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MEDIA RELEASE

EMBARGOED July 30, 2013

Bundling Crosstown Project Wastes Tax Dollars

Bigger is not always better when building infrastructure projects

TORONTO – Ontario and Toronto taxpayers could save up to half a billion dollars in construction and design costs for the Eglinton Crosstown transit project by tendering it differently, according to an analysis by the Construction Design Alliance of Ontario.

“Simply put, bundling the station and maintenance facility construction into one contract has hamstrung the tendering process, limited competition, stifled innovation, and isolated the small- and medium-sized construction and design firms,” says Construction Design Alliance of Ontario Chair Clive Thurston. “This procedure will cost taxpayers more in the end. It is a case where bigger is not always better.”

Construction has proven time and time again to be the economic engine of Ontario’s prosperity, notes Thurston, who is also president of the Ontario General Contractors Association. “That engine is starting to sputter and the bundling of projects like the Eglinton Crosstown LRT is cutting the fuel line.”

At the heart of the industry’s concern is the increasing trend towards the bundling of construction projects. In the case of the \$4 billion Eglinton Crosstown line, the size and scope of the project alone has resulted in only two consortiums expressing public interest in the massive project. One consortium is Canadian-based and the other is led by foreign multi-national firms.

“The purchasing of construction services is not akin to buying paper and pencils,” says Thurston. “It has been proven in a number of different studies that bundling construction projects into bigger envelopes does not always result in taxpayer savings.”

An analysis done by OGCA, on behalf of CDAO, reveals had the tender been broken down into smaller bites, and stations been tendered individually, up to 10 small- and medium-sized, Ontario-based construction and design firms would have bid on each of the smaller projects, resulting in increased competition and lower costs to taxpayers. Such a process has the potential to save up to \$500 million.

“More Ontario firms working on individual projects have a direct impact on the local economy through employment, taxes and investment,” Thurston notes. “Limiting competition has the reverse effect. Studies have shown a ‘hollowing out’ of domestic industries occurs as a result of needless bundling of projects into massive, unmanageable packages.”

Concern surrounding bundling of infrastructure projects is not new to Canada. As early as 2007, a study by the Canadian Federation of Independent Business documented the creation of large public projects through bundling as being detrimental to the domestic economy. A 2009 federal Commons Committee report studying the issue also acknowledges government must present a strong business case justifying bundling of construction projects because of the potential economic damage. There is international precedence and law within the World Bank, European Union and the United States that require independent market studies be conducted before public projects are bundled.

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2 ...

“CDAO is not opposed to bundling, but it is a procurement tool that has to be done in the right place, at the right time and for the right reasons with the right market research to support the decision,” says Thurston.

Infrastructure Ontario, the government agency overseeing the project, has a protocol in place for the bundling of projects but “IO did not follow its own rules for the Crosstown transit project,” Thurston points out, adding an internal IO staff review suggested there would be 5 consortiums bidding on the project. “Clearly they were wrong.”

“The design and construction industry believes there is no empirical data to support the bundling of the \$4 billion Eglinton Crosstown project,” says Thurston. “No market survey was done to determine value for money for such a large project.

“We believe the Eglinton Crosstown project is just too big to be handled under a single contract. The current scale of the project is such that there is a huge risk profile, and even some of the largest companies in Canada are not willing to bid. Breaking it up into smaller chunks would result in better value for taxpayer dollars.

“We need to rethink how we design and deliver such projects and how to sustain long term infrastructure investment. We can’t just assume that ‘bigger is better’. Clearly it isn’t. CDAO is committed to working with IO to ensure a better process can be implemented.”

ABOUT CDAO

The Construction Design Alliance of Ontario is a collaborative organization of 14 associations and organizations, representing a broad cross-section of professions which design and build infrastructure projects in Ontario. CDAO’s primary goal is to advocate for infrastructure investment and provide municipal and provincial governments a collective forum to seek input and advice from stakeholders. For more information about CDAO activities, initiatives, research and reports, please visit www.CDAO.ca

-30-

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BACKGROUND

July 30, 2013

Some points to consider about the Eglinton Crosstown Transit Project

- The size and nature of the bundling has to be logical to generate competitive prices. It is a function of optimizing risk allocation between the government and the private sector.
- The Eglinton Crosstown project appears to 'overbundle' the project to the point of eliminating competition reducing transparency in terms of what the project will deliver.
- It is a confused approach in that the vehicles were purchased before the rest of the project was started – locking in the bidders to a defined technology that is not necessarily the best choice. Metrolinx then started the tunnel construction – which is the major link between the various stations and a high risk element in the project.
- Another approach might be to separate the other rail system elements into a single package, and then break the stations and maintenance facilities into several packages that will generate competitive bids.
- The current scale of the project creates a huge risk profile discouraging some of the largest companies in Canada from bidding.
- Public owners proposing bundling of projects should be required to present supporting business cases, including market studies with supporting data.
- Public owners should be required to conduct a comprehensive review after completion to establish whether predicted outcomes were achieved.
- A recent study by the World Bank shows that bundling of projects results in fewer bidders and higher procurement costs. If projects are broken down into smaller contracts, World Bank evidence shows the number of firms bidding the work will more than double. With increased competition, cost savings are achieved, the report concludes.
- The United States has enacted legislation requiring government agencies to conduct independent market research studies to justify the bundling of contracts.
- The European Union has protocols preventing the 'overbundling' of public infrastructure projects in order to foster marketplace competition and reduce the prospect of collusion and corruption.

Additional Resource Materials:

“Fact or Fiction: Dispelling the Myths About the Bundling of Construction Projects,” by Stephen Bauld and Glenn Ackerley, April 2013. This report is a comprehensive analysis of more than 20 reports, studies and government policy documents relating to the procurement of public infrastructure and the bundling of projects.

“Tricky Math,” by Rhys Phillips. (Building, October/November 2012). This article looks at P3, AFP and the procurement of public infrastructure and the bundling of projects.