Project Report:
Achieving Value for Money
Academic Ambulatory Care Centre Project

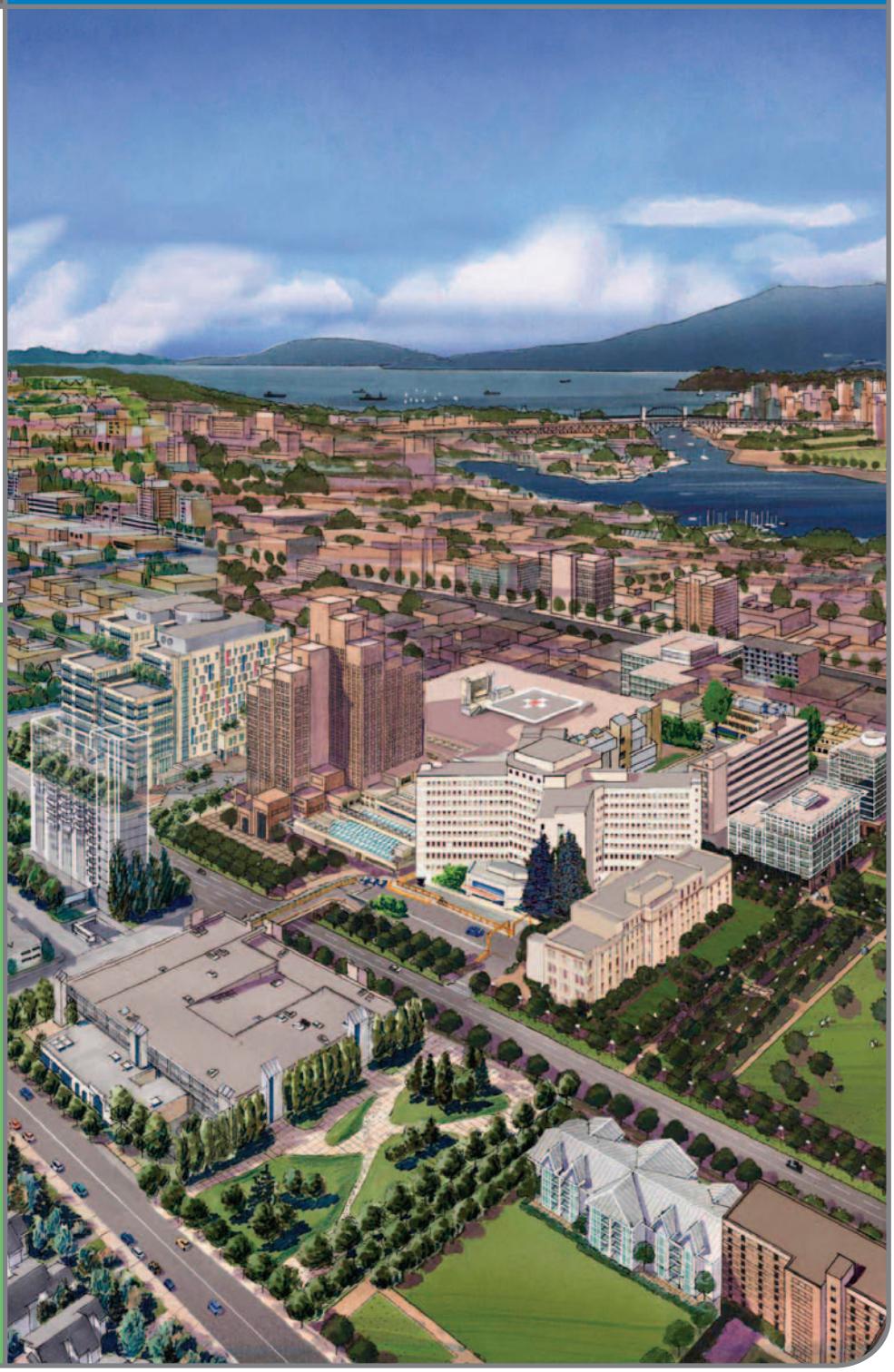
November 2004

vancouver coastal Health
Promoting wellness. Ensuring care.

UBC
FACULTY OF MEDICINE

BRITISH COLUMBIA
MINISTRY OF HEALTH SERVICES

partnerships
British Columbia



Purpose of this Document

As part of its commitment to public accountability, the Province releases a project summary report for each major public private partnership agreement it enters on behalf of British Columbians. The summary report includes an explanation of the value for money achieved or expected over the life of the partnership. Value for money is a broad term that captures both quantitative factors, such as costs, and qualitative factors such as service quality and protection of public interest. In this context, it generally applies to how well a final agreement meets project objectives in current market conditions.

Value for money is one of six key principles guiding public sector capital asset management in British Columbia. The others are:

- sound fiscal and risk management;
- strong accountability in a flexible and streamlined process;
- emphasis on service delivery;
- serving the public interest; and
- competition and transparency.

Since 2002, these principles have guided public sector agencies' approach to acquiring and managing assets such as schools, roads and health-care facilities. Under the Capital Asset Management Framework, ministries, school districts, health authorities, Crown corporations and others leading capital projects are encouraged to consider all available options for meeting their service objectives. They analyze the options and, after considering the qualitative and quantitative advantages and disadvantages of each, choose the one that best meets service delivery needs and makes the best use of taxpayers' dollars.

In some cases, the best option may be traditional procurement – where assets are purchased entirely with taxpayers' money or debt and operated exclusively by the public sector. In other cases, agencies may find innovative ways to meet their service needs without acquiring capital assets. In these instances, agencies are publicly accountable through regular budgeting, auditing and reporting processes.

In all of its procurement processes, including public private partnership agreements, the Province is committed to a high standard of public disclosure to ensure accountability. This value for money report describes the rationale, objectives and processes that led to the partnership, giving the public a clear sense of how and why the decision was reached to proceed with that option. It explains how value for money was measured in each particular case and how it was achieved in the context of current market conditions. Where applicable, it also compares key aspects of the final agreement to other options considered for the project.

For more on the Province's Capital Asset Management Framework, go to **http://www.fin.gov.bc.ca/tbs/camf.htm**

For more on public private partnerships in B.C., go to **www.partnershipsbc.ca**

Highlights

The Academic Ambulatory Care Centre (AACC) will be an 11-storey, 365,000 square foot health care facility on the site of Vancouver General Hospital (VGH), ready for occupancy in the summer of 2006. The facility, with an estimated capital cost of $95 million, will be delivered through a partnership agreement between Vancouver Coastal Health (VCH) and Access Health Vancouver (AHV) which is a team of companies with demonstrated expertise in financing, building, operating and maintaining health-related facilities.

The partnership agreement is an excellent example of how public private partnerships can deliver value for money. It meets VCH's health service delivery needs; provides net present value[1] savings to taxpayers of approximately $17 million compared to a facility built, owned and operated wholly by the public sector; and delivers economic benefits such as new, private sector investment in the economy.

Most importantly, the agreement engages private sector expertise to deliver a much-needed facility, freeing VCH to focus on its core business. VCH will maintain ownership of the site and the facility and will take back responsibility for operations and maintenance at the end of the 30 year lease.

Achieving Value for Money

The agreement with AHV, which combines design, financing, construction and facility management, will cost the public sector approximately $64 million over 32 years in net present value (NPV) terms. This compares favourably to the estimated $81 million NPV cost of the project if built, owned and operated wholly by the public sector. This represents present value savings to VCH of approximately $17 million.[2]

This agreement provides value for money because:

- VCH starts paying for the facility only when construction is completed, protecting the public sector from any added costs during the construction phase;
- payments will be performance-based and subject to reduction for addressing instances where agreed-upon standards for facility operation and maintenance are not met; and
- cost savings are achieved by combining design, construction, financing, operations and maintenance under one long-term contract.

Meeting health service delivery needs

The AACC will address the following health service delivery needs.

- Growth in demand for ambulatory care services, driven by factors such as changing consumer attitudes and technological advances; the facility will support an estimated 600,000 patient visits annually.
- The need for new facilities for the University of British Columbia (UBC) Faculty of Medicine: UBC is doubling its number of undergraduate and post-graduate medical school spaces by 2010 and needs more teaching space in an ambulatory setting.
- The value of consolidating and co-locating services, specialities and disciplines on a single site: this will lead to increased efficiency, a better teaching environment and better service delivery, including easier coordination of multiple appointments for patients and seamless transitions from physicians' offices to diagnostic and treatment clinics.
- The need to replace outdated teaching and clinical facilities on the hospital site; these have been slated for demolition.
- The desire to improve the working environment for health care professionals at Vancouver General Hospital.

[1]Net present value is a calculation of all costs over the life of the agreement, minus revenues, expressed in today's dollars.
[2]The process used to estimate the savings is discussed in the section titled Financial Summary.

Economic Benefits and Innovation

The partnership agreement secures more than $100 million worth of new private sector investment in B.C.'s public infrastructure. It will also stimulate the local economy by providing:

- business development opportunities related to the retail space at the facility;
- creation of approximately 300 jobs at the peak of construction; and
- a general improvement in property values in the neighbourhood as older buildings are replaced by an aesthetically pleasing new facility, which will include the creation of new green space.

Through the competitive selection process, proponents drew from world-wide experience and expertise to achieve optimum efficiencies at the lowest cost. AHV worked closely with health care professionals to ensure the AACC is designed to meet the needs of patients, care providers, educators and students with features such as:

- a whole-building approach that integrates facility design with teaching and patient care programs;
- a patient-centred environment that promotes accessibility, comfort and convenience;
- environmentally-friendly building systems and materials;
- an atrium that may be used for special events and public meetings; and
- a 350 seat lecture theatre that may be available for public use.

Key Terms of the Agreement

- Vancouver Coastal Health has entered a 32-year agreement with Access Health Vancouver. In the first two years, AHV will finance and construct the facility to agreed-upon design specifications. It will then operate and maintain the facility for 30 years to agreed-upon standards.
- A lifecycle approach to maintenance will ensure that the facility is kept in an agreed-upon, market standard condition for the term of the agreement to support the highest standards of service delivery, even as the building ages.
- VCH will be responsible for health services at the new facility. The UBC Faculty of Medicine will be responsible for educational services. Following construction, AHV's role will be that of a facility manager.
- VCH will own both the site and the facility. During construction, the site will be licensed to AHV. Upon completion of construction, the facility will be leased to AHV under a Building Lease for the 30 year operating period. VCH will then lease back substantially all of the space from AHV. At the end of the agreement, responsibility for operations and maintenance will revert to VCH.
- Payments to AHV will be performance-based, with provision for reductions resulting from circumstances where standards are not met.
- Each party has agreed to assume the risks it can manage best at the least cost. For example, AHV assumes most of the facility-related risks, protecting the public from extra costs that may arise due to such things as construction delays, design flaws or increases in labour costs, should those occur. AHV is also responsible for risks related to facility operation and maintenance, and for managing retail leases. VCH assumes the risks and receives revenue associated with the parking and shares with AHV the risks related to vacancies in clinical, teaching and physician space. Areas of shared risk ensure that both partners are motivated to keep the facility fully occupied and operating efficiently.

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1. Project Background

Public private partnerships in health care

Public private partnerships have been used successfully to build health facilities around the world. To understand these partnerships, it is essential to first understand some key facts.

- Consistent with the Canada Health Act, in public private partnerships, health services are always publicly administered. The private partner typically finances, designs, builds, maintains and operates a facility to the public sector's specifications. It is then paid by the Province and/or health authority for providing a facility or service that meets a series of agreed-upon standards, which are set and monitored by the public sector. The private partner has no role in providing or making decisions about health services. Those responsibilities remain with the public sector.
- Private sector involvement in health care is not new. For example, health authorities often lease space in privately-owned buildings to deliver community care and outpatient specialty programs. Private partners such as laboratory owners are also integral parts of the established health care system, as are the private and not-for-profit organizations that operate many long-term care homes.
- Private sector involvement in public facility delivery is also not new. The private sector has always designed and built hospitals, schools and highways. The partnership model builds on this private sector involvement, capturing the strengths of both the public and private sectors. The primary differences are that, in the partnership model:
  - project risks are allocated to the partner best able to manage them. For example, the private partner may assume many risks related to financing, construction costs, operation and lifecycle maintenance. In return, it receives the assurance of a long-term, steady revenue stream through, for example, lease or performance payments, under a contract with the public sector;
  - building design is fully integrated with operations and maintenance, whereas in a more traditional model the designer, builder and operator are typically separate entities. Integrating these factors from the project's inception can create efficiencies in the design process itself and set the stage for future operational efficiencies;
  - performance-based payment structures ensure that standards are met; financial penalties or other avenues of remedy apply if they are not;
  - the private partner is required to maintain the building in an agreed-upon condition through the life of the agreement; this prevents the structural and functional deterioration that can impede service delivery as buildings age;
  - competition is introduced to a wider range of services, helping to generate innovation and efficiencies; for example, in traditional procurement, there is generally no competition in areas such as operating and maintenance costs whereas, in the partnership model, proponents compete for the right to supply a complete range of facility-related services over the building's life cycle.

Public private partnerships are one option agencies can use to provide affordable infrastructure that meets public needs. As health care demands continue to mount, partnerships have great potential to minimize the cost of new health facilities.

The Academic Ambulatory Care Centre – Background

Health care in B.C. is increasingly being delivered in an ambulatory/outpatient setting, consistent with the use of new technologies and improvements in care. The ambulatory approach is generally less disruptive to patients' lives and more cost-effective for the health care system.

Recognizing this, Vancouver General Hospital (VGH – part of the Vancouver Coastal Health Authority) and its academic partner, the UBC Faculty of Medicine, have been working for many years to consolidate the hospital's ambulatory-related teaching functions, specialty clinics and other related services into a single, state-of-the-art facility in an ambulatory environment. This consolidation is considered essential because:

- the current configuration of buildings is problematic for patients, many of whom are frail and/or elderly. Wheelchair access is sporadic, many of the sites are not served by public transit and the distances between diagnostic and treatment facilities can be long, confusing and tiring. Consolidation would greatly improve patient access;
- existing facilities are not conducive to the integration and coordination of health delivery and teaching services. UBC's academic practice and speciality clinics are widely dispersed, up to five blocks apart, and many are in physically and/or functionally obsolete buildings which are slated for demolition. The distances between facilities do not promote needed collegial interaction among academics, researchers, students and teaching physicians. Nor do they allow for the economies of scale and efficiencies that can be achieved in a single facility.

Further, the existing academic space cannot accommodate the program now in place to double the number of undergraduate and post-graduate spaces at the medical school by 2010. The school must have an adequate capacity for teaching in an ambulatory setting to ensure its continued accreditation as an undergraduate educational facility.

Artist's rendering of the new facility

Plans to redevelop the VGH site have been in the works since the 1990s. The City of Vancouver gave its approval for the site plan in 2001, after a process that included public hearings.

Consistent with the requirements of B.C.'s Capital Asset Management Framework, the Vancouver Coastal Health Authority then identified its service delivery needs in detail and completed a business case that considered the quantitative and qualitative advantages and disadvantages of various options available to meet the needs. In May 2002, the business case concluded that:

- construction of a new facility was needed, as opposed to options such as refurbishing existing facilities or leasing space from the private sector;
- the project had the characteristics of a viable public private partnership, including the potential for a good return on private investment;
- a partnership would be the most cost-effective procurement option from a life cycle cost perspective; and
- partnership delivery would offer significant qualitative benefits, compared to public sector delivery. These included the potential for risk transfer, such as timely delivery and for design innovation.

Based on the business case analysis, the Province approved the plan to proceed with the AACC as a partnership in July 2002. Planning for competitive selection of a private partner began.

Project Objectives

To address the service delivery needs and issues outlined above, VCH developed the following project objectives:

- to meet the growing need for outpatient care in the Vancouver Coastal Health region;
- to support the improvement, expansion and continued accreditation of the academic program at B.C.'s largest teaching hospital;
- to consolidate a range of health professionals and services at a single site, creating a one-stop model of ambulatory care;
- to replace aging buildings;
- to create a safe and easily accessible environment for patients and staff that is flexible enough to meet evolving needs for many years to come;
- to promote a collaborative environment dedicated to the pursuit of knowledge and best practices in health care service delivery; and
- to minimize costs and risks to taxpayers.

Options Analysis – Facility Needs

To find the best solutions to facility-related needs, B.C.'s public sector agencies are encouraged to consider all potential options, analyze their quantitative and qualitative advantages and disadvantages, and choose the one that best meets project objectives or other, service-related assessment criteria. This is typically done as part of a business case that must be approved by the Province before the project can proceed.

The business case for the AACC, completed in 2002, considered five potential options for meeting identified service needs and project objectives. These are summarized below.

1. Renovate the existing facilities. This was not feasible due to the age and condition of existing buildings, many of which are functionally obsolete and slated for demolition; existing facilities are also unable to support the key objective of consolidating services.
2. Renovate a portion of the existing teaching facilities only. This option would have had the lowest cost but would not have met many of the project objectives, including the expansion of teaching space and the consolidation of services.
3. Lease space from the private sector. This was problematic, due to the lack of available real estate in the immediate vicinity of VGH and would have precluded consolidation of all related services on the VGH site. It would also have been unable to meet project objectives related to the need for more and better teaching and research facilities at VGH.
4. Replace the academic and hospital clinic space only. This was not feasible because it would not have provided the much larger space needed to accommodate medical school expansion, nor would it have achieved the objective of increasing interaction between medical students and physicians.
5. Build a new academic ambulatory care centre. This option met and exceeded the project objectives. By including significantly more parking and leased space, it offered a revenue stream that would put its whole life net present cost below the estimated cost of replacing just the academic and hospital clinic space.

Option 5: Build a new AACC was chosen as the preferred option.

Options Analysis – Procurement and Financing

More detailed business case analysis of the preferred option determined that the project could be a viable public private partnership because:

- early market sounding indicated the project was of sufficient size to attract private sector interest;
- preliminary net present value analysis found that a partnership agreement could deliver net savings to the public sector, along with qualitative benefits such as risk transfer and design innovation; and
- analysis indicated that the project could provide a sufficient rate of return to a private partner.

From a financial perspective, the business case concluded that:

"Preliminary net present value analysis of the whole life costs of the AACC, if owned and operated by the public sector, as compared to the cost of leasing space in the facility, indicate value for money savings would be available to the public sector from adopting a PPP approach to the project. A preliminary $13.4 million savings estimate is indicative rather than definitive of the savings that may be achieved, as only through the public tender process will actual value for money savings be quantified."

The business case analysis indicated that, of the available options, a partnership agreement was the lowest net present cost alternative. It also scored highest on the qualitative factors considered.

Based on these analyses, the Province approved the project. VCH announced its intention to seek a private partner in October 2002.

Preferred Option - Expected Benefits

Compared to other facility options examined, the AACC was expected to deliver the following benefits to patients and taxpayers:

- an affordable, state-of-the-art facility, flexible enough to meet the evolving needs of patients and the health care system;
- continuing control over, and responsibility for, health service delivery by the public sector;
- integration and co-location of various speciality services, providing one-stop access for patients and a vibrant learning environment for medical students;
- better way finding for patients at the site, many of whom will be frail and/or elderly; the current configuration of buildings often leads to confusion and unnecessary stress; and
- an aesthetically pleasing design which is expected to add to local property values.

The partnership model was chosen for its potential to deliver the following additional benefits:

- a broad competitive process, integrating all elements of building design, construction, facility operation and maintenance for the facility's full life cycle; experience has shown that this approach can improve overall efficiency and value;
- assumption by the private partner of most of the risks associated with building and running the facility; this protects taxpayers from costs related to problems such as design flaws or delays in construction, should those occur;
- lower costs to VCH over the building's life cycle, freeing up more resources for patient care;
- anticipated design innovations, generated through the competitive procurement process, that could make the centre one of the most modern and efficient of its kind in North America;
- built-in incentives and performance standards in the partnership agreement that encourage the private partner to complete the facility on time; for example, the private partner does not begin receiving payments until the facility is ready for occupancy; and
- built-in incentives in the partnership agreement that ensure the building will be operated and maintained to agreed-upon standards for the life of the agreement.

Artist's rendering of the public atrium in the new facility

2. Competitive Selection

Competitive Selection Objective

Once the decision was made to proceed with a partnership, Vancouver Coastal Health moved forward to secure a private partner to:

- design and construct the AACC to an agreed-upon standard;
- finance the cost of the facility over the term of the project;
- manage and operate the facility with respect to housekeeping, security, grounds keeping and leasing of space not used by VCH;
- maintain the facility to an agreed-upon performance-based standard over the term of the agreement;
- allow VCH to lease its portion of the building and then, at the end of the partnership agreement, assume full responsibility for the facility at no additional cost; and
- achieve the above while providing the highest value for money.

Competitive Selection Process

The competitive selection followed a two-stage process:

Stage 1: Request for Expression of Interest (RFEI)

This stage was designed to identify parties with an interest in the project and to assess their qualifications, based on a range of specified criteria. From these responses, a short list was developed for the second stage.

Stage 2: Request for Proposals (RFP)

At this stage, short listed bidders submitted detailed proposals for meeting project objectives and specifications set out in the RFP. A $250,000 honorarium was made available for the unsuccessful proponent. This helped to ensure a strong response in the relatively new partnership market and encouraged quality bids, recognizing the costs associated with participating in the process. It also gave the public sector some rights to intellectual property in unsuccessful proposals.

Bids were evaluated against a list of specified criteria addressing issues such as experience and expertise in – and capacity for – financing, ambulatory care design, and operations and maintenance. Based on these criteria, a preferred proponent was identified and engaged in negotiations towards a final agreement.

Competitive Selection Timetable

Request for Expression of Interest issued	October 2002
Request for Proposals issued	June 2003
Request for Proposals closed	October 2003
Preferred proponent selected	January 2004
Final project agreement structured and negotiated with preferred proponent	January to September 2004
Agreement signed (contractual close)	September 2004

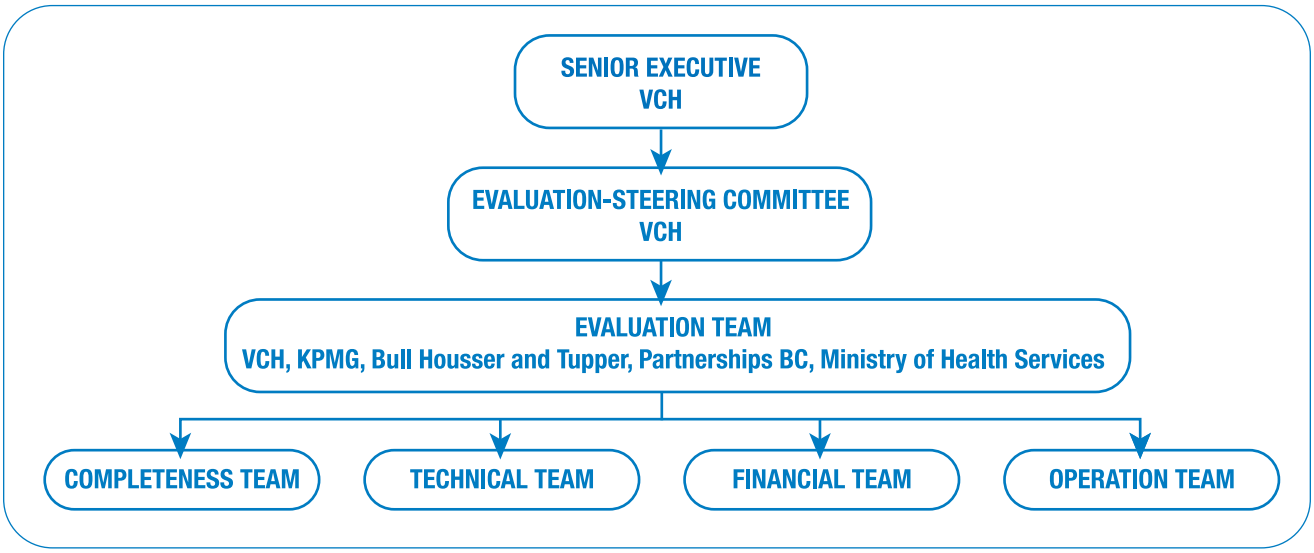
Competitive Selection Results

Stage	Number of Proponents
RFEI (interested parties)	9
Short listed at RFEI stage	3
RFP (invited to submit bids)	2[3]
Proposals received	2
Preferred proponent	1

[3]One of the short listed bidders withdrew from the competition before the RFP was issued.

Evaluation – RFEI Stage

Nine potential proponents responded to the Request for Expressions of Interest. The responses were examined in detail by an evaluation-steering committee, accountable to the VCH executive and board of directors. This committee was supported by a series of expert technical evaluation teams, established by VCH in the fall of 2002.



Responses were evaluated based on a range of technical, operational and financial criteria, detailed in the RFEI documents. Through this process, three respondents were short listed: Access Health Vancouver, Frauenshuh and Vancouver Care Partnership (VCP), formerly known as Vancouver Health Alliance. All three were invited to continue to the next stage. Frauenshuh withdrew and the RFP was issued to the remaining two proponents in June 2003.

Evaluation – RFP Stage

Project proposals from AHV and VCP were evaluated based on the detailed criteria set out in the RFP documents. These addressed a wide range of issues related to the proponents' experience and expertise in the following areas:

- corporate and project organization;
- design and construction;
- operation and maintenance;
- legal and commercial; and
- financial.

The chart above illustrates the structure of the VCH evaluation committee and subcommittees.

Each subcommittee examined the proposals in detail, focusing on its area of expertise. The subcommittees then reported to the evaluation committee that:

- both proposals met the RFP criteria for completeness, design and construction, and operation and maintenance;
- the AHV proposal better met the RFP criteria from a legal and commercial perspective;
- the AHV proposal had a superior financing plan, compared to its competitor; and
- the AHV proposal had an overall lower net present cost.

For these reasons, combined with AHV's demonstrated and articulated commitment to partnering and the project, the evaluation committee recommended that AHV be selected as the preferred proponent.

Structuring and Negotiation Process

VCH began negotiating terms of a final agreement with AHV in January 2004. The process included expert advice from financial, legal and design advisors. Results of these negotiations included, for example, risk-sharing agreements that reduced overall project costs, compared to AHV's initial bid. An agreement was finalized on September 29, 2004.

Fairness Auditor

As part of the Province's commitment to serving the public interest, public agencies often engage a Fairness Auditor as part of major partnership procurement processes. The auditor's mandate is to act as an independent observer and provide an independent assessment of whether the project's evaluation processes for the RFEI and RFP were applied consistently, fairly and without bias, according to the evaluation criteria contained in the RFEI and RFP documents.

In the case of the AACC procurement, Vancouver Coastal Health engaged Douglas L. MacKay, P. Eng., consulting civil engineer and chartered arbitrator, as the Fairness Auditor. He had the full opportunity to attend all evaluation meetings, including meetings of the evaluation committee and subcommittees.

The Fairness Auditor found that "the RFP process, the evaluation of RFP responses and the decision of the Evaluation Committee…[were] fair in all respects." He concluded that the procurement process overall was "fair and without bias in all respects."

Procurement Costs

VCH engaged a number of advisors to assist in the competitive procurement process, which was the first of its kind in B.C. The associated costs are $2.4 million, which represents approximately 2.5 per cent of the project's estimated capital cost. This is in line with procurement costs for major partnership agreements of this scope and nature in other jurisdictions. It is also a valuable investment in establishing best practices that can be a applied to, and will help reduce procurement costs for similar projects in the future as the partnership market matures.*

The auditor's mandate is to act as an independent observer and provide an independent assessment of whether the project's evaluation processes for the RFEI and RFP were applied consistently, fairly and without bias, according to the evaluation criteria contained in the RFEI and RFP documents.

*This section has been updated from the original version of this report, which incorrectly valued procurement costs at $3.4 million.

3. Changes to the Project

Major public sector capital projects are typically approved at the business case stage. The public agency leading the project considers and analyzes all potential options for meeting service delivery needs, and sets out in detail in the business case its reasons for preferring one option over the others. It then seeks approval from the Province to proceed.

The time between business case approval and conclusion of procurement can be significant and, during that time, various factors affecting the project cost may change. Therefore, key assumptions underlying the business case are updated to ensure that they reflect current market conditions.

Changes are generally in one or more of three areas:

- scope – which refers to changes made by the public sector agency as planning progresses; for example, if service delivery needs change, the agency may make changes in areas such as facility size or requirements;
- market – which refers to changes beyond the public agency's control; and
- negotiated changes – which are those agreed upon by both partners.

Scope changes:
There were no significant changes to the scope of the project.

Market changes:
Three changes in the marketplace affected the project cost. These were:

- significant increases in the price of steel;
- significant increases in the cost of insurance; and
- an increase in the City of Vancouver's development permit fees from $2.50 to $6.00 per square foot.

Negotiated changes:
As with most partnership agreements, a number of issues relating to risk allocation were negotiated by the parties to determine who was best able to manage specific risks at least cost to the project overall. VCH agreed to assume varying levels of risks related to vacant physician teaching space and to parking operations. These changes were undertaken to provide a more economic and efficient risk allocation and resulted in a material financial saving to VCH, compared to AHV's original bid position.

4. The Final Agreement

Profile of the Private Partner

Access Health Vancouver (AHV) combines the expertise of a number of the world's leading specialist organizations. The team includes:

Construction: PCL Constructors Westcoast is a member of the PCL family of companies. PCL is Canada's leading construction contractor and one of North America's most experienced builders of health related facilities. PCL is building, or has built, health care projects in eight provinces and all three territories. Examples of recent projects include the Ambulatory Care Expansion at B.C. Children's Hospital in Vancouver and the Health Sciences Centre in Winnipeg.

Design: Architectural design and functional layout are provided by IBI/HPA, an award-winning team based in Vancouver that includes planners, architects and engineers involved in projects such as the new B.C. Cancer Research Centre and Ambulatory Care Building at B.C. Children's Hospital.

Facility management services: BLJC – a leading facilities management services provider in Canada – will be supported by Johnson Controls Inc (JCI) in this capacity. JCI is a leader in the development, integration and installation of building systems and controls. Its recent experience includes projects at Royal Inland Hospital in Kamloops and St. John's Rehabilitation Hospital in Toronto.

Project development and financing: ABN AMRO is one of the world's largest financial institutions and has operated in Canada's wholesale banking market for over 50 years. It has been involved in structuring and underwriting more than 35 public private partnership agreements in various global markets.

Key Terms of the Project Agreement

Facility Provision and Standards

AHV will deliver a 365,000 square foot, mixed-use medical facility with a 600-stall underground parking lot at the corner of Oak Street and West 12th Avenue. Specifically, AHV will:

- design and construct the AACC to an agreed-upon standard for a 50-year life building;
- finance the capital cost of the facility over the term of the project;
- manage and operate the facility with respect to housekeeping, security, grounds keeping and leasing of any space not used by VCH;
- maintain the facility to an agreed-upon performance-based standard over the term of the agreement;
- allow VCH to lease its portion of the building and then resume full responsibility for the facility at the end of the agreement term, at no additional cost.

Useable space within the facility is allocated as follows:

(a) Space leased by VCH for hospital clinics and academic facilities including a lecture theatre, library, meeting halls and support space for teaching physicians . . . . . .216,798 sq ft

(b) Teaching physician space, including teaching space for undergraduate and post-graduate medical students . . . . . .75,367 sq ft

(c) Space for other health-related organizations . . . . . .46,670 sq ft

(d) Hospital-related retail or commercial facilities . . . . . 13,961 sq ft

(e) Total leasable space . . . . . .352,796 sq ft

(f) Approximately 600 stalls of underground parking

Legal and Commercial Structure

With respect to the legal structure, AHV will be licensed to access the site for construction. Once construction is complete, it (AHV) will enter a 30-year lease with Vancouver Coastal Health for the facility. VCH will then lease back all but the approximately 14,000 square feet allotted for hospital-related retail or commercial facilities.

AHV will have a non-exclusive licence to manage the teaching physician space and operate and maintain the entire facility. AHV's financial returns are dependent on the successful leasing of both the teaching physician space and retail area. Full responsibility for the site and facility will revert to VCH at the end of the agreement.

Public Interest Considerations

The partnership agreement protects the public interest through performance standards for operations and maintenance, including the right for VCH to correct any deficiencies and recoup its costs, plus 15 per cent, through a reduction in AHV's performance payments. The agreement also ensures that space in the facility will only be leased to tenants approved by VCH, and that AHV will not provide any health care services to patients. Termination provisions are in place in the event that either party fails to meet its major obligations.

Design

AHV has drawn from best-in-class facilities around the world to achieve optimum efficiencies at lowest cost, and has worked closely with health care professionals to make sure the AACC meets the needs of patients, care providers and educators/students for many years to come. The whole design is integrated into a clinical teaching model and will include a 350-seat auditorium with telemedicine communications, a medical library, conference rooms, problem-based learning rooms and larger-than-normal exam rooms to facilitate teaching.

Other features of the new facility include:

- a patient-centred healing environment that promotes accessibility, comfort and convenience for patients and staff;
- a sustainable and flexible design, incorporating energy conserving and environmentally-friendly building materials and systems, and modular component; and
- a high tech environment equipped with fibre optics and designed to accommodate future advances in patient care.

Artist's rendering of the new facility

Financial Summary

The agreement with AHV, which combines design, financing, construction and facility management, will cost the public sector approximately $64 million over 32 years in net present value (NPV) terms. This compares favourably to the estimated $81 million NPV cost of the project if built, owned and operated wholly by the public sector. This represents present value savings to Vancouver Coastal Health of approximately $17 million.

The figures above were calculated using a discount rate to represent the cost of capital over time and express the total project cost in 2004 dollars. A discount rate of 7.12 per cent was used because it most appropriately and reasonably reflected the inherent risks transferred to the private sector. To test this calculation, the project team also compared the final agreement using discount rates two per cent higher and two per cent lower than 7.12 per cent. Within this range of discount rates, the partnership agreement was found to provide better value and lower cost to taxpayers.

Factors contributing to the present value savings are as follows:

- VCH starts paying for the facility only when construction is completed; this provides an incentive for timely completion and protects the public sector from any added costs during the construction phase;
- payments will be performance-based, with provision for reductions if AHV does not meet agreed-upon standards for facility operation and maintenance;
- cost savings are achieved by combining design, construction, financing, operations and maintenance under one long-term contract;
- VCH will receive a favourable lease rate, compared to securing space on the open market;
- VCH will also receive revenues from parking that can be used to offset the costs of service delivery.

Performance Payments

Under the terms of the partnership agreement, VCH makes no payments to Access Health Vancouver until the facility is ready for occupancy. Following construction, VCH will make performance-based payments to AHV. Performance-based payments are subject to reduction for any costs VCH may incur to remedy deficiencies if operating and maintenance standards are not met.

For example, the agreed-upon standards require AHV to ensure that all external doors and windows in the facility operate free from noise and are fully functioning, weather resistant, heat loss resistant, easy to operate by users (including disabled users), and that they are safe, secure and attack resistant. If a deficiency is noted, AHV will be required to respond within one hour and to remedy the problem within four hours or, in the case of an emergency, immediately. If AHV does not meet these standards, VCH has the right to remedy the deficiency itself and deduct the cost, plus 15 per cent, from AHV's performance payments.

In that context, VCH will make performance payments to AHV as follows:

- for space occupied by VCH or UBC within the new facility, including space for other health related organizations, VCH will pay both a base rent and an operations and maintenance payment, totaling approximately $5.9 million in the first year. The rent will increase at 2.5 per cent per annum while the facility operations and maintenance payments will reflect a base amount agreed to by the two parties. After year three, if actual costs are above that base, AHV will absorb 60 per cent of the difference, with VCH paying 40 per cent. If actual costs are below the base, AHV will retain 60 per cent of the difference while VCH will receive a rebate of 40 per cent. The two parties will also share any savings achieved through energy efficiency, as well as any savings from future refinancing. This approach to sharing risks and costs provides incentives for both parties to keep the facility fully occupied and operating efficiently;

- for vacant teaching physician office space, VCH will pay a nominal base rent and an operations and maintenance payment. AHV receives the benefit of rentals earned for space, and has significant capital at risk. This provides incentives for both AHV and VCH to keep the facility fully leased;
- for parking, VCH will pay a base rent plus 20 per cent of any net income it receives from parking above the base. All other net income from parking will be retained by VCH;
- facility operations and maintenance payments for vacant teaching physician space and parking will be based on actual costs. Should rental revenue from non-VCH space exceed agreed-upon thresholds, AHV will pay VCH a percentage of the excess over the agreed threshold.

Risk Allocation Summary

The following table provides a general overview of risk allocation for the AACC. Checkmarks in both columns indicate areas of shared risk.

Risks relating to:	VCH	AHV
Financing		✔
Design		✔
Construction (cost, schedule and inflation)		✔
Operation	✔	✔
Maintenance Risk		✔

Expected Budget Reporting and Accounting Treatment

Details of budget reporting and accounting treatment will be determined by the Office of the Comptroller General and/or the Auditor General. Those decisions will determine how the agreement is presented in the provincial accounts.

It is expected that VCH will receive capital lease treatment due to the reversion of the facility at the end of the term at no additional cost. The liability will be booked on a percentage completion basis during construction and amortized over the term of the agreement. Upon completion of construction, the recorded book value of the facility will be amortized over 40 years.

Labour Impacts

The agreement is expected to have a minimal impact on labour. AHV will not be responsible for any health service delivery to patients.

Construction Milestones

- City of Vancouver permit process – July through September 2004
- Start of excavation - September 2004
- Substantial completion of construction - Summer 2006

Peer Review

As part of their commitment to public accountability, VCH and the Ministry of Health Services engaged Ernst & Young Corporate Finance to undertake an independent peer review of the partnership agreement. The terms of reference were to provide a strategic-level review of the proposed major terms, including:

- financial and commercial considerations such as contractual terms, lease and operating costs, financing rates and structure;
- risk allocation and its associated implications, such as costs, benefits and liabilities; and
- other qualitative and quantitative aspects of the project that may be material to assessing the value of the potential agreement.

The peer review concluded that the agreement represented a reasonable transaction for VCH and the Province, given the level of risk transfer and current market conditions.

5. Ongoing Contract Monitoring

VCH has a number of management initiatives to monitor and control the delivery of the AACC project. These include the following:

- in the design/construction phases, VCH will receive monthly inspection and progress reports. It will also have access to the site and to documents, drawings and specifications as the project progresses. The parties have agreed to a master schedule and budget and will work together to identify and remedy any issues that may put those at risk;
- once construction is completed, VCH will carry out periodic inspections to ensure that AHV is meeting agreed-upon operation and maintenance standards. AHV will also inspect the facility at regular intervals and report any issues to an operations and maintenance committee. The committee, which will include representation from VCH, will serve as a forum for addressing issues as they arise and will be responsible for keeping both partners up to date on facility management in general;
- for the long-term, VCH will work with the Ministry of Health Services to design an appropriate process for reviewing the project at appropriate intervals, such as five, 10 or 15 years from the start of operations. This review process may be applicable to similar capital projects in the future.

For more information on the project, go to http://www.partnershipsbc.ca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