are required for a DBFM of numerous schools:** From a construction point of view, the sheer number of schools in BASCP requires a significant number of senior resources to properly manage the construction component of the Project for a single contractor to undertake. There is scarcity of such resources in Alberta and companies would prefer to allocate those scarce resources in higher-value-per-location projects. In other words, contractors would rather assign one project manager / construction supervisor to a single large site than numerous project managers / construction supervisors to numerous smaller sites.
- The outcome of past ASAP procurements impacted on certain P3 developers:** Some participants felt that proponents with experience in previous ASAP projects (i.e. incumbents) had a competitive advantage and consequently believed this decreased their chances of success in BASCP;
- The Alberta P3 model restricts innovation:** In the case of Alberta's schools P3, participants noted there is limited opportunity for proponents to add value through innovation which could reduce costs and increase efficiency; and
- The size of BASCP likely means only two teams can realistically bid:** There are likely only two teams with the local capacity to be successful for a project of this type and size.

DBFM Procurement Options

Participants were also asked to identify potential refinements to the procurement process and overall business structure for the schools program, to achieve a higher response on any future DBFM and ultimately obtain delivery of the schools on time.

The main findings regarding the DBFM model can be summarized as follows:

- The current DBFM model is appealing to equity providers in terms of capital cost and risk-distribution. However, if the project were divided into smaller DBFMs, it would likely be less appealing for bigger players;
- FM providers like the project and the size, and believe they can provide efficiencies with the 19 schools bundle. However, economies of scale would still be achievable with smaller bundles;
- Staggering school availability does not solve the construction capacity problem because it can take considerable time to reallocate resources from one site to another. This approach may also complicate the transaction;
- A smaller DBFM project with 8-9 schools could still be attractive for equity sponsors so long as the Provincial Contribution is not too high, and the location of the schools fits their location of availability resources. Some participants stated that occasionally they pursue projects in the range of \$100 to \$150 million. Also mentioned was that a project of this size would probably attract interest from smaller/local investors. However, the RFQ Debrief did not reach out to that sector (i.e. companies willing to invest less than \$5 million in equity). A minimum debt amount of \$40 million was identified as financeable through private placement bonds for the Project; and
- It is not clear whether a smaller DBFM would have a higher response. Although some participants stated they would be interested, it will definitely depend on the location of the bundle of schools.

DB Procurement Options

If the delivery model for the Project was altered from DBFM to 10 – 12 smaller DB bundles in staggered procurements, participants believed the result would be a higher response rate.

- Medium and small contractors like the idea of smaller bundles under DB and declared they would participate in at least one package;
- There should be a limit of two or three schools per bundle. Each bundle should consider different factors such as complexity, location, and the total project cost of each bundle;
- Larger contractors can take-on larger bundles (4 to 5 schools) around their "natural" location. They pointed out that INFRA will lose efficiencies with this approach compared with DBFM;
- In addition, the following risks to this approach were identified:
 - Potential lack of sub-trades and consultants resources for the whole program;
 - Potential lack of interest for the later projects. This is due to diminishing capacity and increasing requirements of construction schedule to achieve school availability;
 - Possible cost escalation along the process; and
 - If INFRA continues to shortlist to three teams at the RFP stage, there is a possibility that only bigger companies will be selected, ultimately discouraging smaller players.

Summary of the response received for all participants.

Section 24(1)(c) and 25(1)(c)

Section 16(1)

Section 24(1)(c) and 25(1)(c)

Appendix A: RFQ Debrief Material

Deloitte.

Background

On August 22, 2013, Alberta Infrastructure ("INFRA") issued a Response for Qualifications ("RFQ") for the Design-Build-Finance-Maintain ("DBFM") of 19 schools located in Southern and North Central Alberta (collectively, the "Project"). The procurement process was to culminate in awarding the successful proponent responsibility to design, construct and finance the Project, and to maintain it for a term of 30 years. Following completion of the schools, the successful proponent would receive monthly payments for the term of the DBFM Agreement based on availability of the schools and compliance with the performance specifications. The procurement process for the Project was to be based in large measure upon the successful processes and project agreements for past Alberta P3 projects, including the bundled schools (ASAP I, II and II) and Edmonton and Calgary ring road projects.

The RFQ for the Project closed on October 3, 2013, and the response rate was lower than expected. INFRA is now considering a range of different procurement options for the 19 schools, which could include, without limitation, any combination of one or more DBFM and/or Design-Build ("DB") bundles. The timeline for delivery of the 19 schools continues to be paramount, with the original Project schedule under the RFQ targeting an availability date of June 30, 2016.

Purpose of the RFQ Debrief

The objective of this post-RFQ debrief ("RFQ Debrief") is to obtain feedback from the P3 bidder community on key issues related to the Project, including informing INFRA and its advisors (the "Project Team") of the possible reasons(s) for the low response rate to the RFQ. The goal of the RFQ Debrief is to use that feedback to assist the Project Team with refining the procurement process and overall business structure for the 19 schools, and possibly, for future school P3s in the Province. It is for this purpose that the input of your organization is requested.

Representatives from the Project Team participating in the RFQ Debrief may include one or more individuals from INFRA, Dick Innes (the Project's Fairness Advisor), and one or more individuals from Deloitte (the Project's Financial Advisor). Whether or not a company elects to participate in the RFQ Debrief, or is invited to participate or not, will have no bearing whatsoever on the eligibility of the company to participate in any future procurement process with respect to this Project or other Provincial P3s.

Topics for Discussion

With the Project specifically in mind, we would like to cover the following:

1. Please discuss your views on the reason(s) for a low response rate to the RFQ. For example: capacity issues in the bidder community; number of schools/locations; scheduling issues; size / timing of the Provincial Contribution; terms and conditions of the RFP and/or DBFM Agreement; etc.
2. If the scope of the Project was reduced (e.g. one smaller DBFM bundle of 8 – 10 schools), would you anticipate a higher response rate? If scope was reduced, would you consider participating in the procurement process?
3. Is participating in P3s in other Canadian markets preventing you from participating in Alberta P3s?
4. If the schedule for the Project was modified to accommodate staggered availability dates, would you anticipate a higher response rate? If modified for staggered availability dates, would you consider participating in the procurement process?
5. If the delivery model for the Project was altered from DBFM to 10 - 12 smaller DB bundles in staggered procurements, would you anticipate a higher response rate? Would you consider participating in a DB procurement process? Do you have an opinion on DB bundle size (1 – 8 schools), location, etc? Would you try and procure more than one bundle?
6. Are there any other issues that you would like to bring to our attention?

Thank you for your time and consideration.