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Municipal P3s – Private Sector Perspective

Public-Private Partnerships

March 20, 2013

Impetus for P3

A government investigates P3s when….

- It wants to introduce accountability for performance
- It wants to share the risks of a project
- It wants access to the private-sector's ability to provide expertise and innovation.

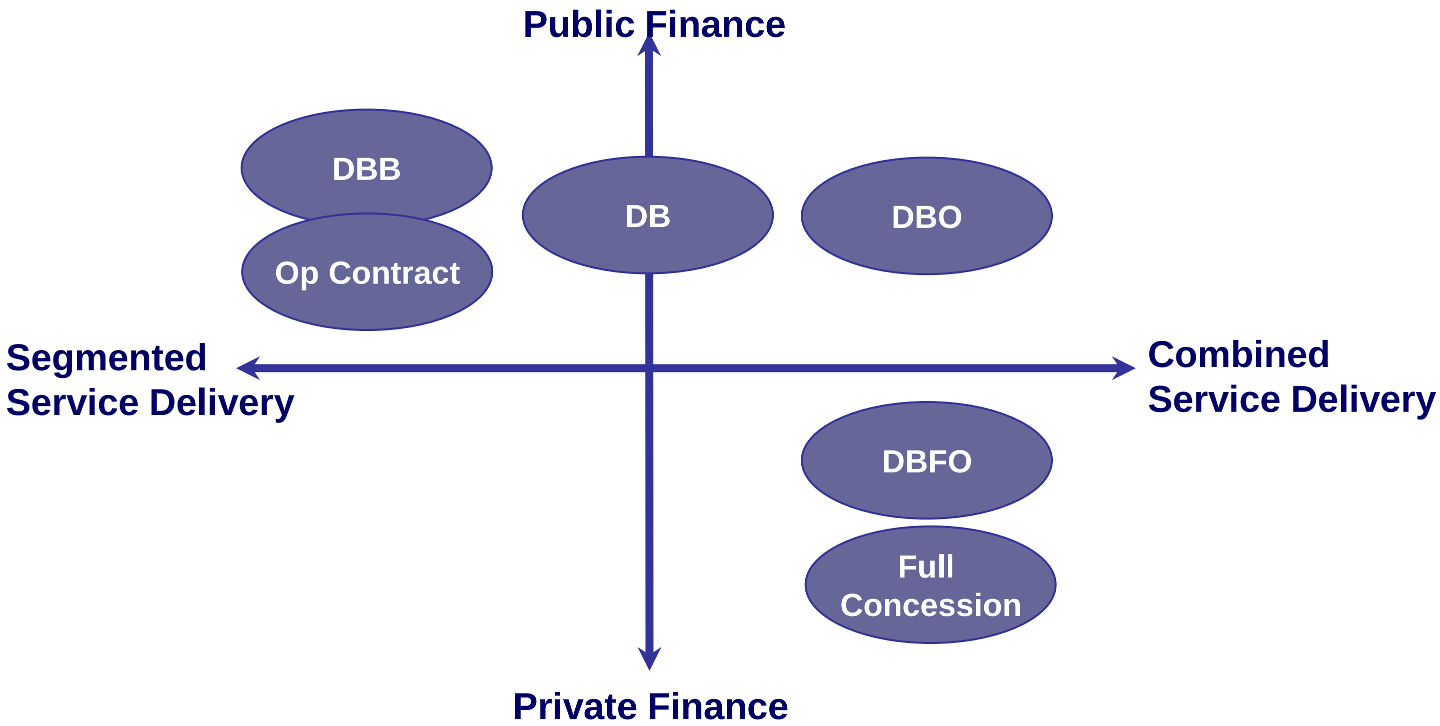
Why use a P3?

- Improve efficiency in the delivery of an existing good or service:
  - Airport operating contracts, garbage collection (many jurisdictions)
- Deliver a new good or service:
  - Viva transit system – York Region, City of Sudbury bio-solids facility, Alberta schools
- Leverage existing assets for up-front value:
  - , Highway 407, airport concessions, Enwave (formerly *Toronto District Heating Corp*)

Contrasting P3 Business Models

Various forms of P3 business models exist – two key dimensions

- Delivery method – degree of service delivery segmentation
- Financing method – degree of public vs. private sector funding



P3s by Sector

Characteristics that suggest a P3 model might be appropriate:

- "Non-core" government service
- Definable business or cost centre
- Limited integration with other services
- Ability to charge user fees
- The project is "big enough"

Contraindications:

- Policy control not easily imbedded in a contract
- Difficulty specifying service standards
- Limited ability for a private-partner to innovate or add value.

Relative importance of each factor will vary by sector or jurisdiction

Sectors where P3s have been implemented:

- Highways, Bridges, and Rail
- Airport and Air Navigation
- Water Treatment, Transmission, and Distribution
- Power Generation, Transmission, and Distribution
- Gas Transmission and Distribution
- Marine and Ports
- Justice/Corrections
- Hospitals and healthcare

P3's in the municipal sector

Opportunities

- In theory, municipalities are well placed to benefit from P3s, since they may not have the specialized expertise for many large, one-off projects
- Municipalities have a large back-log of renewal and rehabilitation needs
- There is significant appetite from private-sector investors
- Active support from agencies such as P3 Canada:
  - Grant funding up to 25% of capital cost
  - Senior level participation can encourage better procurement approaches, and may help standardize commercial arrangements.

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P3's in the municipal sector

Challenges

- Transaction sizes can be small, which can make it more difficult to offset costs of implementation
- Less familiarity with the P3 process, and hence a greater learning curve
- More direct exposure to political opposition
- Shorter political cycles
- Lack of contract standardization.

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P3’s in the municipal sector

What have been the pitfalls?

- Conflating the P3 business arrangement with other elements of the project. Examples:
  - Increases in rates necessary to fund an investment, whether public or private
  - Project location (e.g. wastewater treatment plant).
- Insufficient ground-work in selling the project, and the delivery approach, to the public.
- Running a process that has not been properly structured. Examples:
  - Not being clear on the outcomes that are being sought
  - Relying on sole source negotiation.
- Expecting P3’s to solve an underlying funding challenge.

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Innovative Approaches

Strategies for over-coming the challenges

- “Bundling” projects across municipal or community boundaries
- Providing a project completion payment, so that entire funding is not sourced from the private sector
- Standardizing business terms and conditions for projects in a sector

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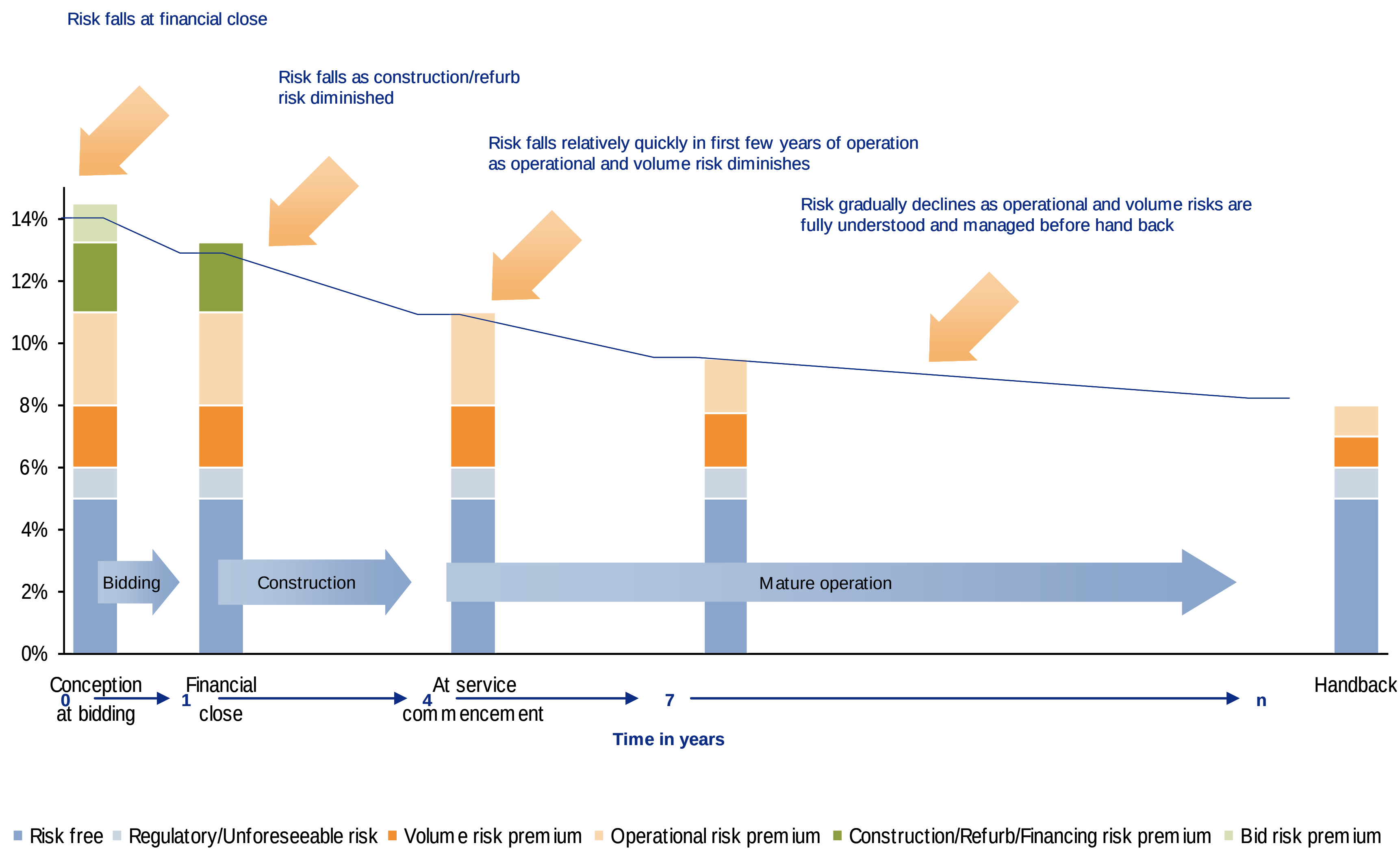
P3 Project Risk Profile



Getting it Right: Some Industry Findings

It's "cheaper…..

- Data show that, even after taking account of extra cost of private finance, PPP is around 10% cheaper over the long term

…and quicker and….

- Delivers infrastructure services faster
- No payment until services delivered to the required standard
- Around 85% on time or early with no cost overruns for the public sector

… delivers more consistent quality of services"

- A combination of the payment mechanism / contract and funders' due diligence reinforce desired behaviour

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