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IO November 2022 Market Update

Colleagues,

I am pleased to present IO's Market Update for November 2022.

In this update we provide details related to 39 projects in pre-procurement and procurement (totalling more than \$35 billion in estimated design and construction costs). These projects reflect Ontario's historic commitment to modernizing the province's public assets, including highways, transit, hospitals, children's treatment centres, schools and correctional facilities. This update also includes 16 government-announced projects in early stages of planning for which scope, timing and delivery model are still being determined.

Through unprecedented challenges we have been relentless in bringing projects to market and providing maximum transparency to our market about project timelines. Since 2019, IO has brought more than two dozen projects to market. That includes 11 healthcare projects, 10 subway projects, the first of our rapid build projects, a number of Progressive projects including Progressive P3s and Progressive DB target price contracts, and a multi-year contract to support the strategic management of one of the largest real estate portfolios in Canada. We have awarded contracts or selected partners for 17 projects.

Our progress has also resulted in some of the largest of our contracts proceeding from procurement into the construction stage. This includes the recently announced financial closes for the two largest Ontario Line contracts. Earlier this year, both the West Lincoln Memorial Hospital and the Thunder Bay Correctional Complex also moved from procurement into the construction stage. The contracts currently in construction are valued at approximately \$41 billion, not including the additional contracted value to ensure the long-term operations and maintenance of assets on projects such as the Metrolinx GO Rail Expansion On-Corridor works.

In order to maintain the momentum and success that we have achieved with our industry partners, we have continued to adapt to changing global and local conditions:

- Our projects are becoming larger, more complex, and increasingly infused with technology;
- Inflationary and supply chain pressures are impacting budgets and schedules as well as the risk appetite of our partners; and
- Various jurisdictions have announced post-pandemic infrastructure investments, implying further competition for a finite supply of innovative companies and skilled labourers.

The Right Approach for Every Job

All of this means evolving how we do certain projects to attract the best companies to compete for and complete the work. In this Update, you will notice IO and government have prudently revisited the cost estimates for future projects in light of inflation as well as other challenges currently being felt globally.

We continue to stage our projects in a thoughtful way that aligns with market capacity. For example, in some cases, you will see that a successful project means scheduling it later than previously anticipated to avoid competing for resources with other important Ontario projects.

These evolving conditions also require us to continuously add to our toolbox of procurement strategies and delivery models to suit the needs of each project. Earlier this year, we launched the procurements for our first Progressive P3 hospital projects. We have also successfully employed a Progressive Design-Build approach in partnership with Metrolinx on projects such as GO Rail Expansion – On-Corridor Works (Progressive DBOM). They will not be our last. For the government's more urgent needs, we are employing rapid build strategies to get those new and expanded assets serving seniors, students and the justice system built as quickly as possible. We always consider the best commercial contract basis for any of our projects. That includes:

- Contract form and delivery model;
- The optimal packaging and bundling of works;
- Optimizing, right-sizing, and revisiting risk transfer regimes to appropriately protect the contracting authority, ensuring the appropriate exposure of ProjectCos to certain risks, and providing the right incentives for the collaborative mitigation of risks; and
- Implementing our revised approach to dispute resolution.

None of our efforts to adapt and improve our work could be successful without the support and feedback of our many partners, both in the public and private sectors. We are committed to continually receiving feedback from the market and evolving our approach to ensure best value for the Province.

Developing New Solutions, Executing Transactions and Managing Assets

IO's mission, its work and contribution to the province's infrastructure commitments goes beyond the contents of our regular updates on major construction projects.

We are supporting government priorities in several areas.

Earlier this year, we issued a request for proposals to three best-in-class private-sector companies who pre-qualified to compete for the Next Generation Real Property Services contract. With service commencement scheduled for Spring 2024, the successful company will work in partnership with IO to support one of the largest real estate portfolios in Canada, comprising more than 4,400 buildings and 194,000 acres of land, effectively delivering services in over 350 communities across Ontario.

We are also preparing for the re-procurement of our Project Management Service Provider program early in the New Year. This program involves managing a variety of enhancement, expansion and new construction projects focused on the government's General Real Estate Portfolio and other ministry-driven projects across the province. IO will look to the Project Management Service Provider to deliver more complex projects with a value of up to \$20 million from inception through to final completion, including design, construction and commissioning, utilizing a predominantly Design-Bid-Build contract model for designers and contractors. We intend to complete a contract signing in the Fall of 2023, with a planned contract commencement slated for the following Spring in 2024.

Not only do we manage the largest provincial portfolio of land and properties in the country, but we are also leveraging those assets to find solutions for other government priorities. Last month, the government announced IO's role in using surplus lands to support its attainable housing initiative. We continue to work with the private sector to facilitate transit-oriented communities that will support more homes around new transit stations. The historic transit investments being made today will help to build more transit ridership tomorrow.

I am proud to say that our unique, reverse-auction approach to procuring high-speed connections for up to 266,000 unserved and underserved homes and businesses across the province is being recognized at home and abroad. Several other jurisdictions have reached out to learn more about our successful program. Just yesterday, we received a Canadian Council of Public Private Partnerships award in innovation for the procurement that successfully concluded this past summer.

Thank You,

Michael Lindsay

President and CEO

Infrastructure Ontario