Project Report

Surrey Pretrial Services Centre Expansion Project

SEPTEMBER 2011

BRITISH COLUMBIA

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British Columbia

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Purpose of this Report

The purpose of this report is to provide key information about the Surrey Pretrial Services Centre Expansion project to the public. This report describes the need for the project and how it will be delivered. The report explains how different procurement delivery methods were analyzed, and how project benefits and innovations are expected to be achieved. A summary of the key aspects of the project agreement is also provided.

In all of its procurement processes, the Province of B.C. is committed to a high standard of disclosure as part of its accountability for the delivery of public projects. Ministries, Crown corporations and other government agencies are publicly accountable for projects through regular budgeting, auditing and reporting processes.

Partnerships BC and the Ministry of Public Safety and Solicitor General, the Ministry of Labour, Citizens' Services and Open Government and Shared Services BC are accountable for the contents of this project report, including the reasonableness of facts, assumptions and professional opinions presented.

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1. Executive Summary and Highlights

200-250

CONSTRUCTION JOBS CREATED

NOVEMBER 2013

CONSTRUCTION COMPLETION

216 HIGH-SECURITY INMATE CELLS

The Surrey Pretrial Services Centre Expansion project (SPSCE project, or the Project) will deliver a new state-of-the-art correctional facility that will connect with the existing Surrey Pretrial Services Centre. The Project involves the construction of 216 high-security inmate cells and renovations to the existing 149-cell pretrial services centre located in Surrey, British Columbia (B.C.).

The existing pretrial services centre for adults is one of two located in Metro Vancouver serving Lower Mainland and Fraser Valley courts. Opened in 1991, the centre has undergone several renovations in an effort to close the gap between cell capacity and a rapidly growing and changing inmate population.

The need to address overcrowding in jails has become an urgent priority for the Province of B.C. (the Province). In October 2009, the Province announced a $185 million capital plan aimed at reducing overcrowding, enhancing the supervision and management of offenders, and improving the correctional environment for staff and inmates. The SPSCE project is a key element of this strategy and capital plan.

Following a competitive process based on the principles of openness, transparency and fairness, the Authority[1] entered into a performance-based, fixed price project agreement in June 2011 with Brookfield Infrastructure Partnerships Surrey (the private partner). Brookfield Infrastructure Partnerships Surrey will design, build, finance and maintain (DBFM) the SPSCE project for a term of 32.5 years, which includes 2.5 years of construction. Based on the accounting treatment by B.C.'s Office of the Comptroller General, the capital cost of the Project is estimated to be $90 million and construction will be completed by November 2013.

The procurement decision to use the DBFM partnership delivery method was based on a thorough analysis of procurement options, including both traditional and partnership delivery methods. The analysis undertaken indicated Project objectives could best be met by using the partnership method.

Once the Project is constructed, Brookfield Infrastructure Partnerships Surrey will provide a range of facilities management services including plant services, help desk, utility management, roads, grounds and landscaping services. The Authority will then pay Brookfield Infrastructure Partnerships Surrey a monthly service payment; those payments will be based on performance, facility availability and service quality. Service payments can be reduced if Brookfield Infrastructure Partnerships Surrey does not meet the high-quality standards contained in the project agreement.

[1]The Ministry of Public Safety and Solicitor General and the Ministry of Labour, Citizens' Services and Open Government and Shared Services BC, collectively referred to as the Authority.

The Project will also incorporate the use of wood in accordance with the B.C. Building Code and in keeping with the Province's Wood First Act.

The final partnership agreement between the Authority and Brookfield Infrastructure Partnerships Surrey is estimated to achieve a net present cost value for money of $15 million compared to the traditional procurement delivery method. Additional benefits from the partnership delivery method include:

- **Competition and innovation:** The competitive nature of the bidding process encouraged proponent teams to develop innovative solutions in all aspects of the Project from design and construction through to operations.
- **Schedule certainty:** Brookfield Infrastructure Partnerships Surrey will receive a portion of its payment through monthly service payments once the facility is available for use, thereby providing a financial incentive to complete the Project on time.
- **Cost certainty:** The project agreement is a fixed-price contract for a term of 32.5 years, inclusive of 2.5 years construction.
- **Integration:** Brookfield Infrastructure Partnerships Surrey is responsible for the design and construction, long-term operations, maintenance and rehabilitation of the facility. This creates opportunities and incentives to integrate these functions to optimize performance of the facility over the duration of the project agreement.
- **Life cycle maintenance:** Brookfield Infrastructure Partnerships Surrey is responsible and accountable for ensuring the facilities are maintained and rehabilitated over the duration of the project agreement otherwise the monthly service payment may be reduced.

All correctional services will continue to be funded by the Province and delivered by BC Corrections.

The Province maintains control and decision-making over services and owns the facility over the life of the project.

130

NEW, FULL-TIME CORRECTIONAL JOBS

ESTIMATED CAPITAL COST

$90 MILLION

BROOKFIELD INFRASTRUCTURE PARTNERSHIPS SURREY

PRIVATE PARTNER

2. Project Benefits and Key Features

The Province has taken a leadership role in developing innovative new approaches in the design and operation of correctional facilities within B.C., with the objective of providing facilities which are safer, more secure and supportive of long-term needs for staff, inmates and the communities they serve.

The expansion and renovations to the existing centre will provide for a more fully integrated and effective facility. The expansion will consist of two new wings to the north and west of the existing centre, with the addition of 216 high-security inmate cells. The expansion will be designed to provide abundant natural light and improved indoor air quality, creating an improved working environment for staff and standard of living for inmates.

Security Enhancements

Living units will be reconfigured to further support correctional staff in the management of inmates in both the existing and expanded facility. Pod control units will be introduced and will have a strategic vantage point to oversee several living units at one time, providing broader surveillance, oversight and support to living-unit correctional officers, with the ability to control external doors and summon assistance when required.

Pod control staff will be supported by the installation of new high-resolution cameras to assist in monitoring and cameras will be located strategically throughout the new and expanded facility.

Technology

Once the new facility expansion and renovations are complete, the centre will utilize several innovations in technology, delivering greater operational efficiencies that will be a first in B.C. in a correctional environment.

Tablets – The hand-held audio/visual device will be designed specifically for correctional officers. The tablet will contain duplicate software currently found at staff stations within each living unit. The tablet will allow correctional officers to maintain contact with other correctional staff outside the living unit and will provide the ability to access pertinent information they need such as court dates, visit schedules, health care appointments and operational information. A key benefit of the tablet is the ability for correctional officers to remain connected while moving around the living unit, thereby increasing their frequency of interaction with inmates. The ability to move freely around a living unit permits the correctional officer to engage, assess the atmosphere and behaviour of inmates, and allows valuable time for correctional officers to respond proactively to an incident if necessary.

Kiosks – Each living unit will contain electronic inmate kiosks (in both existing and expanded facilities). These secure kiosks will house a computer terminal that will employ custom secure software designed to provide personal information for inmates, such as their trust account balances, health care appointments and visit schedules. These kiosks will allow inmates to be more self-sufficient by giving them access to their personal information when they need it. Currently when inmates would like to know their account balance or schedule a medical appointment, they have to wait until their living unit correctional officer is available. By providing inmates access to this information, correctional officers will be able to spend more time on inmate supervision.

Video Conferencing – Introducing video conferencing will result in many benefits for staff and inmates. It will change the way inmates interact with the courts, lawyers and their families. Additionally, video conferencing reduces the requirement of inmates to travel outside the high-security correctional centre for court appearances, thereby enhancing public safety. Video conferencing will enable:

- Real time, two-way conversation;
- Flexibility for an inmate or various parties who can't physically be at the same location to participate in the conversation;
- A safer and more secure environment for inmate visits;
- The reduction of contraband distribution;
- Reduced expenses and travel time for correctional staff and sheriffs in the transportation of inmates for court appearances;
- Reduction in greenhouse gas emissions from limiting the use of vehicle transportation to transfer inmates to/from courts; and
- Remote visiting opportunities for both legal counsel and personal contacts that live outside Metro Vancouver where travel expenses are prohibitive.

Renovations

Improvements to the existing facility through renovations will modernize and reconfigure key departments including the kitchen, laundry, health care unit, and will provide additional space for inmate programs and recreation.

Environmental Benefits

The expansion will be designed to achieve Leadership in Energy and Environment Design (LEED®) Gold certification, which will be the highest level of sustainability achieved to date in a correctional facility in B.C. Expected benefits from the design include abundant natural light, improved indoor air quality, reduced energy consumption and water use. In addition, a reduction in the cost of operating the facility is expected throughout the life of the facility.

The design of the new addition and the renovations to the existing building will feature wood products to the extent permitted by the B.C. Building Code in a correctional environment, and in keeping with the Wood First Act. B.C. wood will be showcased in the centre's renovated lobby.

Economic and Labour Benefits

During construction, it is expected that 200 to 250 construction jobs will be created. The equivalent of 130 new, full-time positions, including 100 front-line correctional officers will be created once the expansion is operational.

3. Project Background, Objectives and Scope

Project Background

The Ministry of Public Safety and Solicitor General operates nine correctional centres in B.C.—two on Vancouver Island, three in the Fraser Valley, one in the Interior, one in the North and two in Metro Vancouver.

In Metro Vancouver, the existing Surrey Pretrial Services Centre was first opened in 1991 to serve as a remand facility for adults from Lower Mainland and Fraser Valley courts. The centre incarcerates persons who have been remanded in custody pending trial or sentence, offenders sentenced to fewer than two years, offenders awaiting transfer to other facilities and individuals detained under the Immigration Act. The high-security, 149-cell pretrial services centre is strategically located in Surrey, adjacent and connected to the Surrey RCMP detachment and Provincial courthouse by a secure underground tunnel network. Since the centre began operations, several renovations have been undertaken, including a redevelopment in 2004 to configure a 65-bed remand facility for women.

Since the centre was constructed, inmate populations across the province have increased significantly and current demand for cell capacity exceeds supply. Every opportunity to maximize capacity at the Surrey Pretrial Services Centre has been taken; however, the centre continues to operate above optimal levels. The adult correctional system in B.C. on a whole is operating at critical levels and overcrowding is a significant issue.

By 2007, the need and rationale for the SPSCE project was established in the Corrections Capital Asset Management Plan (CCAMP) prepared by the Ministry of Public Safety and Solicitor General. The report stated the B.C. Corrections Branch[2] required capital and operating funding increases to provide adequate capacity at the earliest date possible to address overcrowding. In March 2009, the Province approved the CCAMP and by October the same year, announced the SPSCE project.

Project Objectives

The Authority developed the following objectives for the Project:

- **Capacity –** Provide additional, safe and secure correctional centre capacity by November 2013;
- **Facility Environment –** Provide a positive environment to support the retention of staff, and support the dignity and respect of all occupants;
- **Business Continuity –** Minimize impacts of renovation and construction on custodial program operations;
- **Innovation –** Improve custodial program delivery and facility performance through innovation in design, construction and operations;
- **Facility Integration –** Deliver a single, consolidated custodial program through facility design and building systems integration;
- **Operational Reliability –** Minimize the frequency of facility performance failures and their associated impacts on custodial program operations;
- **Program Integration –** Support current and evolving custodial programs and practices of the Province of B.C.; and
- **Sustainability –** Achieve provincial requirements for building sustainability in a manner appropriate for a custodial environment.

[2]The B.C. Corrections Branch reports to the Ministry of Public Safety and Solicitor General and is an evidence-based organization committed to reducing reoffending and protecting communities through adult offender management and control.

Project Scope

The SPSCE project includes three key components:

- The construction of 216 high-security inmate cells, organized within six living units, each containing 36 cells. The expansion will consist of one pod of four living units, and a second pod of two living units grouped with a segregation unit and a health care area.
- Renovations and upgrades to the existing centre in the following key areas:
  - Inmate living unit supervision and control;
  - Food services;
  - Programs;
  - Staff services;
  - Administration; and
  - Admissions/discharge and visiting areas.
- Facilities maintenance services for both the existing centre and the expansion for the life of the contract, returning the entire facility in a fully-maintained condition at the end of the term as specified in the project agreement.

4. Project Delivery Options

The Ministry of Finance has mandated through its Capital Asset Management Framework (CAMF) that the following principles guide all public sector capital procurement:

- Fairness, openness and transparency;
- Allocation and management of risk;
- Value for money and protecting the public interest; and
- Competition.

In accordance with CAMF, the Authority and Partnerships BC undertook a procurement options analysis to determine an optimal procurement method for the Project.

Methodology

The evaluation of procurement options is mainly concerned with identifying the method of delivering the project that will result in the greatest value for money on both a financial (quantitative) and qualitative basis. In financial terms, value for money is established by calculating the estimated cost of a project, based on a particular public private partnership (PPP) procurement method, and comparing it to the estimated cost if the project were procured by the public sector using a traditional method.

The evaluation of procurement options typically involves two main steps. The first step identifies key procurement objectives and provides a qualitative assessment of a wide range of available procurement options, including both traditional and partnership models. The assessment of these procurement options is intended to identify the two most appropriate traditional and partnership methods, which then form the basis of comparison.

The second step in the assessment involves a more detailed, quantitative analysis to compare the partnership method with a traditional procurement method. To do this, a comprehensive risk analysis is conducted and financial models representing the two procurement methods are developed and compared. A financial model is developed for a project based on a traditional procurement method, also known as a public sector comparator (PSC), and is compared to a financial model created based on partnership procurement, also known as a shadow bid. It is called a shadow bid because it is an estimate based on an expected bid from the private partner. Both the PSC and shadow bid consider detailed financial inputs which reflect key project components during the construction and operating periods, as well as associated public sector costs under each option.

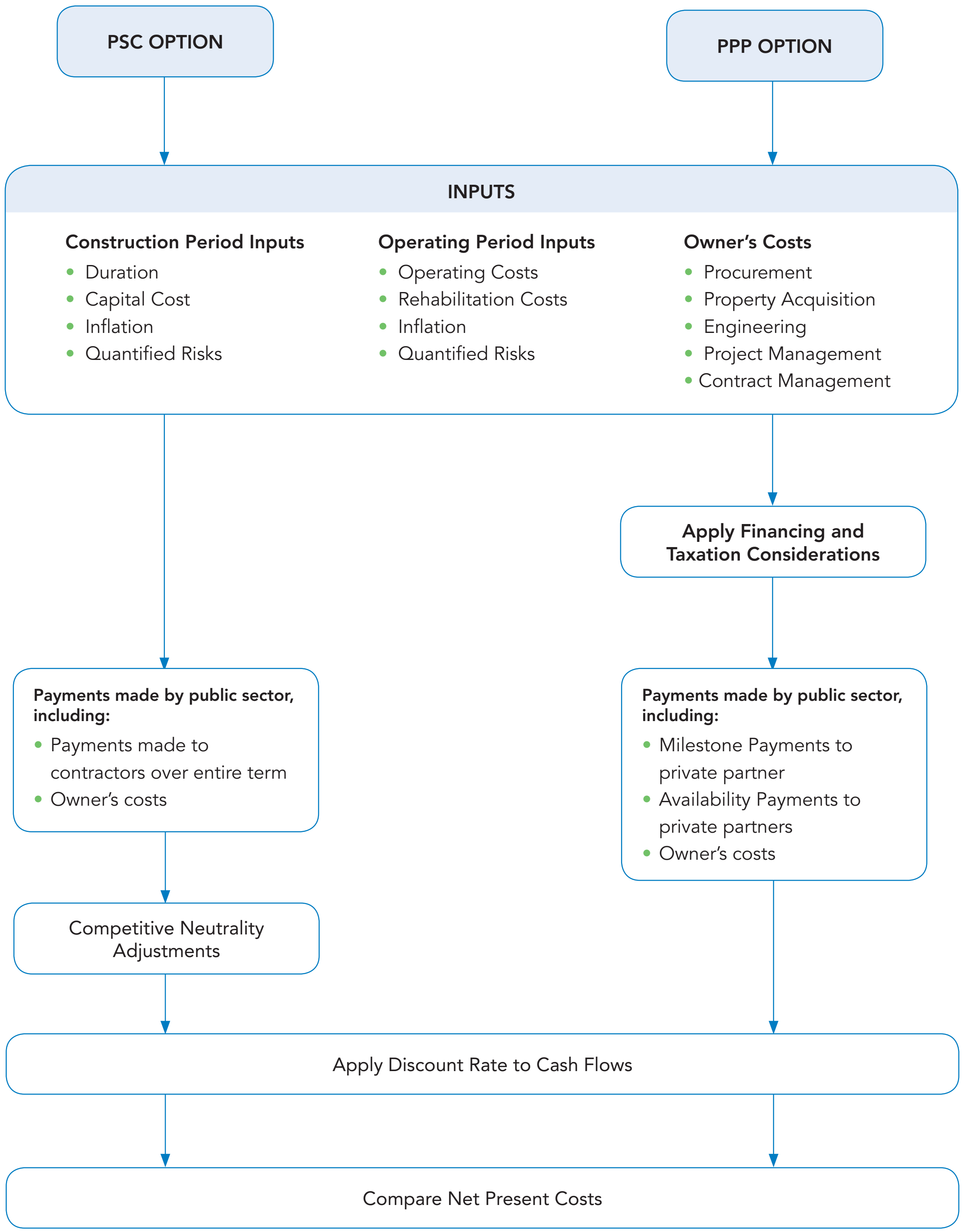
To ensure a like-for-like comparison is being made, the analysis also considers inputs that address financing and taxation issues, along with adjustments to ensure competitive neutrality which include items such as how each model accounts for insurance costs. Without these adjustments, the PSC may be understated in some areas and consequently would not reflect the true cost to government of traditional procurement. A discount rate is applied to the projected future cash flows to facilitate an accurate comparison of the two approaches in present day dollars. Discounting allows procurement methods with different cash flow impacts—such as all payments made in the first year of a 30-year period versus payments spread over the 30 years—to be compared on a like-for-like basis. Comparing competing options in this way provides an objective means of determining which approach provides the best value in terms of cost.

The discount rate applied to the cash flows results in a net present cost (NPC) for the project under both the PSC and shadow bid procurement methods. NPC expresses future dollar amounts in today's dollars, taking into account the time value of money. For example, a dollar received today is more valuable than a dollar received a year from now because the dollar received today can be invested and start generating a return immediately, whereas the dollar received a year from now cannot earn a return in the current year.

The results of this quantitative comparison between the PSC and the shadow bid, together with the qualitative criteria, are used to determine which procurement method is expected to provide the best potential value for money.

The following graph illustrates the financial modeling approach used to compare a traditional procurement method (PSC) and a partnership method (shadow bid).

DETERMINING THE NET PRESENT COST (NPC) OF ALTERNATIVE PROCUREMENT APPROACHES - SUMMARY



Project Procurement Objectives

Procurement options were carefully considered through the development of procurement objectives based on the Project objectives. The following procurement objectives were developed by the Authority and Partnerships BC to provide guidance in the selection and analysis of procurement options:

- **Business Continuity –** Degree to which the procurement option minimizes impacts of renovation and construction on custodial program operations;
- **Innovation –** Degree to which the procurement option provides opportunity for improved custodial program delivery and facility performance through innovation in design, construction and operations;
- **Facility Integration –** Degree to which the procurement option supports the delivery of a single, consolidated custodial program through integrated facility design and building systems;
- **Operational Reliability –** Degree to which the procurement option minimizes the frequency of facility performance failures and their associated impacts on custodial program operations;
- **Program Integration –** Degree to which the procurement option supports current and evolving custodial programs and practices of the Province; and
- **Sustainability –** Degree to which the procurement option is able to achieve provincial requirements for building sustainability in a manner appropriate for a custodial environment (i.e., LEED® Gold certification, Wood First Act and related policy and guidance).

Procurement Options Analyzed

Together, the Authority and Partnerships BC analyzed two procurement delivery options for the Project.

Design Bid Build (DBB): This is a traditional procurement delivery model where an architect is retained by the Authority to develop a detailed design (working drawings) for the asset. Once the working drawings are complete, a tender call for a construction contract is issued. Typically, the lowest qualified price is selected and an industry standard construction contract is used. The construction contractor takes responsibility for constructing the asset to the specifications detailed in the working drawings. The Authority remains responsible for design errors and omissions, and monthly payments to the contractor; the contractor is responsible for construction errors. Once construction of the asset is complete, the Authority takes possession and maintains and operates the asset for its entire lifespan. The Authority retains key design, construction and operating risks, for example: schedule and life cycle maintenance costs. In this model, since separate parties design, build and maintain the asset, cooperation between consultants and contractors can be less than ideal, and the opportunities for integration in design, construction and maintenance are not always maximized.

Design Build Finance Maintain (DBFM): This is a partnership delivery model where the Authority develops performance specifications and invites competitive proposals to design, build, finance and maintain the asset. The Authority remits an annual service payment to the private partner after the asset is constructed in accordance with the project agreement. The private partner works collaboratively with user groups to finalize the design and is responsible for building and commissioning the asset, arranging the project financing for its portion of the capital cost, providing facilities management services, conducting life cycle maintenance and meeting hand-back requirements at the end of the project agreement term. The private partner assumes the majority of construction (cost and schedule), design, long-term maintenance cost and operational cost risks.

Results of the Analysis

Based on the procurement options analyzed, the DBFM partnership delivery method was selected on the basis that it is expected to result in a lower project cost compared to the DBB delivery method. In addition, the partnership method was considered the best delivery model to support the qualitative objectives of the Project and is expected to achieve additional benefits, including:

- Cost-effective risk transfer;
- Ability to meet desired completion schedule;
- Certainty around project cost;
- Expected innovation from the private partner; and
- A service contract based on payment for performance.

Achieving Value for Money

Value for money is a broad term that captures both the quantitative and qualitative benefits that are expected to be achieved by the decision to deliver the project using the partnership method. Quantitative value for money is achieved through lower overall project costs resulting from a particular procurement method. Qualitative value is achieved when a particular procurement method is best able to support the qualitative goals and objectives of a project.

PARTNERSHIP PROJECTS TYPICALLY PROVIDE THE FOLLOWING QUALITATIVE BENEFITS:

- **Competition and innovation:** The competitive nature of the bidding process encourages proponent teams to develop innovative solutions in all aspects of the project from design and construction through to operations.
- **Schedule certainty:** The private partner receives a significant portion of their payment through monthly availability payments once the facilities are available for use, thereby providing a financial incentive to complete the project on time.
- **Cost Certainty:** The project agreement is a fixed price contract.
- **Integration:** The private partner is responsible for the design and construction, long-term operations, maintenance and rehabilitation of the asset. This creates opportunities and incentives to optimize performance of the facilities over the duration of the agreement.
- **Life cycle maintenance:** The private partner is responsible and accountable for ensuring the facilities are maintained and rehabilitated over the duration of the project agreement otherwise the availability payments may be reduced.

5. Competitive Selection Process and Results

A two-stage process was undertaken for the Project, consisting of a request for qualifications (RFQ) and a request for proposals (RFP)[3]. During the RFQ stage, respondents were asked to present their qualifications for the Project. A shortlist of three teams was selected and invited to participate in the RFP stage of the competitive selection process.

The three shortlisted proponent teams and their members are identified in the table below.

TEAM LEAD	DESIGN	CONSTRUCTION	FINANCING	FACILITIES MANAGEMENT
BC Community Partners	• Omicron	• Bouygues Bâtiment International	• HSBC Specialist Fund Management Limited	• ETDE Facility Management Canada
Brookfield Infrastructure Partnerships Surrey	• DGBK Architects	• PCL Constructors Westcoast Inc.	• Brookfield Financial Corp. • Brookfield Infrastructure Partners L.P. (BIP) • Forum Equity Partners Holdings Inc. (Forum)	• Honeywell Limited
Plenary Justice	• CJP Architects • Ricci Green Associates	• Bird Design-Build Construction Inc.	• Plenary Group	• Johnson Controls

The RFP required each proponent to submit a proposal to design, build, finance and maintain the Project under the affordability ceiling. The affordability ceiling was set by the Authority to ensure the project was affordable once bids were received from proponents. A draft project agreement was issued with the RFP. During this stage, collaborative discussions were offered and proponents had the opportunity to discuss issues or concerns related to commercial, legal, design and construction and facilities management matters. Prior to the closing date for submissions, a final project agreement was issued and served as the common basis for all proposals.

The timeline of the competitive selection process is outlined in the table below.

PROCUREMENT STAGE	TIMING	OUTCOME
RFQ	April 28, 2010 to June 22, 2010	The Project was marketed locally, provincially and internationally. Submissions from seven respondents were evaluated and a shortlist of three teams was announced on July 28, 2010.
RFP	August 3, 2010 to February 15, 2011	The three shortlisted teams submitted proposals.
Selection of Preferred Proponent	March 23, 2011	After evaluation of the proposals, Brookfield Infrastructure Partnerships Surrey was selected as the preferred proponent.
Project Agreement Finalization	June 13, 2011	A project agreement was signed by the Authority and Brookfield Infrastructure Partnerships Surrey.

[3]The RFQ and RFP procurement documents are publicly available at www.partnershipsbc.ca.

Evaluation of Proposals

The overall objective of the evaluation was to select the best proposal based on RFP criteria, taking into account the expected value for money provided by the proposal. The Authority appointed an evaluation committee to evaluate the proposals based on the criteria set out in the RFP and recommend a preferred proponent.

As part of the evaluation process, proponents were asked to submit proposals based on a two-part submission process—a technical submission followed by a financial submission. Each submission had to substantially satisfy the requirements of the RFP and the final project agreement. Proposals were then evaluated according to their commitment to achieve the most project work based on scope levels outlined in the RFP, within the mandatory affordability ceiling. In the event of a tie (in scope level achieved), the proposal which had the lowest energy-adjusted[4] NPC would be selected as the preferred proponent.

After a rigorous evaluation of proposals, it was deemed that Brookfield Infrastructure Partnerships Surrey's proposal satisfied the requirements of the RFP and final project agreement, and achieved the highest scope level possible under the affordability ceiling. The evaluation committee recommended to the project board that Brookfield Infrastructure Partnerships Surrey be identified as the preferred proponent; the project board accepted the recommendation.

Affordability Ceiling and Scope Ladder

In a PPP, the private sector partner is paid an annual service payment consisting of the initial capital costs (e.g. design and construction), operational costs (e.g. facility management), major repairs and replacement of building elements (e.g. the roof) throughout the term of the project agreement. All of these costs are captured in the NPC of the project. The affordability ceiling is the NPC of the maximum government will pay in annual service payments over the life of the project.

To ensure the Authority received affordable proposals, it was mandatory for the cost of proposals to be equal to or lower than the affordability ceiling. For the Surrey Pretrial Services Centre Expansion project, the affordability ceiling was set at $137.4 million NPC.

A scope ladder was introduced to provide the means for proponents to meet the affordability ceiling by providing additional scope elements to maximize their proposals. Scope steps included the addition of:

- An additional living unit of 36 inmate cells, for a grand total of 216 inmate cells; and
- 300 square metres of additional program space.

The winning proposal received from Brookfield Infrastructure Partnerships Surrey met the affordability ceiling and will deliver the additional scope ladder elements.

Changes to the Project

In October 2009, the Project was announced as a 180-cell expansion to the existing Surrey Pretrial Services Centre. However, during the course of procurement, the Project's RFP incorporated a scope ladder, with the highest scope step calling for an additional 36 cells to the base scope of 180, and an additional 300 square metres of program space within the mandatory affordability ceiling. Brookfield Infrastructure Partnerships Surrey's proposal not only met the affordability ceiling requirement, but also reached the highest scope level possible—meaning there will be one additional complete living unit of 36 cells resulting in a total of 216 cells and an additional 300 square metres of program space.

The additional scope received over what was expected is a significant benefit of the PPP competitive procurement process, which led to an incremental benefit to the Project and taxpayers.

[4]The final project agreement includes a provision for a design and construction energy target for energy efficiency, including new and existing spaces, and a requirement for Brookfield Infrastructure Partnerships Surrey to apply to the BC Hydro Power Smart New Construction Program and to take all reasonable steps to obtain funding or incentives for the Authority under that program.

Fairness Advisor

A fairness advisor, Jane Shackell QC of Miller Thomson LLP, was engaged to monitor the competitive selection process and offer an assessment as to whether or not the selection process was carried out in a fair and reasonable manner. The fairness advisor was provided access to all documents, meetings and information related to the evaluation processes throughout both the RFQ and RFP stages. The fairness advisor issued reports for both the RFQ and the RFP stages of the competitive process. The reports of the fairness advisor concluded *"…I am satisfied that the evaluation of the responses was conducted diligently and carefully, and in accordance with the processes described in the RFQ and the Evaluation Manual"*, and *"…I am satisfied that the procurement processes of the Project in relation to the RFP were reasonable, and were fairly implemented by the Project team in accordance with the RFP."* The reports of the fairness advisor are publicly available at www.partnershipsbc.ca.

Planning and Competitive Selection Costs

The cost of the competitive selection process is factored into the value for money analysis. The total competitive selection cost for the Project from the start of the business case to financial close is $6.4 million, including partial compensation of $250,000 to each of two unsuccessful proponents. The decision to offer partial compensation is made on a case by case basis and can be used to: encourage competition; ensure the quality of proposals submitted; secure access to intellectual property; and, mitigate costs incurred by proponents in developing their proposals. Other competitive selection expenses include the cost of developing performance specifications, preparing procurement documentation and obtaining advice from external advisors. Materials used for this Project will be used to improve the efficiency and quality of the procurement process for future partnership projects.

Front entrance to the future renovated lobby of the Surrey Pretrial Services Centre.

6. The Final Project Agreement

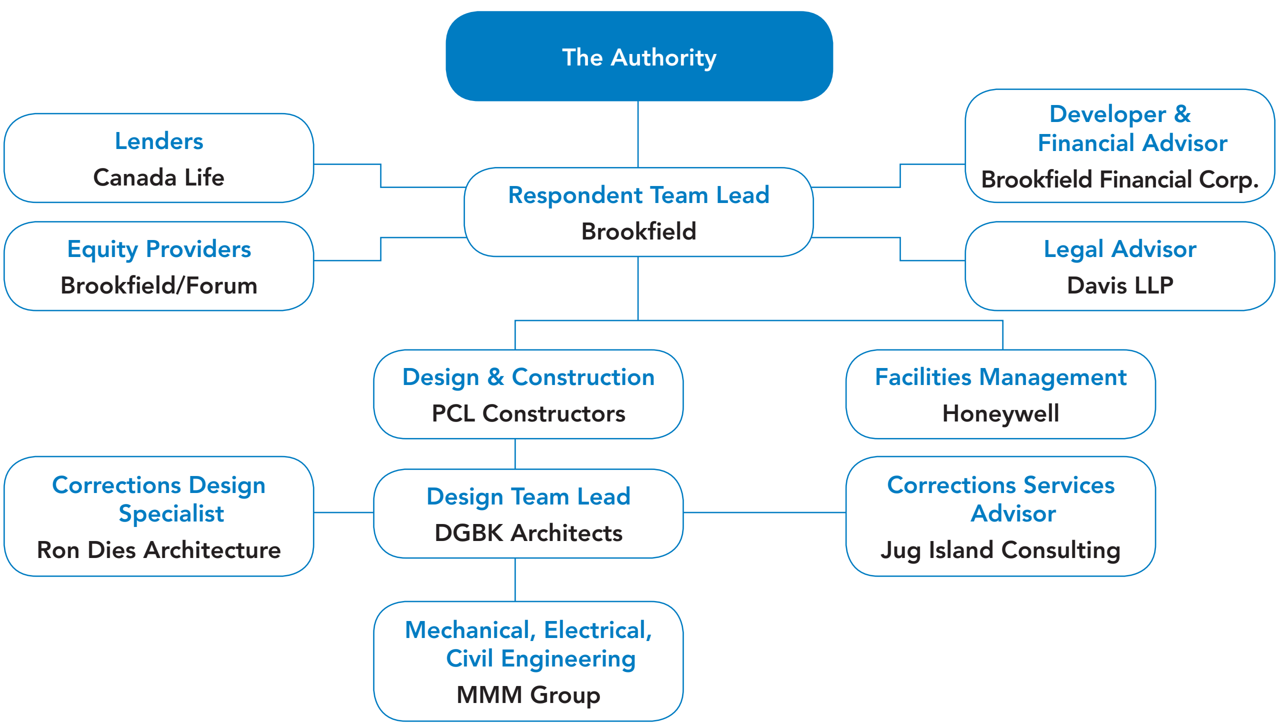
QUICK FACTS	
Private partner	Brookfield Infrastructure Partnerships Surrey
Owner of the facility	The Authority – the Ministry of Public Safety and Solicitor General, the Ministry of Labour, Citizens' Services and Open Government and Shared Services BC
Provincial construction payments	$48 million
Project expansion construction completion	November 2013
Term of the project agreement	32.5 years, inclusive of 2.5 years construction
NPC of final project	$133 million

Profile of the Private Sector Partner

Brookfield Infrastructure Partnerships Surrey is the private partner for the Project, and includes the following team members:

- Consortium lead: Brookfield Financial Corporation
- Developer & Financial Advisor: Brookfield Financial Corp.
- Equity Provider: Brookfield Infrastructure Partners L.P.
- Equity Provider: Forum Equity Partners Holdings Inc.
- Senior Lender: The Canada Life Assurance Company
- Constructor: PCL Constructors Westcoast Inc.
- Design: DGBK Architects
- Corrections Advisor: Jug Island Consulting Inc.
- Facilities Maintenance Services: Honeywell Limited

The relationship between the Authority and private sector partner is shown below.



Key Terms of the Project Agreement

Brookfield Infrastructure Partnerships Surrey is responsible for the following:

- Arranging a portion of the financing for construction.
- Designing and building the facility (2.5 years);
- Maintaining the facility for the 30-year operating period and returning it in a fully maintained condition at the end of the project agreement term.
- Providing specified facility management services, including:
  - Plant services;
  - Help desk services;
  - Utility management services; and
  - Roads, grounds and landscaping services.
- Obtaining LEED® Gold certification within 36 months following substantial completion of the facility.

All correctional services will continue to be funded by the Province and delivered by BC Corrections.

The Province maintains control and decision-making over services and owns the facility over the life of the project.

Project Scope

Brookfield Infrastructure Partnerships Surrey is responsible for designing, building and financing the expansion and renovations to the existing facility. Plans call for the construction of two new wings to the north and west of the existing centre, which includes 216 cells organized within six living units, each containing 36 cells. The expansion will consist of one pod of four living units, and a second pod of two living units grouped with a segregation unit and a health care area.

Renovations in the existing Surrey Pretrial Services Centre will include the following areas:

- Programs;
- Food Services;
- Staff services; and
- Administration.

The admissions/discharge and visiting areas will be reorganized as a result of the renovations.

Brookfield Infrastructure Partnerships Surrey will provide the facility management services for both the existing facility and the expansion for the term of the 30-year contract. Brookfield Infrastructure Partnerships Surrey will also be responsible for maintaining the facility and returning it in a fully maintained condition at the end of the contract term.

Performance-Based Payment Principles

During construction, the Province will make construction payments based on a percentage of the eligible construction costs incurred by Brookfield Infrastructure Partnerships Surrey in a specific month as certified by an independent certifier.

Brookfield Infrastructure Partnerships Surrey is incented to perform through a payment mechanism based on the principles of performance, facility availability and service quality. Once construction is complete and service commencement has been achieved, Brookfield Infrastructure Partnerships Surrey will begin receiving an annual service payment from the Authority. These payments will be made monthly and are based on the availability of the facility for correctional staff and the management of inmates, and the quality of facility maintenance services provided by Brookfield Infrastructure Partnerships Surrey. The performance of Brookfield Infrastructure Partnerships Surrey will be continuously monitored based on key performance indicators; if the performance standards in the project agreement are not met, the Authority may apply deductions to the annual service payment.

Payment deductions are based on the severity of the failure to meet the performance indicator, the importance of the room or department area affected, and the level of unavailability. An unavailability deduction applies when a functional unit (room or department) fails to comply with the condition specified in the project agreement. For example, a malfunctioning elevator in a high-priority area not rectified on time would result in a $3,000 penalty, per day.

Adjustments to Payments

The annual service payment may be adjusted to reflect specific circumstances as defined in the project agreement, including:

- **Benchmarking:** A portion of the facilities maintenance services component of the annual service payment corresponding to waste management services (including grounds and maintenance, cleaning services and pest control) will be benchmarked against market rates every five years.
- **Change in Law:** If there is a discriminatory change in law, the annual service payment may be adjusted to leave Brookfield Infrastructure Partnerships Surrey in no better or worse position than if the change in law had not occurred.
- **Compensation Events:** If an event occurs which warrants compensation to Brookfield Infrastructure Partnerships Surrey, the amount may be provided by adjustment to the annual service payment.
- **Deductions:** The monthly annual service payment may be reduced if Brookfield Infrastructure Partnerships Surrey does not meet the performance standards outlined in the project agreement. Deductions will vary depending on the severity and duration of an incident.
- **Indexation:** The capital component of the annual service payment will not be indexed. The facilities management component of the annual service payment is indexed by the consumer price index (CPI) with periodic adjustments to the market through benchmarking.
- **Life Cycle:** The life cycle costs are not uniform throughout the term of the agreement and will fluctuate.
- **Variations:** If the Authority requires Brookfield Infrastructure Partnerships Surrey to make a physical change or amend the services, the Authority can either make a lump sum payment or have the cost of the change financed by Brookfield Infrastructure Partnerships Surrey. If the Authority chooses to have the change financed, the cost will be reflected in an adjusted annual service payment. The mechanism for developing and determining the cost of a variation is set out in the project agreement.

Payments to the private partner are based on the facility being maintained to set standards. Payments are not based on occupancy—there is no incentive or benefit to the private partner from seeing the facility filled to capacity.

Risk Allocation Summary

The project agreement includes detailed risk allocation provisions over the 32.5-year operating term, inclusive of 2.5 years of construction. This approach transfers key risks to Brookfield Infrastructure Partnerships Surrey—such as construction, cost and schedule—and adds value through design and private sector innovation.

Overview of the risk allocation between the Authority and Brookfield Infrastructure Partnerships Surrey:

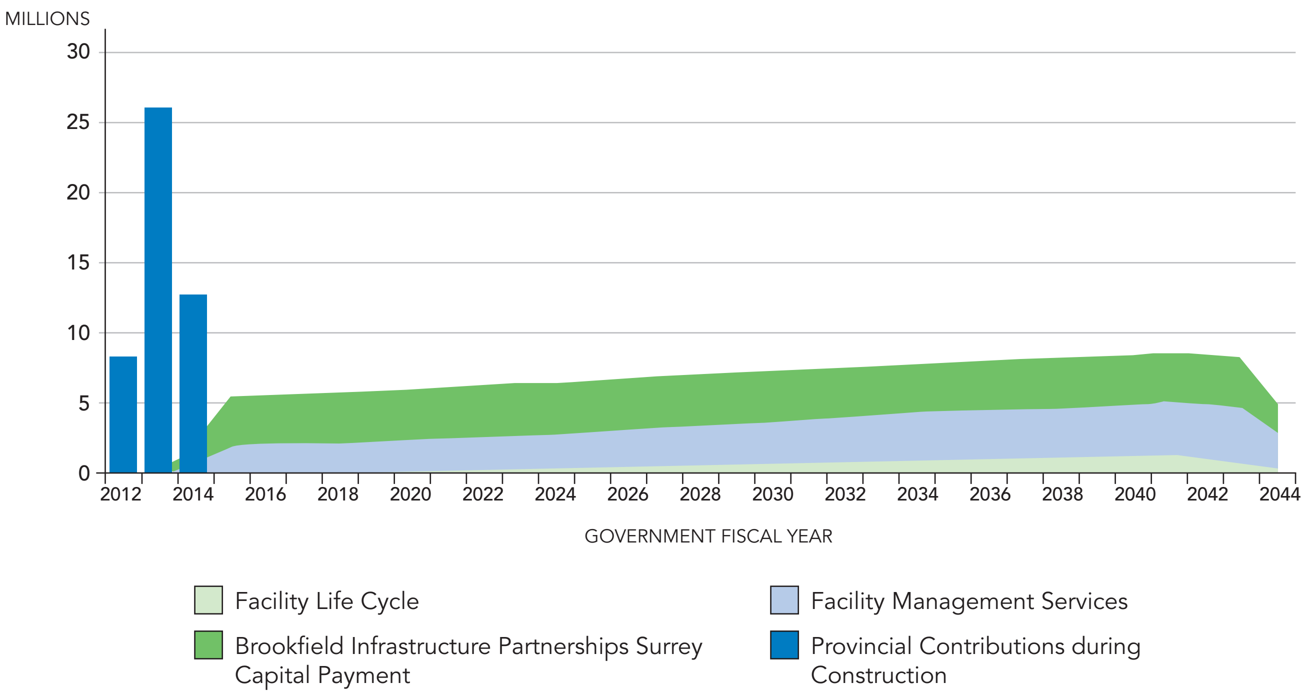
THE AUTHORITY	SHARED	BROOKFIELD INFRASTRUCTURE PARTNERSHIPS SURREY
Ownership	Force Majeure	Design
Program delivery	Labour costs during operations	Construction
Legislative change	Change in law	Financing
Existing site conditions		Schedule
Utility unit costs		Maintenance
Cost of equipment		Commissioning
Scope changes		Life cycle
Utility Volume		Inflation during construction
Existing structural risk in the renovation		Facility utility efficiency
		LEED® Gold Certification

The risk allocation is supported by the following provisions in the project agreement:

- Brookfield Infrastructure Partnerships Surrey will start receiving annual service payments from the Authority when an independent certifier confirms the conditions for service commencement have been achieved, thus providing an incentive to complete construction on time and on budget;
- The expiry date of the project agreement is fixed, so any delays in completing construction will reduce payments to Brookfield Infrastructure Partnerships Surrey, providing them with a strong incentive for timely construction completion; and
- Provisions are in place to reduce the annual service payment if Brookfield Infrastructure Partnerships Surrey does not meet the performance standards in the project agreement for facility availability and maintenance.

The graph below demonstrates the cash flows to Brookfield Infrastructure Partnerships Surrey that meet the affordability ceiling as defined in the RFP. The graph is expressed in nominal dollars, which assumes two per cent inflation for facilities management and life cycle costs. Payment projections assume no penalties or deductions.

PROVINCIAL CONTRIBUTIONS DURING CONSTRUCTION AND COMPONENTS OF ANNUAL SERVICE PAYMENT IN GOVERNMENT FISCAL YEARS



Quantitative Benefits

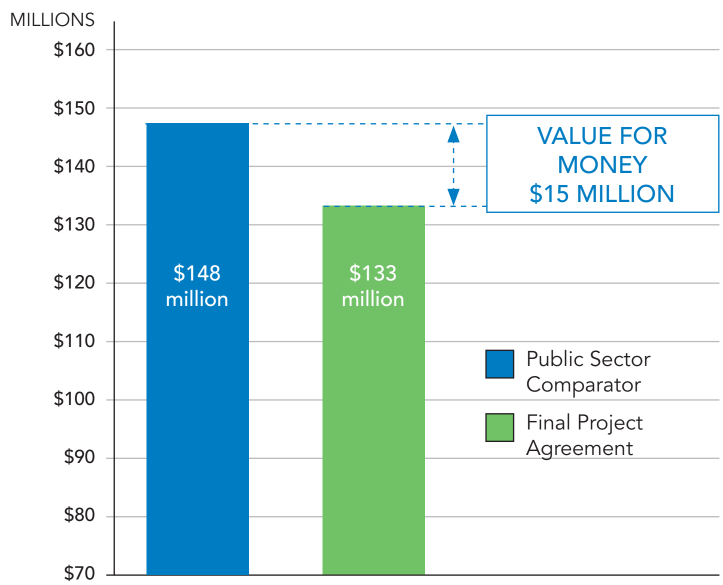
The estimated NPC of the Project delivered using traditional procurement is $148 million, while the final value of the project agreement with Brookfield Infrastructure Partnerships Surrey is $133 million NPC. A high-level comparison of these numbers is provided below. In financial terms, the final project is estimated to achieve a NPC value for taxpayers' dollars of $15 million, when compared to the PSC.

FINAL PROJECT COST	$Millions NPC
Annual Service Payment to Brookfield Infrastructure Partnerships Surrey	$ 73
Provincial Contribution to Capital Cost	$ 43
Risk Adjustment	$ 8
Project Management Costs including insurance, procurement and implementation	$ 9
Total	**$ 133**

ESTIMATED PSC	$Millions NPC
Capital Costs	$ 79
Life Cycle Operating Costs	$ 40
Risk Adjustment	$ 19
Project Management Costs including insurance, procurement and implementation	$ 10
Total	**$ 148**

Cost Differential (Estimated Value for Money)	**$ 15**
Estimated Percentage Savings from PSC[5]	**10%**

Significant factors contributing to value for money include efficiencies from competitive construction pricing, integrating the design, build and finance teams, and an efficient allocation of risk. The value for money analysis followed Partnerships BC's quantitative analysis methodology.[6] The NPC figures above were developed using a discount rate, which represents the Project's expected cost of capital over time taking into account factors such as inflation and interest rates.



VALUE FOR MONEY - COST COMPARISONS

[5]The discount rate used for the calculation of value for money (VFM) is 6.8 per cent. To test the impact of a change in the discount rate on the quantitative VFM proposition of the PPP model versus the PSC model, the modeling results were re-calculated assuming a discount rate 50 basis points higher and 50 basis points lower than the base discount rate. It should be noted that no change in the estimated value of risks was undertaken in conjunction with the change in discount rates used in the sensitivity analysis. A change in the discount rate, either higher or lower, would require a reassessment of the risks of the project. The results of the sensitivity analysis of the discount rate showed that the NPC of the final project agreement would have been approximately $14 million less than the PSC if the discount rate was 50 basis points lower, and about $16 million less if the discount rate was 50 basis points higher.

[6]Partnerships BC's Discussion Paper: Methodology for Quantitative Procurement Options Analysis is publicly available at www.partnershipsbc.ca

Additional Benefits

Brookfield Infrastructure Partnerships Surrey provided a proposal that was superior to the original concept design. The key strengths of Brookfield Infrastructure Partnerships Surrey's proposal included a number of qualitative and quantitative benefits expected to meet and exceed the Authority's Project objectives:

- The design solution will support and enhance the Authority's operational objective of managing inmates through enhanced direct supervision and mobile supervision in the living units;
- The design solution will provide additional capacity and program opportunities, resulting in increased safety for inmates, staff and the community; and
- The design, through creative physical configuration of living units, will reduce length of sight lines, enhance supervision of inmates in assembly areas from pod control units, increase efficiencies and safety of movement for correctional staff, and, increase safety for all occupants.

Accounting Treatment

B.C.'s Office of the Comptroller General, responsible for the overall quality and integrity of the government's financial management and control systems, has established accounting guidelines for partnership projects. Based on the accounting guidelines, the capital cost for the Project is estimated to be $90 million. These costs are accrued to the Province through the construction period as the costs are incurred.

As part of the Province's commitment to environmental sustainability and green buildings, the new addition to the existing facility will be designed and built to achieve LEED® Gold certification.

7. Ongoing Project Agreement Monitoring

The project agreement with Brookfield Infrastructure Partnerships Surrey includes specific provisions to ensure project delivery, performance and high-quality standards are met. Monitoring spans every phase of the Project, from financial close through design and construction, facility operations and maintenance. There are a number of major phases in the project monitoring schedule, with roles and responsibilities assigned to project participants at each stage.

Design and Construction Phase

The project agreement stipulates both the Authority and Brookfield Infrastructure Partnerships Surrey must appoint design and construction representatives. The Authority representative will review, approve, accept or confirm Brookfield Infrastructure Partnerships Surrey's activities in accordance with the project agreement. The Authority representative will have full access to the construction site, drawings and specifications, and will report observations back to the Authority. In addition, both the Authority and Brookfield Infrastructure Partnerships Surrey will jointly appoint an independent certifier who will monitor and report on construction progress, and provide certification that the conditions for service commencement have been achieved.

Operations and Maintenance Phase

The project agreement stipulates both the Authority and Brookfield Infrastructure Partnerships Surrey must appoint a representative to serve as a member of the operations and maintenance committee over the 30-year operating term of the agreement. The committee is a formal forum for the parties to consult and cooperate on all matters related to the facility during the operational term.

Quality Management

The project agreement is designed to motivate the private partner to ensure delivery, performance and high standards of quality given the monetary consequences of failing to achieve these requirements.

Brookfield Infrastructure Partnerships Surrey is required to have a performance monitoring program in place during the operating period to monitor the delivery of services. All reports generated from this program and the supporting data are readily available to the Authority at any time for audit purposes. Monthly reports delivered to the Authority will contain a variety of information, including:

- Summary of calls made to the facilities management help desk and their resolution;
- Summary of unavailability events and service failures;
- Calculation of the monthly service payment owed to Brookfield Infrastructure Partnerships Surrey; and
- A summary of all life safety actions and statutory testing (e.g. fire extinguisher inspections).

There are strict penalties if Brookfield Infrastructure Partnerships Surrey misrepresents the monthly report, potentially leading to contractor default.

Hand-Back Requirements

At the end of the 30-year operating term, the facility must be in a condition consistent with the services and maintenance specifications in the project agreement. For example, it would not be acceptable for the building fabric to be failing, the flooring to be worn, or the general environment to be unkempt. Three years prior to the end of the contract term, Brookfield Infrastructure Partnerships Surrey and the Authority will jointly appoint and pay for an independent party to inspect and survey the condition of the facility. Brookfield Infrastructure Partnerships Surrey is responsible for meeting the hand-back requirements at the end of the project term.

Project Agreement Reviews

The Authority will design a process for reviewing the project agreement at appropriate intervals from the start of operations. The review process will enable the Province to establish whether the project agreement is functioning as intended, and whether the expected benefits have been realized.

Project Executive Board

A project executive board has been established to provide guidance and oversight for the implementation of the Project. Members of the project board include representatives from the Ministry of Public Safety and Solicitor General, the Ministry of Transportation and Infrastructure, the Ministry of Labour, Citizens' Services and Open Government (Shared Services BC) and Partnerships BC.

The Authority has assembled an experienced project management team, led by a full-time chief project officer, who will be responsible for delivering the Project. The project team reports through the chief project officer to the project executive board.

The expansion will be designed to provide abundant natural light and improved indoor air quality, creating an improved working environment for staff and standard of living for inmates.

8. Glossary

Annual Service Payment (ASP): The mechanism by which a private partner in a PPP arrangement is often compensated. According to performance standards specified in a project agreement, an ASP is paid to the private partner for capital and operating costs, as well as their required rate of return, over the term of the agreement.

Authority: The Ministry of Public Safety and Solicitor General, the Ministry of Labour, Citizens' Services and Open Government and Shared Services BC (collectively referred to as the Authority).

Business Case: Document prepared in B.C. by the Authority demonstrating the need and costs/ benefits of a project, in addition to supporting a procurement method and providing an overview of the accounting impacts a project may have.

Competitive Neutrality: Circumstances where competitive advantages typically accrue to government as a result of public sector ownership are neutralized through a series of adjustments which permit a fairer comparison of non-public sector alternatives.

Discount Rate: A rate used to relate present and future dollars. Discount rates are expressed as a percentage and are used to reduce the value of future dollars in relation to present dollars. This equalizes varying streams of costs and benefits so different alternatives can be compared on a like-for-like basis.

Financial Close: The point in the procurement process where negotiations with a preferred proponent are finalized and a project agreement is executed, allowing construction to begin.

Life Cycle: The long-term requirements to maintain and rehabilitate an asset.

Net Present Cost (NPC): NPC refers to the value of periodic future cost outlays when they are expressed in current, or present day, dollars by discounting them using the discount rate.

Operations: The ongoing processes or activities of a practical or mechanical nature involved in running a facility, such as janitorial services, facilities and plant maintenance.

Authority: Usually a provincial ministry, authority or agency undertaking a needs assessment and benefit analysis to determine if a project will satisfy service delivery requirements, and will own the project and fund the annual service payments if a project proceeds as a PPP.

Partial Compensation: A payment made to unsuccessful shortlisted bidders in a request for proposals process as partial compensation for expenses incurred in submitting a compliant proposal.

Performance Specification: Specifications developed by the Authority which define the output and performance levels required in relation to construction and life cycle performance of an asset, to ensure the completed project satisfies the objectives of a project with respect to meeting the Authority's service delivery needs.

Preferred Proponent: A proponent selected from a shortlist of bidders to enter into negotiations with the Authority to reach financial close and deliver a project.

Procurement Decision: The decision by the Authority to procure a project in a particular way in order to achieve value for money.

Project Agreement: The project agreement sets out the requirements for the delivery of an asset under a PPP in terms of cost, schedule and life cycle performance that typically govern the performance-based payment of the ASP to a private partner.

Public Private Partnership (PPP): Public private partnership whereby public sector infrastructure is procured using a long-term performance-based agreement with a private sector partner to deliver and maintain an infrastructure asset, including significant, upfront capital investment.

PSC (PSC): The PSC, which is a financial model of a hypothetical public sector reference concept used in quantitative procurement analysis to compare the risk-adjusted life cycle cost of traditional delivery with the cost of procuring the same project as a PPP.

Request for Proposals (RFP): Document issued by the Authority inviting eligible proponents to submit formal proposals to deliver a project.

Request for Qualifications (RFQ): Document issued by the Authority inviting parties interested in participating in an RFP, to submit their qualifications for delivering a project.

Retained Risk: Risks associated with delivering a project that are not transferred to the private partner under a PPP, representing a cost to the project regardless of the procurement approach.

Shadow Bid: A financial model developed to represent the procurement of a project using a PPP approach. The Shadow Bid is used to develop a cost estimate to be compared to the PSC as a means of evaluating potential differences in the present value of the risk-adjusted costs between traditional and PPP procurements.

Traditional Procurement: Methods by which the public sector has traditionally procured projects in B.C, through design bid build (DBB), or a combination of DBB and design build (DB) contracts.

Transferred Risk: Risk associated with delivering a project typically borne by the public sector under traditional procurement is transferred to the private sector under a PPP.

Value for Money (VFM): Also commonly referred to as value for taxpayer dollars, VFM describes the benefits to the public expected to be realized through a particular procurement method, and can be quantitative and/or qualitative in nature. Quantitative value for money is achieved through lower cost of a particular procurement method, whereas qualitative value is achieved when a particular procurement method better supports the goals and objectives of a project without necessarily costing less.

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