



Chief Peguis Trail Extension Project Value for Money Report



November 25, 2011

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Introduction

The City of Winnipeg has entered into a public-private partnership (PPP) with the private sector consortium DBF2 Limited Partnership (“DBF2”), for the development of the Chief Peguis Trail Extension Project.¹ DBF2 is required to design and construct the Chief Peguis Trail Extension, and is also required to maintain the roadway and structures for a thirty-year term.

The City will pay DBF2 for developing and maintaining the roadway and structures via a combination of payments made during construction, payments made following commissioning of the roadway and structures, and payments made over the 30-year maintenance term. The City will pay DBF2 approximately 20% of the total capital cost of constructing the project via milestone payments during construction, a further 30% upon commissioning of the project, and the remaining 50% via monthly payments over the 30-year maintenance term (the “Annual Service Payment”). The Annual Service Payment covers both repayment of the remaining 50% of the capital costs, as well as ongoing costs for maintenance of the roadway, including both operational and rehabilitative (lifecycle) maintenance.

PPP Canada Funding

The PPP Canada Fund is designed to expand the use of PPPs by provinces, territories, municipalities and First Nations groups, and to help these jurisdictions achieve value for taxpayers by procuring public infrastructure using PPPs. PPP Canada provides funding from the PPP Canada Fund to selected projects through a merit-based program.

The Chief Peguis Trail Extension Project is one of the first projects in the country to receive funding approval from PPP Canada. The City has obtained funding from PPP Canada Inc. for 25% of eligible costs up to a maximum of \$25 Million. This funding has had a significant impact on the project as it has enabled the City to respond to feedback from the public consultation process and add a grade separation at Rothesay Street.

What is a Public-Private Partnership?

A public-private partnership (often termed a PPP or a P3) is a long-term performance-based approach for procuring public infrastructure, where the public sector contracts with a private sector partner who assumes a major share of the responsibility for the delivery of the infrastructure. Most PPPs involve the private sector partner assuming the majority of the responsibility for the design, construction, maintenance, and financing of the asset. Other key characteristics of a PPP approach include an output-based approach (e.g. the public sector specifies outputs, rather than inputs) as well as significant levels of risk transfer to the private sector under the contract.

PPP has become a relatively well-established procurement and contracting method for governments in Canada. In particular, the provinces of British Columbia, Ontario, and Quebec as well as the Canadian government have made clear policy commitments to PPP by setting up agencies dedicated to the delivery and/or funding of PPP projects. To date, over 150 infrastructure projects in Canada have or are being procured as public-private partnerships, with the majority of these projects in areas such as hospital and healthcare facilities, transportation, courthouses and corrections, and recreational/cultural facilities.² Globally, public-private partnerships are also a well-established form of procurement in jurisdictions such

¹ Key members of the DBF2 consortium include: Terracon Development Ltd., Bituminex Paving Ltd., Taillieu Construction Ltd., Gateway Construction & Engineering Ltd., Genivar Consultants Limited Partnership, and Kupskay Consulting Ltd.

² Refer to the “project database” feature of the website of the Canadian Council for Public-Private Partnerships (CCPPP), accessed June 9, 2011 at: <http://projects.pppcouncil.ca>

as the United Kingdom, Australia, France and the Netherlands. As but one example, as of 2010 the website of Partnerships UK listed 920 public-private partnership projects in the United Kingdom.³

Winnipeg is one of the first municipalities in Canada to take advantage of the PPP model for municipal infrastructure.

Purpose of this Report

This report is intended to provide a summary description of the Chief Peguis Trail Extension Project, including its key technical, financial, commercial and contractual features. The report will illustrate the process followed for choosing the PPP model, the procurement process for selecting the private sector partner, as well as the expected value savings achieved through utilizing the PPP model.

³ Partnerships UK has been absorbed by a new UK agency known as Infrastructure UK. The Partnerships UK project database can be accessed at: <http://www.partnershipsuk.org.uk/PUK-Projects-Database.aspx>

Project Description

Project Description

Chief Peguis Trail (formally the Kildonan Corridor) is intended to form part of the City of Winnipeg's Inner Ring Route. The first section of Chief Peguis Trail (Route 17) is a four lane divided road, built between Main Street and Henderson Highway in 1990. This includes the Kildonan Settlers Bridge and Bunn's Creek Box Culvert and currently serves approximately 25,000 vehicles per day. The Chief Peguis Trail Extension Project is the second phase of construction of the Chief Peguis Trail.

The Chief Peguis Trail Extension Project (the "Project") involves the construction of a new segment extending the Chief Peguis Trail roadway between Henderson Highway and Lagimodiere Boulevard. This new extension, when completed, will run for a length of 3.7 kilometers in an east-west direction within a designated right-of-way, and will be a four lane, divided roadway. This new section of roadway will be designated as a truck route thereby attracting truck traffic from many of the surrounding streets. The design of the roadway will also allow for expansion to 6 lanes in the future.

The Project will include several key features, including:

- **Grade separation at Rothesay Street:** A new underpass structure will be built at Rothesay Street which includes sidewalks on both sides. The underpass structure also accommodates a multi-use pathway (east-west) under the structure.
- **Multi-use pathways:** The Project will include a 3.5 metre multi-use asphalt pathway adjacent to the Chief Peguis Trail, in order to allow safe and efficient movement of cyclists and pedestrians. The pathways will include connections to the adjacent community and existing trails including the North East Pioneers Greenway. Nodes or key gathering areas will be located at major pedestrian intersections, including the pedestrian bridge and will contain benches, waste receptacles and bike racks.
- **Multi-use bridge:** A new multi-use overpass will be constructed west of Gateway Road connecting to the Chief Peguis multi-use pathway to the Northeast Pioneer Greenway Corridor. This multi-use bridge will provide safe passage for pedestrians who would have otherwise had to cross at an at-grade intersection.
- **Pump station and dry pond:** The pump station for the Rothesay grade separation (underpass) will be located east of Henderson Highway and will include a dry pond to accommodate peak rainfall events and prevent flooding of the underpass at Rothesay. The drainage system is gravity based, which will ensure that water will drain from the grade separation to the dry pond. The size of the pipe and dry pond will allow for storage during heavy rainfall events. The system is also backed up by pumps which will drain the dry-pond, even if the river levels are high. The system provides redundancy and also includes a back-up generator in case of power outage.
- **Intersection improvements and lane widening:** Intersection improvements and lane widening will take place at several locations including Henderson Highway, Lagimodiere Boulevard, and Gateway Road. Construction of cul-de-sacs will also take place at other locations to terminate roads which will not intersect with the Chief Peguis Trail extension segment.
- **Sound attenuation, noise walls, and landscaping:** As the new roadway must integrate with the existing community, the design has included sound attenuation, noise walls and landscaping, and has sought to preserve existing trees where possible.

Figure 1: Grade Separation Structure at Rothesay Street



Project Objectives and Benefits

The Project is intended to provide a safe, efficient, direct link from the Kildonan Settlers Bridge to Lagimodiere Boulevard, improving travel times as well as alleviating congestion on residential streets in North Kildonan. In particular, Springfield Road will no longer be designated as a truck route between Henderson Hwy and Gateway Road and will be severed from providing through traffic between Gateway Road and Lagimodiere Boulevard, resulting in a significant drop in traffic volume. The Project will also achieve safety benefits via intersection improvements as well as the reduction in east west traffic on local residential streets.

The Project will achieve social and environmental benefits through time and fuel savings (reduced vehicle emissions), and encouragement of active transportation through the new multi-use pathway developed alongside the roadway as part of the Project. The Project will also achieve safety benefits via the intersection improvements as well as through the reduction in east-west truck traffic on residential streets.

Council Approvals

Winnipeg City Council approvals in relation to the Project include the following:

- On November 19, 2008, Winnipeg City Council approved the plan to move forward with the Project based on a public private partnership model.
- On May 27, 2009, Winnipeg City Council approved the conceptual design for the project.
- On December 15, 2009, Winnipeg City Council approved the borrowing by-law required to issue debt on the project.
- Following the conclusion of the procurement process (described in greater detail within this document) on July 21, 2010 Winnipeg City Council approved the recommendation of the Winnipeg Public Service to select DBF2 Ltd. as the Preferred Proponent for the Project.

Public Consultation Process

The City has maintained a project website intended to provide information about the project as well as facilitate public comment and input.⁴

The City also held an open house prior to the procurement process, on March 6th, 2008 at Douglas Mennonite Church, 1517 Rothesay Blvd. At this open house session, the preliminary plan for the Chief

⁴ The website is accessible at: <http://www.winnipeg.ca/publicworks/MajorProjects/ChiefPeguisTrail/>

Peguis Trail extension was presented. The public was invited to provide comments, suggestions and an opportunity was given to ask questions. Much of the input at this open house emphasized the need for a grade separation at Rothesay. Following the conclusion of the procurement process, a public information session was held March 14, 2011 at the Gateway Community Centre, 1717 Gateway Road. Members of the DBF2 design and construction team were in attendance to answer technical questions.

Project Timeline

The table below sets out the high-level project schedule for the design and construction of the Project that was targeted by DBF2. The Project payment structure provided DBF2 with a strong incentive to meet this schedule or complete the project early, since approximately 80% of the City's payments to DBF2 are only payable following commissioning of the Project.

At the time of release of this report, construction progress was ahead of the timeline below. Substantial Completion is expected to be achieved well in advance of the planned opening date of early 2013, meaning that the new roadway will be open to the public many months ahead of schedule.

Table 1: Projected timeline

Detailed Design	
Fall 2010-Spring 2011	Detailed Road and Bridge Design and Approvals
Construction	
Fall 2010-Spring 2011	Drainage installation, preliminary grading and ditching
Spring 2011 – Fall 2012	Roadway & Multi-Use Pathway Construction
Spring 2011 – Fall 2012	Sound Attenuation Barrier
Summer 2011 – Summer 2012	Bridge Construction (Rothesay Underpass and Pedestrian Bridge at Gateway)
Spring 2011 – Fall 2012	Utility Construction and Relocation

Project Procurement

Procurement Alternatives

This section will review the processes followed by the City to: (a) select a procurement and project delivery model; and (b) select a private sector partner for delivery of the Project.

Delivery options

The City retained transaction, financial, and technical advisors (Deloitte & Touche and The MMM Group) to review several projects identified in the City's 2008 Capital Budget, including an analysis of the suitability of the Chief Peguis Trail Extension Project for a public-private partnership delivery model ("Business Case").

Together with its advisors, the City identified three potential procurement alternatives for the Project. The three models identified were: conventional delivery ("Traditional"), Design-Build-Maintain ("DBM"), and Design-Build-Finance-Maintain ("DBFM").⁵ ⁶ A brief description of the options considered is set out below:

Table 2 – Delivery options considered

Procurement Alternative	Description
Traditional	<p>Design and Construction: Design-Bid-Build process, under which the City develops a close-to-complete design of the asset and tenders the work to the lowest bidder.</p> <p>Financing: The City finances the construction through progress payments during the construction period.</p> <p>Maintenance: Following completion, the City maintains the asset.</p>
Design-Build-Maintain	<p>Design and Construction: A single private sector entity ("Project Co.) is responsible for design and construction.</p> <p>Financing: The City finances the construction through progress payments during the construction period.</p> <p>Maintenance: Following completion, Project Co. maintains the asset based on a maintenance fee.</p>
Design-Build-Finance-Maintain	<p>Design and Construction: A single private sector entity ("Project Co.) is responsible for design and construction.</p> <p>Financing: Project Co. finances all or a portion of the construction through private debt and equity financing.</p> <p>Maintenance: Following completion, Project Co. maintains the asset.</p> <p>Payment Mechanism: Project Co. is paid an annual service fee, which includes repayment of the capital costs of construction as well as a maintenance fee.</p>

⁵ During discussions among City staff and its financial and technical advisors, it was determined that it would not be economical to include the operations component of this Project in the deal structure. It was determined that the City has the operational scale to maintain operations, while asking the private sector to provide these services for a relatively small works project would add cost to the Project. The operations component includes items such as snow clearing.

⁶ The terminology used in the Business Case for the three options was "Conventional", "Design-Build-Operate", and "Finance-Design-Build-Operate". These options correspond to, respectively, the "Traditional", "Design-Build-Maintain", and "Design-Build-Finance-Maintain" procurement alternatives set out in Table 2 above. The terminology in this Report has been updated for ease of understanding to reflect nomenclature more commonly used in the current Canadian infrastructure market.

Options analysis

The Business Case included three specific analytical components that informed the City's ultimate choice of the DBFM procurement model. These components included:

- Preliminary Value for Money analysis:** The City's advisors (Deloitte and MMM) led a risk workshop with City Staff in order to develop a thorough risk register that contained the risks applicable to the Project and to quantify the impact of these potential risks. This risk analysis was integrated with cash flow models to develop an estimate of the total risk-adjusted cost of all three procurement options under consideration. The preliminary Value for Money analysis demonstrated that the DBFM model had the most potential to provide savings in comparison to the Traditional model, in the range of 7% to 16% savings.
- Qualitative Analysis:** The City's advisors carried out a qualitative analysis of each procurement option, based on key criteria for the Project developed in consultation with the City, case studies of other Canadian infrastructure projects, and advisors' knowledge and experience. These criteria included consideration of a delivery option's ability to transfer and mitigate risk, maintain the City's operating flexibility, and deliver value for money. Based on these criteria, the DBFM procurement methodology was seen to deliver the best results for the City. A summary of the analysis is set out below.

Figure 2 – Qualitative analysis

Criteria	OPTION		
	Trad.	DBM	DBFM
1. Degree To Which Retained Risks Are Reduced	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
2. Degree To Which Key Retained Risks Can Be Mitigated	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
3. Degree to which financing Costs to the City are Minimized	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
4. Degree To Which The City Maintains Operational Flexibility	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
5. Degree To Which Option Meets Industry Best Practice For Construction Risk Mitigation	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
6. Degree To Which Option Meets Industry Best Practice For Life-Cycle Risk Mitigation	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
7. Degree To Which the Option Provides Value for Money to the City	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
8. Degree To Which the Option is Consistent with the City's Previous Experience With Models Of This Type For Projects Of This Size	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

- Market Analysis:** A key concern identified during the Business Case was the smaller size of the Project in comparison to the average size of many other PPP infrastructure projects in the market at that time. The Business Case identified a number of "precedent" smaller scale public infrastructure projects that have been successfully undertaken using a PPP delivery model, but recommended that further steps be taken to confirm the market's willingness and capacity to deliver this Project using PPP. Subsequent to the finalization of the Business Case, the City consulted a selection of market participants who indicated that the size of the Project would be sufficient to attract quality bidders.

Based on this analysis, the Business Case concluded that the DBFM procurement model would be the most appropriate model for the Project.

Report to Council

The City's Corporate Finance and Public Works Departments submitted a report to the City's Executive Policy Committee, recommending that the City pursue the DBFM model for the project delivery and

subsequent maintenance of the Project. The Executive Policy Committee concurred in this recommendation, and submitted the report to Winnipeg City Council. On November 19, 2008, City Council approved the plan to move forward with Chief Peguis Trail Extension (based on the DBFM model). The text of the Executive Policy Committee recommendation which was approved by Council is reproduced below.

Text of Council Resolution

1. *That the Winnipeg Public Service be authorized to proceed with the Chief Peguis Trail Extension Project based on a Design/Build/Finance/Maintain delivery model and that the Chief Administrative Officer be authorized to approve and issue the Request for Qualifications and the Request for Proposals for the Project.*
2. *That the Director of Planning, Property and Development be authorized to negotiate the acquisition of land required for the Chief Peguis Trail Extension Project.*
3. *That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.*

Advantages of the Design-Build-Finance-Maintain procurement model

Under the DBFM procurement model selected, the City owns the infrastructure at all times. The City determines the technical and performance standards that must be met for the design, construction, and maintenance of the roadway and structures. For example, the City provides minimum standards for road curvature, repair of ruts and potholes, and removal of litter. The City's private sector partner is required to design, construct and maintain the roadway and structures (for a 30 year term) to meet these standards. The City has also prescribed "hand-back" requirements to ensure that the assets are returned to the City in good condition at the end of the 30 year term.

The DBFM model requires the private sector partner to obtain private debt and equity financing. This is because the private partner receives only partial payment for construction from the City during the construction period, in the form of milestone payments (approximately 20% of the total capital cost) which are triggered at defined intervals. The majority of payment for construction is held back until following the completion of construction – a portion is paid at substantial completion (approximately 30% of the overall capital cost), while the remainder is paid in installments over the 30 year maintenance term (approximately 50% of the total capital cost). Therefore, the private partner must obtain short term and long-term financing to fund construction.⁷ This aspect represents the Financing element of the Design-Build-Finance-Maintain procurement model.

The advantages of the DBFM procurement model include:

- **Bundling of Roles:** "Bundling" the design, construction and maintenance roles into one contract with one private sector partner has efficiencies including: a reduction in design coordination issues, strong incentives to design a roadway which can be constructed efficiently and which will have optimal lifecycle performance, and clear accountability for the long-term condition of the assets.
- **Risk Transfer:** The private sector is responsible for most key risks related to the design, construction, and long-term maintenance of the asset, including risks of construction delay, cost overruns, and construction defects.
- **On-time Delivery:** There is a strong incentive for the private partner to overcome delays during construction and complete the works on schedule, since the majority of its payment is not provided until commissioning.

⁷ Other DBFM projects may require different proportions of short and long term financing. For example, some projects require the private partner to fund 100% of the capital cost through long term financing, and other projects require the private partner to fund 50% of the cost through short term financing and 50% through long term financing. The City of Winnipeg determined the financing structure for the Chief Peguis Trails Extension Project in consultation with its advisors, based on considerations of budget, maximizing risk transfer to the private sector and maximizing value for money.

- **Performance-based Payment:** The City has defined performance standards for the maintenance of the roadway. If these standards are not met, the City is entitled to deduct amounts from the scheduled service payments to the private sector, providing the partner with strong incentives to meet service standards.
- **Oversight Role of Private Capital:** Private capital providers are incented to provide strong third-party oversight and due diligence on the project, since their funds are at risk if construction, maintenance, or operation of the asset does not go according to plan or does not meet service standards.
- **Cost Certainty:** Fixed price contracts for construction and maintenance services transfer the risks associated with cost overruns and schedule delays to the private sector, and provide the public sector with cost certainty.
- **Long-term Asset Quality:** The private partner is required to develop a 30-year maintenance plan for the roadway, and must plan a lifecycle reserve account to ensure that a portion of project revenues are set aside to fund planned lifecycle maintenance. The private partner is also responsible for meeting the hand-back requirements at the end of the 30-year term, which have been prescribed by the City up-front as part of the Project Agreement.
- **Innovation:** Under a DBFM, the City can afford to provide bidders with more scope to innovate in areas such as value engineering, since the private sector will be responsible to not only design and build the innovation but also to maintain it for 30 years with private capital at risk. This ensures that innovations are developed with a “whole-life” costing approach in mind.

Procurement Process

Following the City’s decision to proceed based on the DBFM procurement and project delivery model, the City embarked on a procurement process to select a private sector partner. The City used a two-stage procurement process, which included a Request for Qualifications (RFQ), followed by a Request for Proposals (RFP) issued to consortia who were pre-qualified through the RFQ process.

Request for Qualifications process

The RFQ was intended to select no more than three qualified consortia who would be invited to continue on to the RFP stage.

The RFQ was issued on February 27, 2009. The RFQ document contained background information on the Project, an outline of the procurement process to be followed, and submission requirements intended to elicit information on each consortium’s proposed approach, qualifications and experience. An optional RFQ information session with registered prospective bidders was held in Winnipeg on March 11, 2009. The RFQ submission deadline was May 11, 2009.

The RFQ evaluation criteria were intended to assess the approach, experience and qualifications, and financial strength and capacity of RFQ respondents. The evaluation criteria and sub-criteria are set out below. The RFQ stipulated that in order for a respondent to be considered qualified, its submission must obtain a minimum of 60% of the points for each evaluation criterion.

Table 3 – RFQ evaluation criteria

Evaluation Criteria	Overall Category Weighting
Project Lead <ul style="list-style-type: none"> • Organization, competitive advantage and management plan • Experience and qualifications of Project Lead • Experience and qualifications of Key Individuals 	25
Design-Construction Team Member of Respondent’s Team <ul style="list-style-type: none"> • Organization and plan • Team members’ experience and qualifications • Key design individuals’ experience and qualifications • Experience and qualifications of key construction individuals 	30
Maintenance Member of Respondent Team <ul style="list-style-type: none"> • Organization and plan • Team members’ experience and qualifications • Experience and qualification of key individuals 	20
Financing Member of Respondent’s Team <ul style="list-style-type: none"> • Financing approach and plan • Financial condition • Financial capability • Track record and experience 	25
	100

The City received four submissions in response to the RFQ. Each of the four submissions met the minimum requirements of the RFQ, i.e. each of the four submissions obtained at least 60% of the points in each criterion.

Consistent with the terms of the RFQ, the three highest rated RFQ respondents were short-listed to participate in the second phase of the procurement process:

- **Chief Peguis Constructors:** Nelson River Construction Inc., Stonebridge Financial Corporation, AECOM Canada Ltd., M.D. Steele Construction Ltd.
- **DBF2 Ltd.:** Terracon Development Ltd., Bituminex Paving Ltd., Taillieu Construction Ltd., Gateway Construction & Engineering Ltd., Genivar Consultants Limited Partnership, Kupskey Consulting Ltd., Fengate Capital Management Ltd.
- **Peter Kiewit Sons Co.:** Dwayne Serafin and Guy Philippe Decarie

The Fairness Advisor’s report stated:

As Fairness Advisor, we observed the RFQ process, from submission close until selection of the Successful Respondents. Given this involvement, we can attest to the fact that this RFQ process was fair. As the report details, care was taken in managing the risks involved in providing an open, fair and competitive process.

Request for Proposals process

The Request for Proposal (RFP) was issued to the short-listed teams (referred to as “Proponents”) on September 18, 2009. A key feature of the RFP was that it required Proponents to submit fully priced proposals for two technical alternatives:

- a) An At-Grade alternative, including a level crossing at Rothesay Blvd.; and
- b) A Grade-Separation alternative option, including a grade separation structure at Rothesay Blvd.

The draft project legal agreement (“DBFM Agreement”) was issued on September 28, 2009. The draft DBFM Agreement included detailed technical specifications for the design, construction, and maintenance of the Project. Proponent comments on the draft form of the DBFM Agreement were sought and considered throughout the process, via Commercially Confidential Meetings (CCMs) as well as through written comments provided by Proponents.⁸

On October 6, 2009, Peter Kiewit Sons Co. withdrew from the procurement process. The withdrawing Proponent was replaced by Plenary Roads Winnipeg (“Plenary”), who were the fourth highest ranked respondent from the preceding RFQ process. Plenary’s RFQ submission met all minimum prequalification requirements of the RFQ process. The Fairness Advisor confirmed that the addition of Plenary to the process was acceptable given that Plenary met all of the prequalification requirements and the total number of Proponents following the addition of Plenary did not exceed three, meaning that the City was in compliance with the terms of the RFQ which mandated a maximum of three pre-qualified firms.

On October 28, 2009, Chief Peguis Constructors withdrew from the RFP process, leaving two Proponents: DBF2 Ltd. and Plenary.

The RFP process followed a staged approach which required multiple submissions by Proponents to the City. During the first stage, known as “SR-1”, Proponents submitted draft management plans and organizational structures, as well as preliminary design reports. The City engaged in Commercially Confidential Meetings with Proponents to review the SR-1 Submissions, and provided written feedback to Proponents based on the likelihood that the approach reflected in the SR-1 submission would meet the City’s technical requirements.⁹ The second stage, known as “SR-2”, required Proponents to submit more developed design reports, a project schedule, as well as maintenance, safety, quality assurance and other plans. In addition, Proponents were required to submit indicative (non-binding) pricing as well as a draft financial plan and financial model. The City engaged in engineering and construction focused Commercially Confidential Meetings with Proponents to review the SR-2 Submissions, and in cases where the submissions did not meet the City’s Technical Requirements, provided appropriate written feedback¹⁰. The third stage of the process, known as “SR-3”, required Proponents to submit final, binding technical and financial bids (“SR-3 Submissions”). The SR-3 Submissions included design drawings, a project schedule, and various plans setting out the Proponent’s strategy for constructing, financing, and maintaining the Project. Proponents were also required to submit a binding fixed price proposal, supported by a comprehensive financial model. SR-3 Submissions were due February 16, 2010.

The SR-3 Submissions were evaluated based on a combination of pass-fail and rated evaluation criteria. The rated evaluation criteria differed slightly between the At-Grade Option and the Grade-Separated Option. The evaluation criteria are summarized in the tables below.

⁸ CCMs regarding the DBFM Agreement were held October 14-16, 2009.

⁹ CCMs on the SR-1 Submissions took place October 14-16, 2009.

¹⁰ Engineering and Construction focused CCMs took place January 4-6, 2010.

Table 4 – RFP pass - fail evaluation criteria

Pass- Fail Evaluation Criteria	Evaluation method
Technical Criteria <ul style="list-style-type: none"> – General/Proponent Information – Management Plan – Proponent’s Designs – Project Schedule – Construction Management Plan – Safety Plan – Public Communications Plan – Traffic Management Plan – Maintenance Plan – Safety Audit Plan – Quality Management System – Environmental Management System 	Pass/Fail
Financial Criteria <ul style="list-style-type: none"> – Insurance in Final Form – Final Financial Model – Final Financing Plan – Financial Capacity 	Pass/Fail

Table 5 – RFP rated evaluation criteria

Rated Evaluation Criteria – At-Grade Alternative	Overall Category Weighting
Maintenance Plan Enhancements	5
Design Enhancements	25
Financial Offer NPV	65
Financial Plan, Financial Capacity, and Ability to Reach Financial Close	5
Rated Evaluation Criteria – Grade Separation Alternative	Overall Category Weighting
Maintenance Plan Enhancements	10
Design Enhancements	30
Financial Offer NPV	55
Financial Plan, Financial Capacity, and Ability to Reach Financial Close	5

Results of the SR-3 Process

Two Proponents submitted SR-3 Submissions:

- **DBF2 Ltd. (“DBF2”)**: Terracon Development Ltd., Bituminex Paving Ltd., Taillieu Construction Ltd., Gateway Construction & Engineering Ltd., Genivar Consultants Limited Partnership, Kupskey Consulting Ltd.
- **Plenary Roads Winnipeg (“Plenary”)**: Plenary Group (Canada) Ltd., Maple Leaf Construction Ltd., Mulder Construction & Materials Ltd., PCL Contractors Canada Inc., Stantec Consulting Ltd.

Each of the SR-3 Submissions contained within it multiple proposals: a proposal based on the At-Grade Alternative, a proposal based on the Grade-Separation Alternative, and in the case of one of the SR-3 Submissions, additional innovation proposals based on the RFP’s allowance for innovation submissions. However, only one of these proposals met the Pass-Fail evaluation criteria. The City determined that this

proposal for the At-Grade Alternative was not within the approved budget. Therefore, the City exercised its right under the RFP to modify the RFP process by requesting additional, amended submissions from DBF2 and Plenary for the Grade-Separation Alternative. These amended submissions are referred to as “SR-4 Submissions”, reflecting the fact that the City elected at this time to extend the procurement process by one additional stage for the Grade-Separation Alternative.

SR-4 Process and Results

In order to ensure that the SR-4 Submissions would meet the City’s requirements, the City engaged in further Commercially Confidential Meetings with the Proponents which addressed technical deficiencies in the SR3 submissions, as well as measures to reduce the cost of the Project such as minor scope reductions and changes in financing structure.

Each Proponent provided an SR-4 Submission. The City selected DBF2 as the Preferred Proponent based on its Grade-Separation Alternative proposal which passed both the technical and financial evaluation and had the highest rated technical and financial score for the Grade Separation Alternative. The Grade Separation alternative was also the only alternative which met PPP Canada funding requirements; therefore the City determined that it was in the City’s best interests to pursue this alternative.

The report of the Fairness Advisor on the RFP process stated:

As Fairness Advisor, we observed the RFP process, from the preparation of the draft RFP document until selection of a Preferred Proponent. Given this involvement, we can attest to the fact that this RFP process was procedurally fair. As the report details, care was taken in managing the risks involved in providing an open, fair and competitive process.

Commercial and Financial Close

Following the selection of DBF2 as Preferred Proponent, the City engaged in negotiations with DBF2 to finalize the commercial terms of the Project Agreement and fine-tune the scope of the Project in order to provide best value for the City. As part of these negotiations, the City and DBF2 value engineered certain components of the project in order to add a multi-use pedestrian bridge. Other modifications to the Project Agreement were not material and consisted mainly of incorporating details from DBF2’s proposal into the Project Agreement. These activities were completed and the City and DBF2 achieved commercial and financial close on September 16th, 2010, signifying that the Project Agreement was signed by both parties and that DBF2 concluded all its financing arrangements.

Advisors

The City’s core project management, procurement, technical and finance team was advised throughout the procurement process by external transaction, financial, capital markets, fairness, and legal advisors. The external advisory team is listed in the table below.

Table 6 – City advisors

Advisory Team	
Transaction and Financial Advisor	Deloitte & Touche
Capital Markets and Financial Advisor	CIBC World Markets
Fairness Advisor	Knowles Canada Consultancy Services Inc.
Legal Advisor	City of Winnipeg Legal Services Department

Commercial and Financial Features

Contractual Structure

The terms of the public-private partnership between the City and DBF2 are set out in the DBFM Agreement. The DBFM Agreement dictates the technical specifications for the roadway, the roles and responsibilities of the City and DBF2, as well as the payments to be made from the City to DBF2. This section provides a summary of the key elements of the DBFM Agreement.

Roles and Responsibilities

The following table sets out a high-level summary of the roles and responsibilities of the City and DBF2 in relation to the Project. Note that the City has elected to maintain certain operational works since it has been determined that the City has the operational scale to best carry out these items.

Table 7 – Roles and responsibilities

	DBF2	City of Winnipeg
Design	<ul style="list-style-type: none"> Detailed and final design in compliance with Technical Requirements 	<ul style="list-style-type: none"> Preliminary Design Report Design specifications (Technical Requirements) Review and comment on detailed design (ensure compliance with Technical Requirements)
Construction	<ul style="list-style-type: none"> Construction of project in compliance with Technical Requirements Procuring Independent Safety Auditor to certify roadway can be opened to traffic 	<ul style="list-style-type: none"> Provide access to site and rights of way
Financing	<ul style="list-style-type: none"> Short-term and long-term financing (approximately 80% of capital costs) 	<ul style="list-style-type: none"> Provides some payments during construction (approximately 20% of capital costs) which reduce DBF2's financing requirement
Maintenance	<ul style="list-style-type: none"> Roadway and structural inspections General maintenance (litter, graffiti removal) Preventative and rehabilitative maintenance Pavement condition Guardrails Landscaping Drainage systems, curb and gutter Guide signs Noise walls and berms Grade separation structure 	<ul style="list-style-type: none"> Monitoring and enforcement of payment adjustment regime Regulatory signs
Operations	<ul style="list-style-type: none"> All operations except those in City column. 	<ul style="list-style-type: none"> Snow clearing and ice control Traffic signals Pavement markings Street sweeping

Risk Allocation

One of the hallmarks of PPP projects is that they transfer significant project related risks to the private sector partner. Generally speaking, a PPP project should transfer to the private sector partner risks that the partner is best equipped to control, while the public sector should retain risks that it is best equipped to control. An example of a risk that the private sector is best equipped to bear is the risk of construction delay, while an example of a risk that the public sector is best equipped to bear is the risk of land acquisition.

The matrix below provides a high-level summary of the allocation of key design, construction, maintenance and financial risks between the City and DBF2 in the DBFM Agreement. Consistent with the PPP model, the DBFM Agreement allocates significant risk to the City's private sector partner.

Table 8 – Risk matrix

	The City	Contractor
DESIGN AND CONSTRUCTION		
Design & construction approvals – including environmental		•
Design error		•
Weather		•
Acquisition of Right of Way and available Lay-down Areas	•	
All Permits and Regulatory authorizations		•
Delays by agencies, regulators, etc. other than the City		•
Delays by the City	•	
Construction schedule/delays		•
Construction cost overruns		•
Latent defects In the Works		•
Sub-contractor insolvency		•
Labour disputes		•
Utility re-location and protection		•
Achieving Construction Standards and Specifications		•
Labour and material availability		•
RISKS DURING MAINTENANCE TERM		
Specification of standards for Maintenance Services	•	
Actual maintenance costs higher than anticipated		•
Damage to Works, caused by the City	•	
Damage to Works, not caused by the City		•
Increased usage of authorized overload vehicles		•
Increased legal load limits	•	
Traffic accidents during Maintenance Term due to the performance of the Contractor		•
Meeting performance requirements		•
Meeting Hand-back standards		•
Change in law (general)	•	•
Force majeure	•	•
FINANCIAL RISKS		
Inflation on Construction Costs		•
Inflation on Maintenance Costs (per CPI index)	•	
Inflation on Maintenance Cost (beyond rate of CPI)		•
Refinancing Risk		•

Payment Mechanism

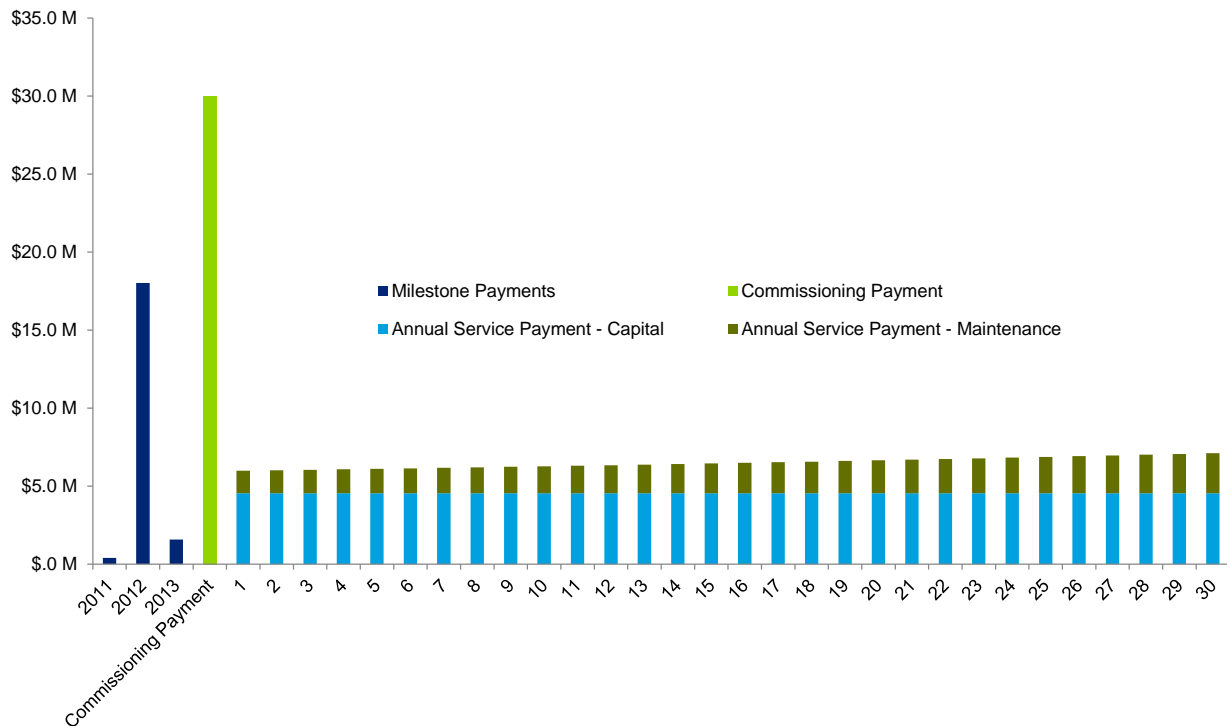
The City will pay DBF2 over the term of the DBFM Agreement, which is more than 30 years in duration. The majority of the City's payment to DBF2 is not provided until DBF2 has completed construction of the roadway and structures sufficient for commissioning. Of that amount, a significant portion of payment to DBF2 is "performance based" meaning that amounts paid to DBF2 are dependent on the quality of services provided by DBF2. The payments to DBF2 are as follows:

Table 9 – Payment mechanism

Type of payment	Description	Amount
Milestone Payments	Payments provided to DBF2 during the construction period, based on progress of construction. No payments prior to 51% of construction completion.	\$20 Million
Commissioning Payment	Lump sum payment provided to DBF2 following substantial completion of roadway and structures and certification by safety auditor.	\$30 Million
Annual Service Payments	Periodic payments provided to DBF2 during the 30-year maintenance term. Include a Capital component (repayment of capital costs of construction) as well as a Maintenance component (service fee for costs of maintenance). The Maintenance component is expected to escalate over time due to inflation. The Annual Service Payment is subject to deductions under the contract, if technical requirements relating to maintenance of the roadway are not met.	Average of \$6.5 Million per year

The graph below illustrates the timing, magnitude and type of payments provided by the City to DBF2 based on the Financial Model submitted at Financial Close.

Figure 3 – City payments to DBF2



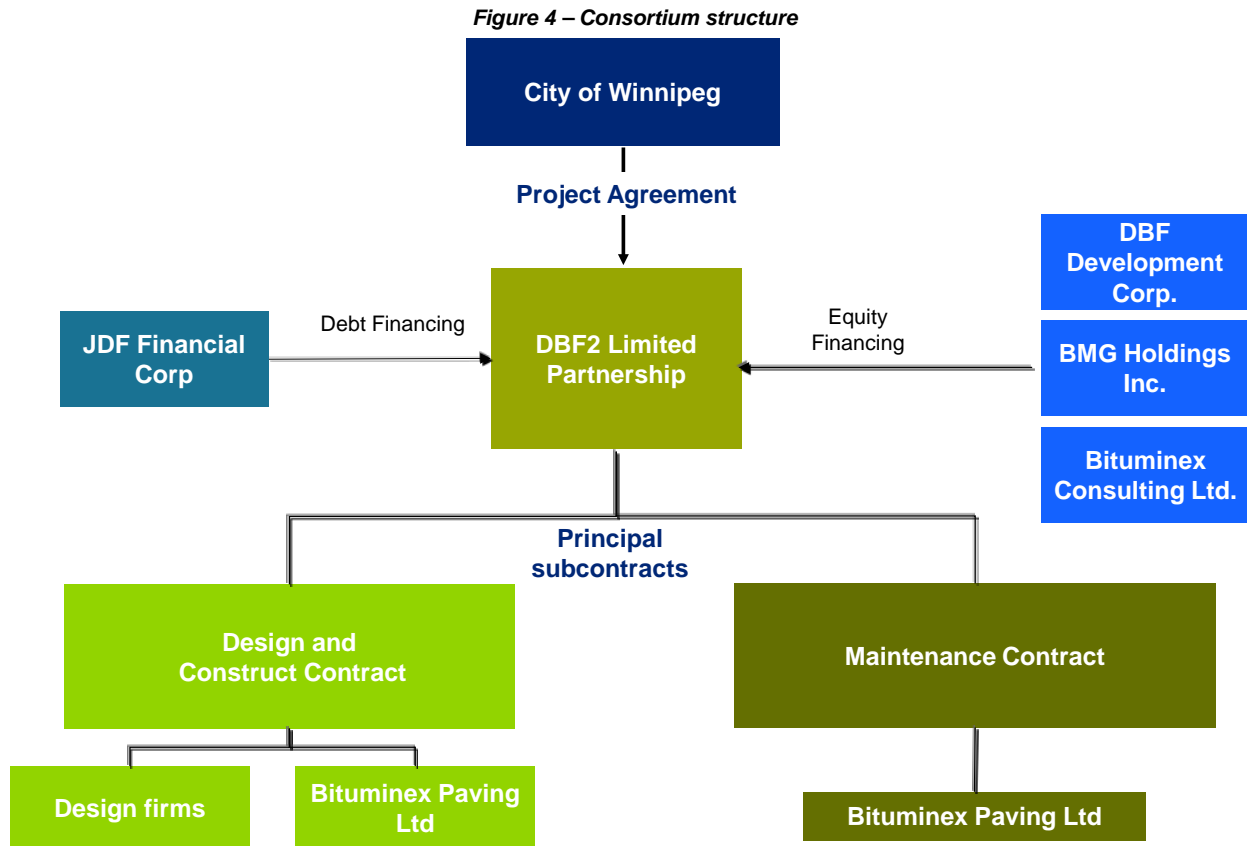
Consortium Structure and Relationship with the City

The City has signed the Project Agreement with DBF2 Limited Partnership, a special purpose vehicle that has been formed specifically for carrying out the Project. DBF2 Limited Partnership is funded by its equity holders, which include DBF Development Corp., BMG Holdings Inc., and Bituminex Consulting Ltd. DBF2 Limited Partnership is also funded by debt financing provided by JDF Financial Corp. The capital provided by these debt and equity funders is at risk during the project, since they can only be repaid by DBF2 based on revenues it earns by executing the Project. As noted in the Payment section above, the payments to DBF2 are contingent on construction progress (Milestone Payments), construction

completion (Commissioning Payment), and continued performance of maintenance obligations in compliance with the City's technical requirements (Annual Service Payments). If DBF2 is unable to earn payments based on construction or maintenance performance, its debt and equity funders may be at risk.

DBF2 will subcontract its design, construction, and maintenance obligations. Bituminex Paving Ltd. will serve as both the lead design and construction subcontractor as well as the lead maintenance subcontractor. Use of a special purpose vehicle structure, which subcontracts key obligations to and is supported by debt and equity funders, is recognized as standard and accepted practice for Canadian PPP projects.

The diagram below illustrates the consortium structure.



Other Key Terms and Conditions

Other key terms and conditions of the DBFM Agreement include the following:

- **Ownership:** The City owns the roadway and structures at all times. The City provides DBF2 with non-exclusive access to and use of relevant lands for the purposes of executing the Project, via a license granted in the Project Agreement.
- **Hand-Back:** The City has specified, in detail, the condition that the roadway and structures must be in upon the expiry of the 30-year maintenance term in the DBFM Agreement. These specifications are known as the “hand-back requirements”. Beginning approximately 5 years prior to the expiry of the term, a series of inspections are carried out with the City's participation to ascertain the condition of the roadway. If the roadway falls short of the hand-back requirements, DBF2 must either carry out a work plan designed to remedy the shortfall, or the City will be entitled to the amount of funds required to carry out the work plan itself and fulfill the hand-back requirements.
- **Payment Deductions:** The DBFM Agreement includes specified deductions from the Annual Service Payment to DBF2, in the event that DBF2 fails to meet the technical and service standards set out in the Agreement. Examples of events which would result in payment deductions include:

non-availability of lanes, failure to clean up litter or graffiti within a specified time period, and failure to repair broken or damaged non-regulatory signs within a specified time period. DBF2 is responsible for reporting payment deductions, subject to the City's right of review and final determination.

- **Refinancing:** If at any time during the agreement DBF2 obtains debt financing at a lower rate than it currently has in place, then it must share the savings with the City.

Financing Structure

The Project will be funded by a mixture of private sector debt and equity financing, City funds provided during the construction period based on construction progress ("Milestone Payments"), and a lump sum City payment provided at completion following certification of the roadway from a safety auditor ("Commissioning Payment").

Private Sector Financing

DBF2 is sourcing private debt and equity financing in order to fund approximately 80% of the costs of construction of the Project. DBF2 will repay this financing through the payments it receives from the City following the completion of the construction phase of the Project, and over the 30-year term of the Project.

City Funding

The City will provide \$20 Million in Milestone Payments during the construction period, which will fund approximately 20% of the total capital costs of constructing the Project. The partial public funding provided by the City is intended to leverage the City's lower borrowing rate, while still requiring the private sector to provide the majority of financing for the Project thereby maintaining the risk transfer benefits associated with private financing.

As part of the project, the City also incorporated various intersection upgrades on existing streets adjacent to the new roadway. The City will pay DBF2 \$2 Million upon substantial completion of these upgrades.

Financial Summary

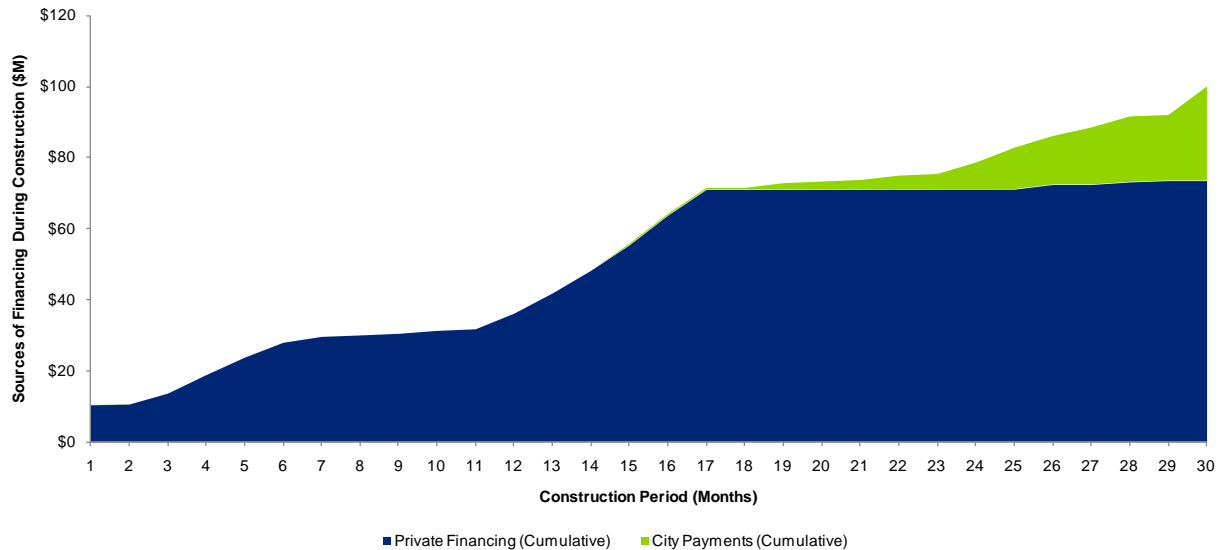
This section summarizes the financial implications of the Project from the City's perspective.

Milestone Payments

The City will provide DBF2 with partial payment during construction, based on DBF2's construction progress. These payments are termed "Milestone Payments". The City's Milestone Payments will not commence until DBF2 has completed 50% of the construction works, and are also limited in the context of the overall capital costs of the Project (approximately 20%). Therefore, at all times during the construction of the Project, the private sector has significantly more capital invested in the Project than does the City. This optimizes transfer of Project-related risks to the private sector. The chart below, which is based on DBF2's financial and construction schedule projections, illustrates that City Milestone Payments will not be provided until after the majority of private capital has been invested in the Project.¹¹

¹¹ Due to DBF2's construction progress ahead of schedule, Milestone Payments were made earlier than projected.

Figure 7 – Private capital is provided in advance of public capital contributions



Commissioning Payment

The City will provide DBF2 with a lump sum Commissioning Payment of \$30 Million. This payment will be triggered by substantial completion and commissioning of the roadway and structures and a recommendation from an independent safety auditor that the roadway can be safely opened to the public for its intended use.

Annual Service Payment

Once the Project has been commissioned into use, the City will provide DBF2 with regular payments throughout the course of DBF2's 30-year maintenance term, known as the Annual Service Payment. The Annual Service Payment includes two components:

- **Capital Payment:** This component is intended to pay DBF2 for the outstanding portion of the capital cost of constructing the Project. This payment is similar to a mortgage with a fixed payment over a 30-year period.
- **Maintenance Payment:** This component is intended to pay DBF2 for its annual costs of maintaining the Project. These payments are indexed to a measure of inflation (Statistics Canada consumer price index) and therefore likely to rise over time.

Over the course of the contract term, the capital portion is projected to form approximately 70% of the total Annual Service Payment, with maintenance component expected to form the other 30%.

Net Present Value

The net present value (NPV) of the Annual Service Payments to be paid by the City to DBF2, over the 30-year maintenance term, is approximately \$83.3 Million. This calculation assumes a 5.48% discount rate and is based as of the date of Project financial close (September 2010).

The net present value (NPV) of all payments to the private partner by the City, including the Annual Service Payment, Milestone Payments, and Commissioning Payment, is approximately \$127.9 Million. This calculation also assumes a 5.48% discount rate and is based as of the date of Project financial close (September 2010).

Value for Money Assessment

Overview

A Value for Money (or “VFM”) assessment is a comparison of the costs of delivering an infrastructure project using a public-private partnership as opposed to a “traditional” procurement method such as design-bid-build. The objective of VFM analysis is to ensure that the City is using the procurement and project delivery method which provides taxpayers with the best overall value solution.

The VFM assessment compares the estimated total costs to the City of two potential methods of executing the Project:

1. **Public-Private Partnership:** These are the total costs to the City of delivering the Project based on the Design-Build-Finance-Maintain (DBFM) public-private partnership model. These costs are based on the City’s future service payments to the private sector partner, and also include an adjustment for risks retained by the City under this model.
2. **A Public Sector Comparator (“PSC”):** The PSC is an estimation of the total costs to the City of delivering the Project, based on the City’s traditional Design-Bid-Build method of delivering public infrastructure projects. Under this approach, the City is assumed to finance the Project by issuing a bond. The costs of the PSC also include an adjustment for risks retained by the City under this model.

Process

The VFM assessment was carried out by the City’s external financial advisors. Staff from the City provided input into the VFM assessment as required and were fully briefed as to the assumptions, methodology, and process utilized in developing the VFM. As well, the City auditor and a representative from the Canadian Union of Public Employees (CUPE) attended workshops on VFM assessment and provided input into the analysis of project risks.

A preliminary VFM assessment (“PVFM”) was carried out during the business case stage of the Project, prior to Council approval. This initial PVFM assessment was used to determine which procurement and project delivery model was likely to provide the City with the best value, and informed the decision to proceed based on the DBFM model. The PVFM was based on estimated costs of the PPP and PSC options.

The PVFM analysis was updated throughout the procurement process, in order to ensure that the PPP approach chosen continued to provide the City, and by extension taxpayers, with better value than a traditional procurement approach. The PVFM updates were based on estimated costs of the PPP and PSC options, which incorporated more precise information as the project progressed.

The VFM was finalized following commercial and financial close of the Project. The final VFM was based on the actual costs of DBF2’s accepted proposal.

Table 11 – Evolution of VFM assessment

VFM Assessment	Rationale
Business Case Stage (September 2008)	VFM was first assessed as part of the Project business case. The VFM assessment indicated that there was best value to the City in procuring the Project based on a Design-Build-Finance-Maintain structure, as opposed to a traditional procurement or other form of PPP.

VFM Assessment	Rationale
Release of RFP (September 2009)	Prior to release of the RFP, VFM was re-assessed to confirm that the DBFM transaction structure still provided value to the City, in comparison to a traditional procurement method.
Update During RFP Open Period (November 2009)	The VFM was updated as necessary during the procurement of the RFP open phase.
Preferred Proponent Stage (July 2010)	Following evaluation of SR4 submissions for the Grade-Separated option the City identified a Preferred Proponent. The VFM was updated to ensure that the Preferred Proponent's proposal provided the City with value for money.
Financial Close: Final VFM	The VFM was re-assessed at Financial Close, based on the final DBFM contract and pricing agreed with DBF2. The Final VFM provides a snapshot of the value that the City expects to receive over the life of the contract, in comparison to a traditional approach.

Final Value for Money Assessment

As noted above, the Final VFM Assessment ("Final VFM") was concluded following commercial and financial close of the Project. The Final VFM was assessed using the actual costs of DBF2's bid. Therefore, the Final VFM compares the actual price charged by DBF2 to develop the Project, with the estimated cost to the City of developing the Project based on a traditional Design-Bid-Build method.

The Final VFM results demonstrate that the PPP approach provides the City with estimated value savings of approximately \$31 Million, in comparison to the traditional delivery approach. This represents a 17.6% savings.

This is a robust result which strongly indicates that the City will obtain value savings from the PPP approach, throughout the life cycle of the Project. This result is also in line with value for money estimates for other similar PPP projects in Canada.

The result indicates that the City's contribution of a limited amount of public funds during construction via the Milestone Payments, and immediately following construction via the Commissioning Payment, helped to optimize the capital structure of the Project. These public capital contributions reduced the amount of private sector capital needed to finance the Project and thus reduced private sector financing costs, lowering the overall cost of the Project. At the same time, the public capital contributions were sufficiently limited such that a significant amount of private capital is still required to finance the project, maintaining DBF2's exposure to project risks and ensuring they continue to be strongly incented to perform on-time and to specification.

Analysis

A detailed breakdown of the Value for Money assessment is presented below. All costs are presented in \$ Millions, on a Net Present Value (NPV) basis using the City's discount rate of 5.48%.

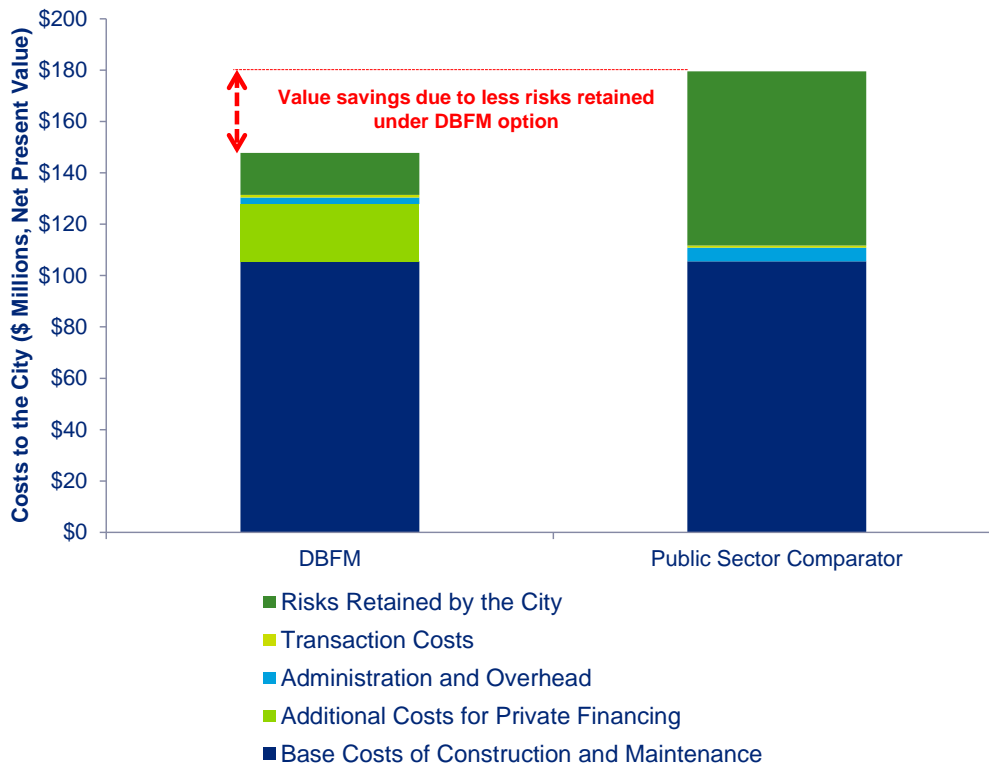
Table 12 – Detailed VFM assessment

	Public Sector Comparator (Traditional)	PPP (Design-Build-Finance-Maintain)
All costs provided on a Net Present Value (discounted) basis		
Base Costs	\$105.5	\$127.9
Administration and Overhead	\$5.4	\$2.5
Transaction Costs	\$0.8	\$1.0
Risks Retained by the City	\$67.8	\$16.4
Net Present Cost	\$179.4	\$147.8
Value for Money Savings (\$)*		\$31.5
Value for Money Savings (%)**		17.6%

* Net Present Cost of PSC – Net Present Cost of PPP

** (Net Present Cost of PSC – Net Present Cost of PPP) / Net Present Cost of PSC

Figure 8 – Value for money savings are primarily due to reduced risks retained by the City under DBFM option



The cost categories contained in the table and figure above are described in greater detail as follows:

Base Costs - PSC

The estimated costs to the City for procuring the design and construction of the Project using a traditional DBB method, financing the project using City financing, and maintaining the Project for a period of 30 years. During preliminary assessments of the VFM, the Base Costs for the PSC were based on the City's Class 3 cost estimates. However, for the Final VFM, the construction cost (not including financing) in

DBF2's bid are used as the Base Costs, as they are assumed to be reflective of competitively priced construction costs at that point in time.

Base Costs – PPP

DBF2's bid price for designing, building, and maintaining the Project for a 30 year term.

The Base Costs under PPP are higher since DBF2's bid price includes additional costs related to private sector financing, over and above the "pure" construction costs that form the PSC Base Costs. The additional costs for private financing are shown separately in Figure 8 above.

Administration and overhead

The City's estimated future costs of managing the Project under the PSC and PPP method. The City's costs are under PPP are lower since many project management functions are now performed by the private sector.

Transaction Costs

The City's costs related to financial and technical advisors.

Risks Retained by the City

The estimated quantified value of project risks borne by the City under the PSC and PPP options. The risk assessment is explained in greater detail below.

Note on Construction Costs

The VFM methodology assumes that the "pure" construction price that was bid under the PPP project (e.g., costs of construction without added costs of financing) is the same as the hypothetical pure construction price that would have been obtained by the City if the project had gone ahead as a traditional DBB. However, it should be noted that construction costs in the PPP final bid price were less than the City's Class 3 estimates for the traditional delivery method, indicating that the PPP process may have produced construction costs savings. This has not been factored into the VFM analysis. If this factor were to be considered as part of the VFM analysis, it would make the VFM higher.

City discount rate and borrowing costs

The VFM assessment has assumed a long-term borrowing rate for the City of 5.48%. This represents a best estimate of the City's costs of issuing a 30-year bond to raise funds for the capital costs of the Project, at the time of financial close (September of 2010). This estimate was developed in consultation with the City's finance department. The VFM assessment also assumes a discount rate equal to the City's borrowing rate.

Although assumptions regarding the City's long-term borrowing rate do affect the VFM, as the table below demonstrates, the Project provides robust value to taxpayers under a range of City financing assumptions.

Table 13 – City borrowing rate assumptions

Assumed City Borrowing Rate	Value for Money Savings through PPP transaction
5.25%	16.6%
5.48%	17.6%
5.75%	18.7%
6.00%	19.6%

Risk assessment

The structure of a PPP transaction allows the City to transfer and/or mitigate risks associated with designing, construction, and maintaining large infrastructure projects such as the Chief Peguis Trail Extension. Some examples of risk transfer and/or mitigation include:

- **Contractual Risk Transfer:** The contractual terms of the PPP transaction requires the private sector to bear most of the risks associated with design deficiencies, construction cost overruns, and maintenance and major capital (lifecycle) repair cost overruns. Typically, a Traditional approach requires the City to share in many of these risks.
- **Co-ordination:** The PPP transaction structure requires a single party to undertake the design, construction, and long-term maintenance of the asset, thereby greatly reducing co-ordination risks.
- **Private Capital Due Diligence:** The financing structure of this project includes equity investment in DBF2, as well debt financing from JDF Financial Corp. Therefore, equity investors in DBF2 as well as DBF2's lenders have a strong incentive to carry out extensive up-front due diligence on the project's design, construction plan and budget, maintenance plan and budget, and contractual structure.

The Value for Money assessment has quantified risk transfer based on a methodology which is best practice in Canadian P3 transactions. This methodology estimates the probability and cost impact of a range of risks associated with infrastructure projects, in consultation with technical experts. The chart below summarizes the risk transfer profile for the Chief Peguis Trail Extension Project, based on key categories of risks. Note that each Risk Category is comprised of a number of more detailed risks, each assessed individually.

Table 14 – Risk assessment

Risk Category	Estimated Quantified Risks Retained by the City under PSC (Traditional) Model	Estimated Quantified Risks Retained by the City under PPP (DBFM) Model
Project Planning and Approvals Risks	\$18.6 M	\$4.9 M
Environmental and Site Conditions Risks	\$1.5 M	\$1.0 M
Design and Construction Risks	\$17.6 M	\$7.3 M
Operations, Maintenance, and Lifecycle Risks	\$29.8 M	\$3.1 M
Total	\$67.8 M	\$16.4 M

Appendix A – Value for Money Letter

November 2, 2011

Iain Day
Project Lead
City of Winnipeg
Corporate Finance Department
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Dear Mr. Day,

Re: Value for Money Assessment at Financial Close – Chief Peguis Trail Extension Project

Deloitte & Touche LLP (“Deloitte” or “We”) has prepared the Value for Money (“VFM”) assessment for the Chief Peguis Trail Extension Project (“Project”) at the Financial Close stage, in accordance with Canadian best practices for value for money assessment methodology. The VFM assessment was submitted to the City dated October 14, 2010 (“Final VFM”).

The Final VFM was based on a comparison of the net present costs (“NPC”) for the Project under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator (“PSC”) model; and
2. The Public-Private Partnership approach (“PPP”), as reflected in the Selected Bid submitted by DBF2 Limited Partnership, as at the date of Financial Close (September 16, 2010).

The Final VFM was compiled using the following information (collectively the “Information”):

1. A risk matrix developed in accordance with Canadian best practices and adapted to reflect project specific risks, in consultation with the City as well as the City’s technical advisors; and
2. Cost and other input assumptions extracted from the Selected Bid.

The Final VFM demonstrates that the PPP approach will provide an estimated value savings of 17.6% (in comparison to the traditional delivery approach), using a 5.48% discount rate.

We confirm, based on our familiarity with VFM methodologies in other jurisdictions and current market data, that the VFM methodology is reasonable, yields a fair estimate of value for money and that the Information has been appropriately used in the VFM model.

Yours very truly,



Deloitte & Touche LLP

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