The Public Sector P in P3s

May 21st, 2014; Sutton Place Hotel Edmonton Alberta

Your Hosts

The ***Public Sector P in P3s*** was a joint presentation of the Edmonton/Capital Chapters of the Financial Management Institute of Canada (FMI) and the Institute of Public Administration of Canada (IPAC). Moderation was provided by the Institute for Public Economics (IPE).

FMI (Edmonton) Alberta Chapter (www.fmi.ca/chapters/alberta)

Serving public sector financial officers, administrators and managers with financial responsibilities, the Financial Management Institute of Canada (FMI) provides this forum, offering its members excellent services and programs in all areas of government financial management. One of 14 coast-to-coast chapters, the Alberta (Edmonton) FMI Chapter provides an opportunity for networking and professional exchange within the financial community, and for professional development within a local context.

IPAC Edmonton Regional Group (www.ipac.ca/Edmonton)

IPAC is a national association of public servants and others committed to excellence in public administration through the creation of knowledge networks and promotion of leading research-based theory and practices. Our association has supported best practices in public administration since it was established in 1947. Through publications, conferences, knowledge networks and awards, our association contributes to building stronger public services across the country and around the world.

Institute for Public Economics (www.ipe.ualberta.ca)

Our Mission: Through our research and teaching, to create and disseminate knowledge of the public sector and its influence on the economy and society.

Our Values: Our research interests span local, regional, national and international public economics issues. We support research in all areas of public economics including theory, applied and policy research. Our research is critical, non-partisan, openly disseminated and independent of outside influences.

Our Activities: The Institute for Public Economics is proud to be involved in a variety of activities.

- Research in the field of public economics
- On-line publications
- IPE Public Finance Seminars
- Conferences on topical issues in public economics

The Program Notes

Overview

The public looks to all levels of government to build and maintain infrastructure to support the economic and social wellbeing of their communities. At the same time, the public is asking how infrastructure expenditures can be more effective, efficient and how the results can be brought on-line sooner and with less disruption. The innovation and flexibility of private enterprise needs to meet the funding and legislative power of the public sector and thus the concepts of Public-Private Partnerships (P3s) were born.

The Panel

Panelists from a broad spectrum of the P3 landscape volunteered their time to participate in this program. The panel represents opinions from the federal, provincial, municipal, private and union perspectives.

To Our Panel, Thank You!

The panelists and moderator participated entirely in a volunteer capacity from their respective organizations. Thank you to the panelists and moderator for their generous donation of their time and talents.

The Notes

Please find a brief biography of each of the speakers and a summary of their key points. The notes do not represent a transcript of proceedings but present the themes and messages of the speakers. In some cases the order of the content may differ from the original presentation; this has been done for message clarity, continuity and brevity. [comments in brackets are those of the editor; they include clarifications or links to referenced sources.]

The Program

Each of the presenters started with a 15 minute overview addressing their views on the benefits, risks and/or future of P3s. Their overview addresses one or more of the following aspects of P3s:

- How do you define a P3?
- When is a P3 a great idea, a good idea and a non-starter for governments or their private partners?
- Are P3s effective and if so, when and how are they best used? (an alternative question to the above)
- The best (or worst) case example of a P3 was/is...
- At one or more of the following levels, what is the attraction, benefits, and risks of a P3 (now and in the future):
    - The taxpayer and citizen
    - Political
    - Senior administration (e.g. Deputy Minister)
    - Public servant in general
    - Public service financial manager (e.g. FMI Member)
- During the life of a P3, what are the budget, accounting, fiduciary reporting or information management considerations to communicate to the public, political, senior management or operational management audiences? A panel discussion followed with a focus on one or more of the above questions. Particular focus was spent on the financial, accounting and risk management/benefit reporting aspects of P3s.

Value to FMI & IPAC Members

Public Servants left the presentation with a better understanding of what a P3 is, its role in the development of public sector infrastructure and the limitations around of its use. The attending public servant should be able to describe the role of P3s to both a semi-professional or a lay audience.

Dr. Robert Ascah

Biography

Bob Ascah is a Fellow with the Institute for Public Economics (IPE) at the University of Alberta. He served as the Director of IPE from 2009 to 2013. As Director he was responsible for arranging an annual conference, post-mortem on the provincial government budget, the Eric J. Hanson Memorial Lecture and overseeing a major research project on Alberta's labour market.

From 1996 to 2009 he worked at ATB Financial and was responsible for managing the provincial corporation's relationship with the Government of Alberta. A key accomplishment was the modernization of ATB's legislation coming into force in October 1997. From 1986 to 1996, Ascah was responsible for financial sector policy development in Alberta Treasury. Key accomplishments were the development of the Credit Union Act, the Loan and Trust Corporations Act and amendments to the Treasury Branches Act and the Insurance Act. From 1984 to 1986, he was a senior intergovernmental affairs officer responsible for transportation and financial sector policy.

Community service includes sitting on the boards of United Way- Alberta Capital Region, the Alberta/NWT division of the Canadian Cancer Society (including Chair) and the board of the Edmonton Financial Literacy Society. He holds a B. Comm and M.A. in Public Administration from Carleton University and a Ph.D. in political science from the University of Alberta. His Ph.D. dissertation – Politics and Public Debt: The Banks, the Dominion and Alberta's Social Credit was published in 1999 by the University of Alberta Press. He lives in Edmonton with his wife Linda.

Notes and Comments from Dr. Ascah

Dr. Ascah noted that this morning's panel is composed of excellent experts and has two 'pracademics': Dr. Nelms and Dr. Stanley.

So what are P3s?

One definition from Akintoye, Beck and Hardcastle Private-Public Partnerships: Managing Risks and Opportunities- 2003): states: P3s "involve private companies in planning, designing, financing, construction and ownership and/or operation of a public sector utility or service."

- These arrangements are typically of a long-term nature running from 5 to 50 years.
- These arrangements often arise where governments face some constraints on accessing capital markets coincident with the need to expand, replace or refurbish public infrastructure.
- Each P3 project is unique and ranges along a continuum from more or less public sector involvement.

The Canadian Council for Public Private Partnerships (1998) defines a P3 "as a co-operative venture between public and private sectors built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards."

A definition needed for this morning is the concept of Value-for-Money Analysis. According to P3 Canada:

> *A value for money analysis is the comparison between the total project costs (capital base costs, financing costs, retained risks and ancillary costs), at the same point in time, for a traditionally delivered project (known as the public sector comparator or PSC) and delivery of the same project using the P3 model (known as the shadow bid). The incremental difference between the public sector comparator and the shadow bid is referred to as the value for money. If the shadow bid costs are lower than the public sector comparator, the P3 project is found to deliver positive value for money to the taxpayer. Source: http://www.p3canada.ca/about-p3s/frequently-asked-questions/ [Editors Note: this definition was added to provide context for the other presentations]*

In Canada we generally exclude privatization (e.g. the privatization of Air Canada or TELUS (formerly Alberta Government Telephones)) from the definition of a P3. In summary, the Pros and Cons of a P3 are:

Potential Advantages (Li and Akintoye):

> *1) provides government with another tool to meet needs of population beyond simple procurement*
>
> *2) foster innovative and creative solutions*
>
> *3) reduce cost and time to implement*
>
> *4) transfers certain risks to the private sector*
>
> *5) may attract larger, sophisticated bidders to project or program with unique competencies.*

Potential Disadvantages:

> *1) Unlike governments, private sector organizations can more easily go bankrupt;*
>
> *2) There is potential for corruption. While this is more often associated with Eastern Europe or Africa, Canada is not exempt from serious allegations.*
>
> - *The alleged involvement of Dr. Arthur Porter in regards to the SNC-Lavalin and McGill Health Centre*
> - *This is a good business case as to why it is important that public sector bidding processes are fair and transparent.*
> - *[Editors Note: See an excellent timeline of the Dr. Porter affair, available: http://www.montrealgazette.com/news/muhc/arthur-porter-timeline.html]*
>
> *3) Cost of capital for partnering government or public sector is usually lower*
>
> - *The cost of capital for private participants are typically higher whether it be institutional investors such as pension funds or publicly traded or privately held private companies.*
>
> *4) Time and cost overruns. While germane to all projects, with the unique position a government has with a P3, this may place its taxpayers at greater risks.*
>
> *5) Non-union, lower paid workers. One way the private element of a P3 can recoup its investment is by lowing its input costs – including its labour costs.*
>
> *6) Incentives to cut corners to enhance return to owners. Once again, this incentive exists in all projects, but because of the unique organizational model of a P3, a government may have less leverage to react to reduced quality or cut-corners.*

Like all construction projects, all P3s are unique. As a result the above mix of advantages and disadvantages will vary from project to project.

Dr. Cheryl Nelms

Public Works and Government Services Canada | Travaux publics et Services gouvernementaux Canada

Senior Advisor for Projects, RCMP E Division, Public Works and Government Services Canada

One of two of this morning's serious pracademics.

Cheryl Nelms of Vancouver, BC, is a Professional Engineer with a PhD in Civil Engineering, Construction and Project Management from the University of British Columbia. She is the A/Director of Public Works and Government Services Canada's P3 National Centre of Expertise. Dr. Nelms has extensive experience in P3 and alternative procurement deal structuring. She has provided advice on a broad range of important federal investments including, the National Shipbuilding Procurement Strategy and the RCMP E Division Headquarters Relocation Project. Her vast experience in engineering and project management has led to invitations to speak at international conferences, teach undergraduate and graduate courses, and participated on national committees.

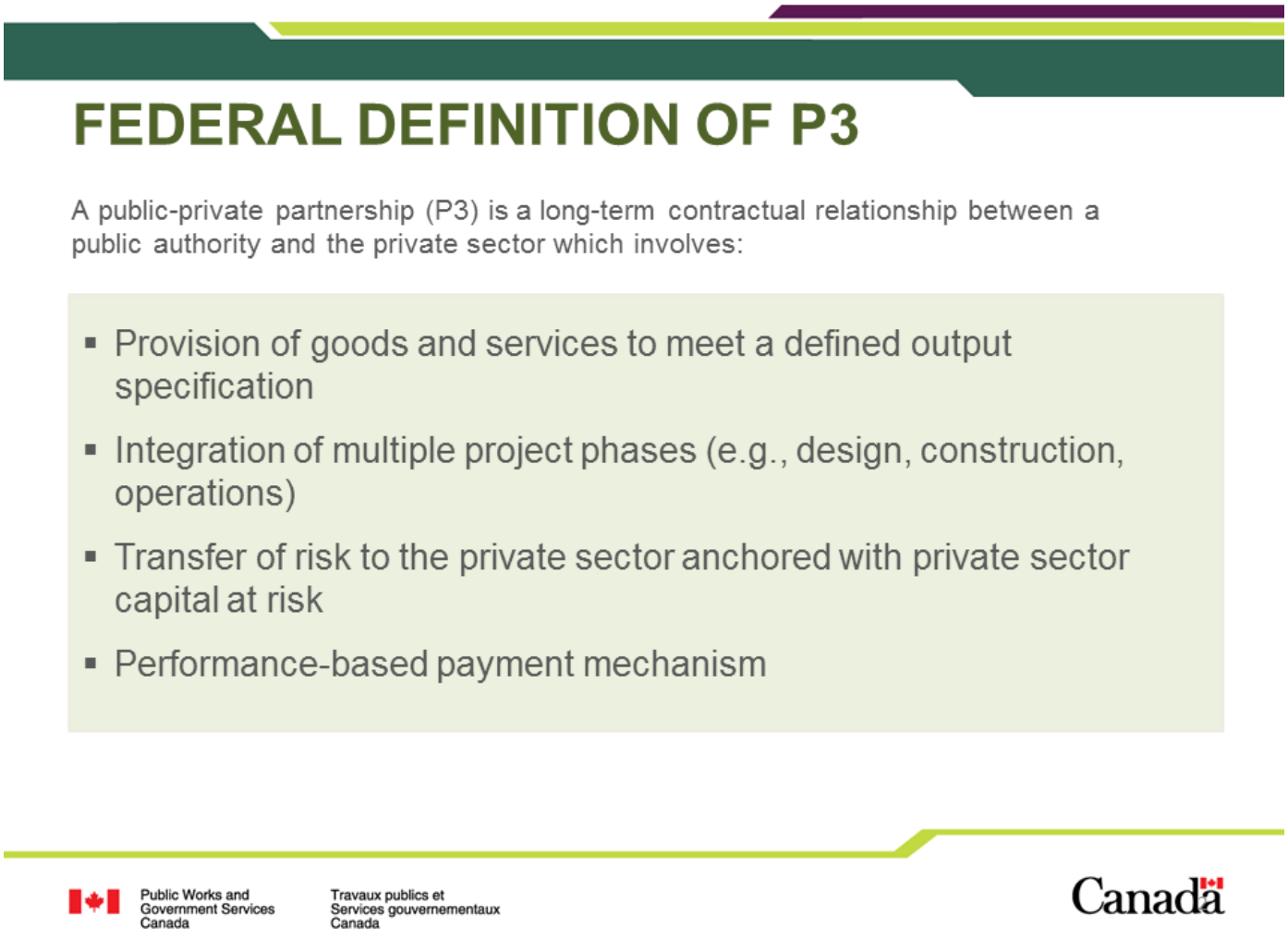
Dr. Nelms is a founding member of the Women's Infrastructure Network Steering Committee (Western Canada), a member of the External Committee on Procurement for the City of Vancouver, a member of the Board of Directors for the Real Property Institute of Canada, and serves as Vice-Chair on the Board of MOSAIC, a non-profit organization dedicated to supporting new immigrants and refugees.

Public Works and Government Services Canada or PWGSC has $7 Billion of assets under management across Canada and provides a range of services to other Ministries. This includes financial and real estate services.

There is a P3 centre in Vancouver, which provides functional guidance on projects that are valued more than $100 Million.

Some of the projects are a bit strange and are not always strictly P3s in nature. The thing about the P3 methodology is that it is transferrable to other procurement processes. For example, the National Shipbuilding Procurement Strategy was not a P3 but they did take lessons learned on some P3 processes.

Some of the examples of transferrable P3 processes include the rigor that is applied to a project from a governance, financial or project management perspective.

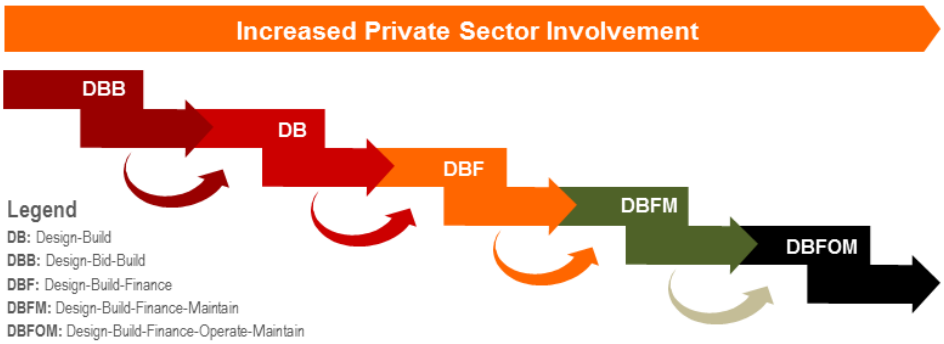


Although a definition was previously provided by Dr. Ascah, I want to provide my own. Unfortunately there is not a universally recognized definition of a P3 that is used in Canada, let alone around the world. Nevertheless there are a number of key characteristics of P3s and these are:

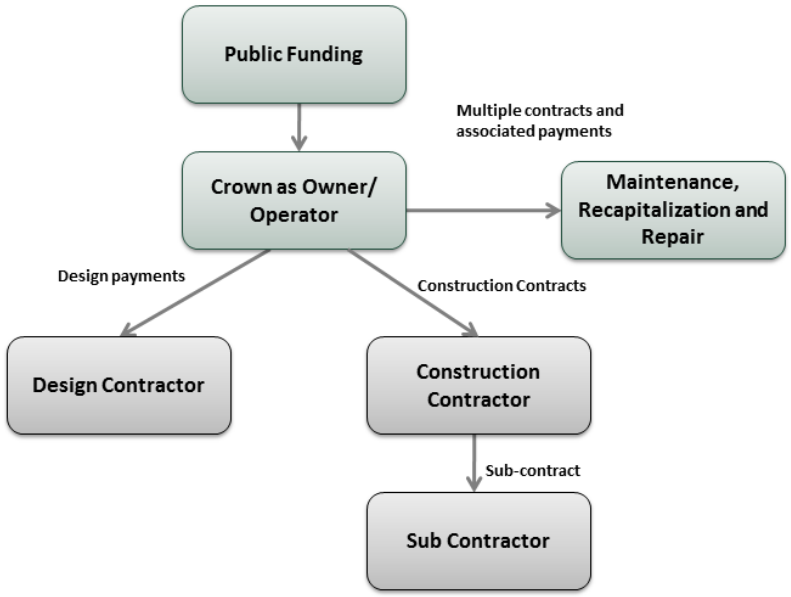
- **Output Provision of Goods or Services**: Developing a set of output specifications. These differ from prescriptive specifications that are often developed in engineering. A prescriptive definition would describe a room's mechanical system whereas an outcome definition would indicate the room's desired humidity and temperature levels. Both definitions require a mechanical system but prescriptive jumps to the solution whereas outcome defines the need.
- **Integration of multiple phases of a project**: One contract integrates the design, build and finance, for example.
- **Transfer of Risk to the Private Sector:** PWGSC uses Risk Workshops to answers questions such as:
  - *What are the risks of this project?*
  - *Which risks should be transferred and if so, how do we structure the contract to reflect this transfer?*
  - *Which risks will we retain and how do we mitigate or hedge these risks?*
- **Use of performance Based Payments**: Payments are made to the private firm relative to a set of completed criteria. The great thing about this is that it forces the public sector to think about what is important to them and construct a contract with this in mind.

PROJECT DELIVERY PROCUREMENT METHODS

- Depending upon the Public Sector's requirements and the Project's characteristics, there are a variety of different project delivery or procurement methods



TRADITIONAL PROJECT STRUCTURE: DESIGN-BID-BUILD



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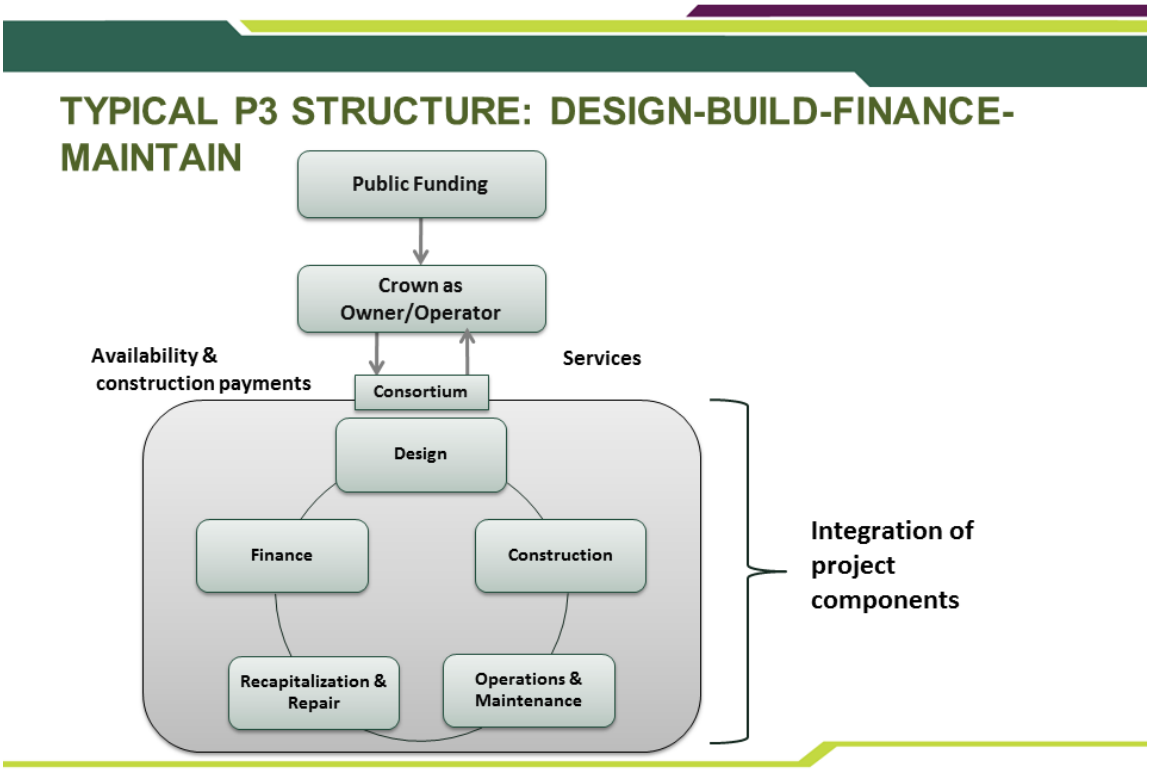
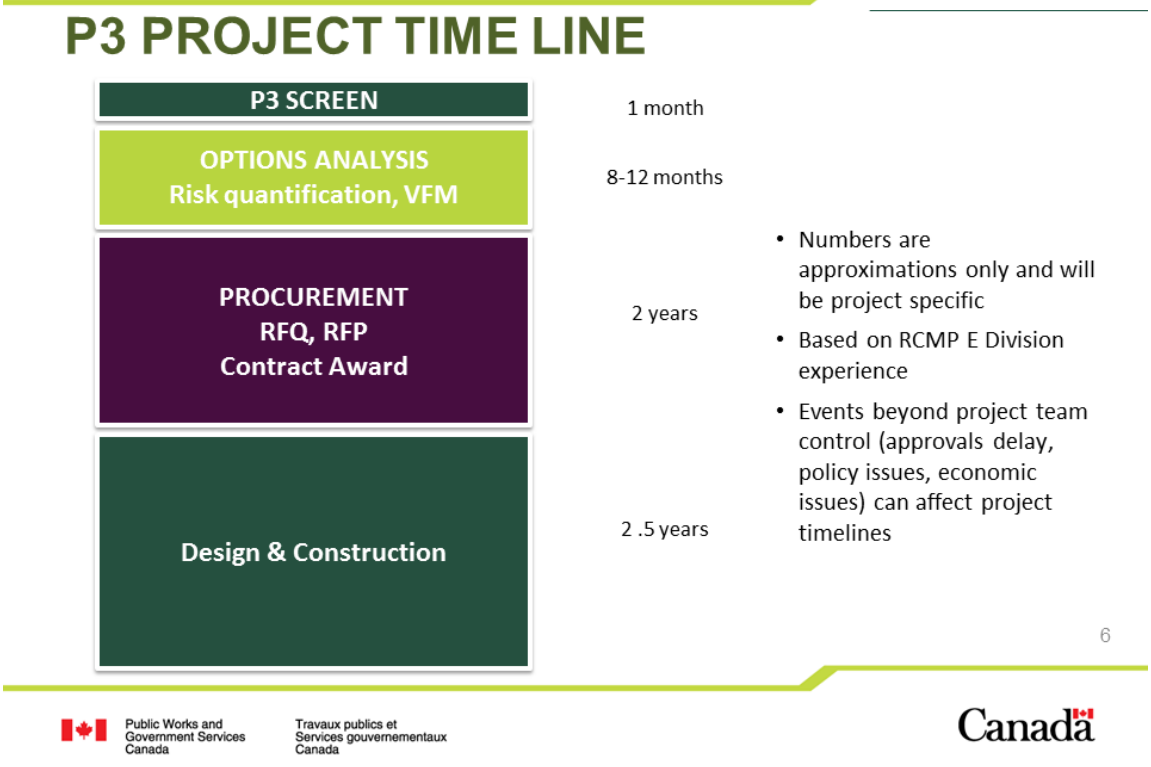
There are multiple means to procure an asset. This graphic is the spectrum of traditional procurement through to what is a recognized set of P3 activities. On the left of the spectrum are the two traditional methods Design-Build or DB and Design-Bid-Build.

Starting in the middle is where P3 projects begin with Design-Build-Finance through to the operations and maintenance of an asset or Design-Build-Finance-Operate-Maintain.

Traditional non-P3 projects can easily have one contract with the Designer, another with the Builder, multiple contracts to operate and maintain that asset. All of the contracts are separate and integrated by the public sector.

By contrast, what a P3 model does is that the Public Sector deals with one entity called the Consortium. The Consortium has a team who does the functions discussed above and with the graphics provided.





The P3 process starts with the question of whether it is feasible, of value to the taxpayers or crown.

Within the federal government a P3 screen is used and which is provided by P3 Canada.

The screen answers, '*should the analysis be completed given its cost and time commitment*'.

Assuming a positive response to the screening, the analysis phase occurs which includes the risk workshops I spoke of earlier.

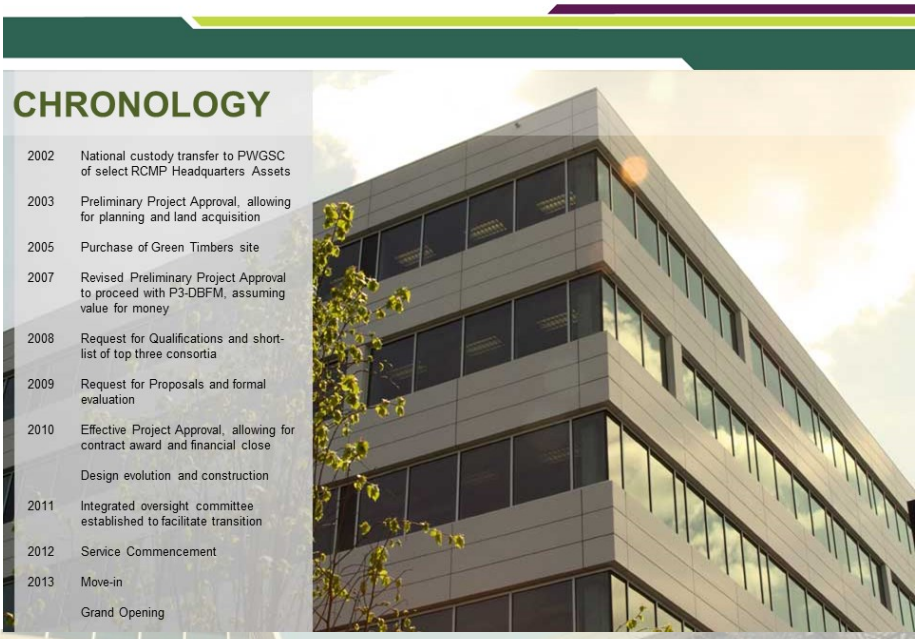
The Procurement phase takes longer than traditional projects but typically the Design and construction takes less time.

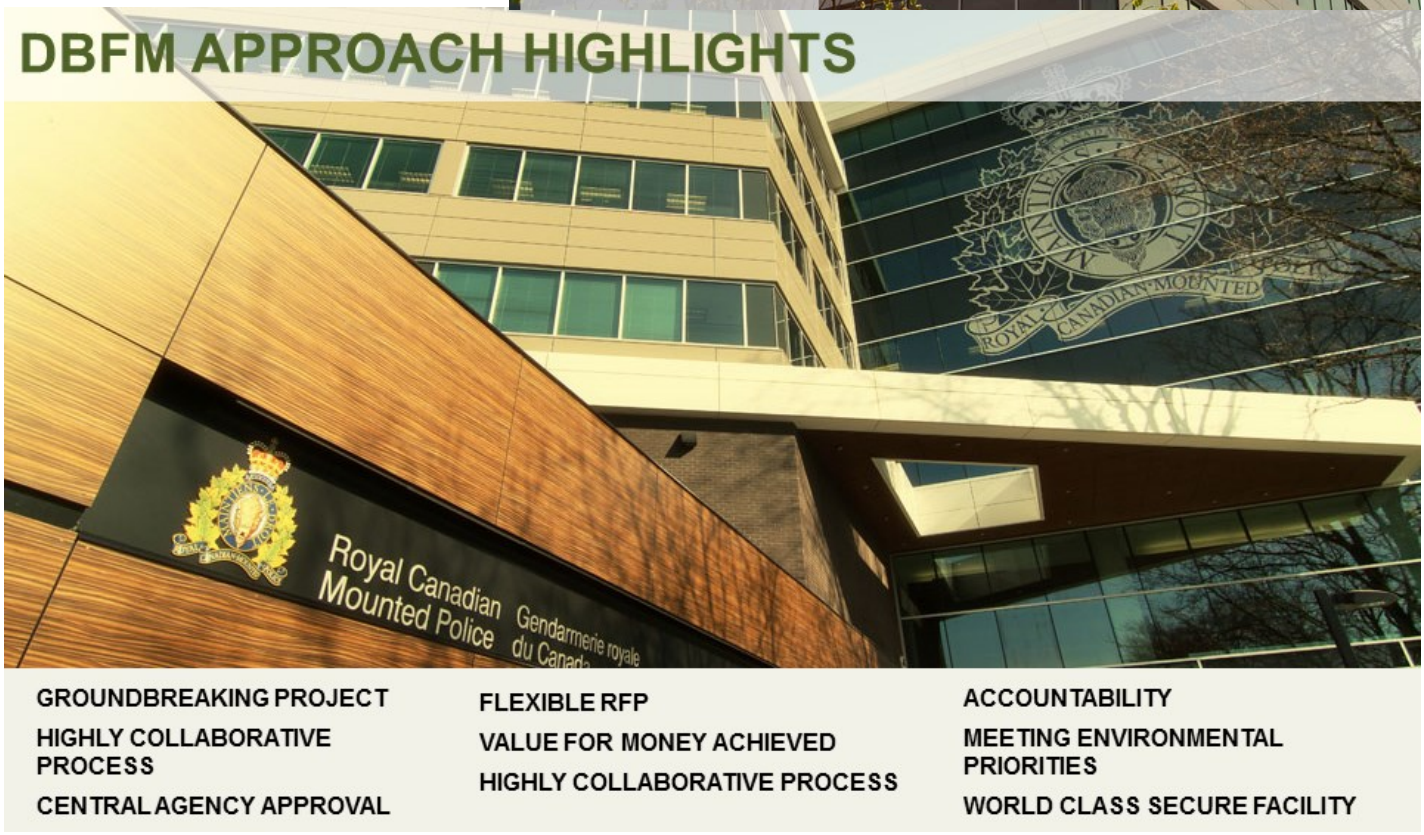
A large asset that was initially conceived in 2002. The photo on the page shows the current asset as it currently exists in Surrey BC. It consolidated about 25 distinct leases into a single building.

This is a large facility, the analogy is 3 8-story buildings (e.g. the Sutton Hotel), laid on their sides and connected in the middle.

There is a long timeline to deliver the assets as seen in the chronology. The initial idea for this particular asset began probably in the late 1980's. Despite the long time lines, for the type of asset and its complexity it was actually quite quickly delivered.

How and why was a P3 chosen for this asset? To start, the project drew upon the methodologies employed by the province of British Columbia's experience. Ultimately the project was delivered on time and on budget.





What were some of the lessons learned from this experience? To start recognizing the upfront effort needed to get the contract 'right'. There is a need for organizational change management including developing good relationship building. This includes developing the right decision making processes.

There are very limited deductions for operations and maintenance. One key lesson was the need to adequately operate and maintain the asset. Succession planning across the team, over the life of the project and across the project's phases is critical.

While this project was successful, because of the sophistication of the contract, the long-time lines and other issues; P3s really are primarily suitable for large assets. This is why P3s have a minimum floor cost of $100 Million capital cost. There is some review being done on bundling smaller projects.

Neill McQuay

Chief, Strategic Partnerships Division, Alberta Infrastructure

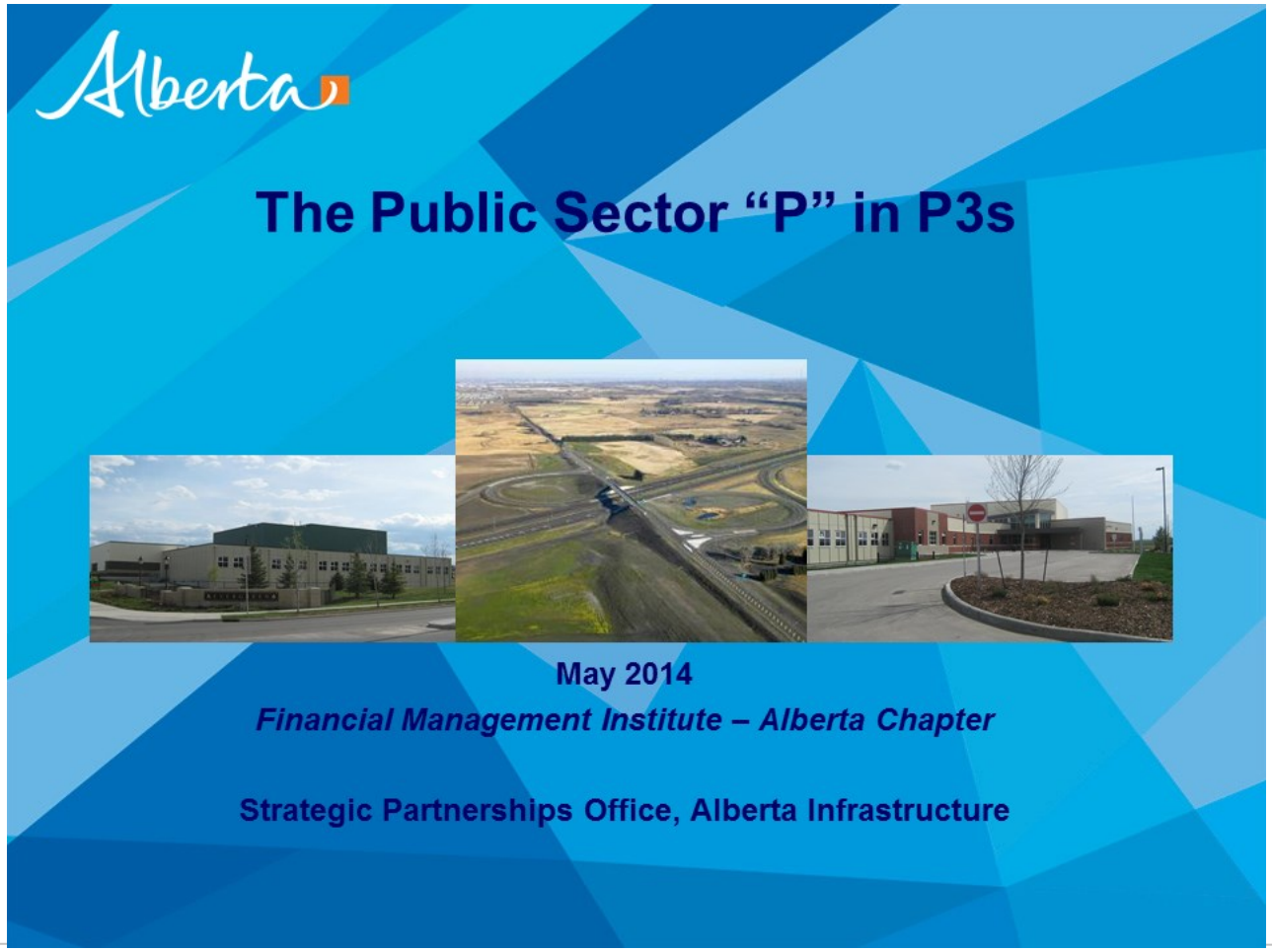
As the Chief of Strategic Partnerships Office of Alberta Infrastructure, Neill is responsible for the identification, structuring and procurement of partnership solutions that deliver public infrastructure for the government. The division responsibilities also include advising other ministries and public sector entities on evaluation and delivery of partnership solutions.

Prior to joining Infrastructure, Neill was the Assistant Deputy Minister, Strategic Capital Planning, Ministry of Treasury Board where he was responsible for similar duties as the Strategic Partnerships Office. Other responsibilities included the Capital Planning and Spending division that led the government's capital plan process and developed and managed the Capital Plan.

While with Alberta Transportation for nine years he was responsible for the Design Build Finance Operate procurement and delivery process for the two ring roads around Calgary and Edmonton. He has spent 17 years as a consultant and three years with a municipal government.

Education: Bachelor of Applied Science, University of Alberta

Professional Affiliations: Association of Professional Engineers and Geoscientists of Alberta.



Notes:

With a show of hands, Neill noted that many of the people in the room had not been previously involved with P3s.

There is keen interest to change how the Government of Alberta develops and maintains infrastructure. The Strategic Partnership Office or SPO is a good step forward in this regards. The SPO will help to encourage new partners not only new but existing infrastructure. For example, is it possible to repurpose existing assets to bring these back on line.

The Strategic Partnership Office (SPO)

- The SPO is a Division within Alberta Infrastructure
- The Office is the central authority within Government for P3s and other innovative infrastructure partnerships
- The SPO is being positioned to focus on four lines of business:

❖Non-conventional partnerships
❖Conventional P3s
❖Agreement Stewardship
❖Practice Management

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The above is a description of the non-conventional partnerships. An example of this is how to repurpose closed or vacant schools. Other lines of business include conventional P3s, how manage the long-term contracts resulting from P3s and what are the best practices in creating and operating infrastructure.

The Alberta definition of a P3 is very succinct and corresponds to the graphic presented earlier by Dr. Nelms. Some organizations define a Design-Build or Design-Build-Finance a P3, the Government of Alberta does not.

Alberta's P3 Definition

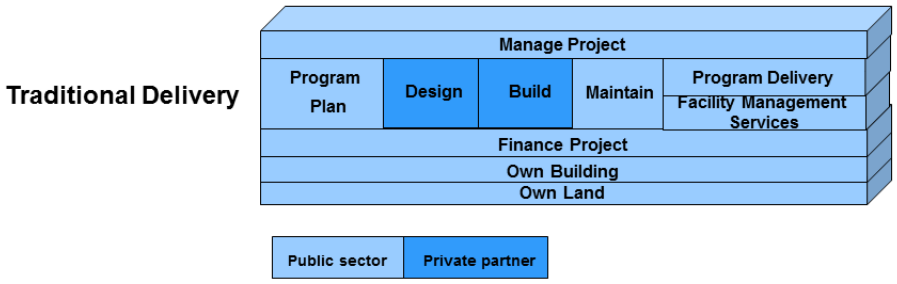
Government of Alberta defines a P3 as an infrastructure project in which a private contractor:

- Provides some or all of the financing;
- Designs and builds;
- Operates or maintains (an "extended warranty"); and
- Receives payments from the government over an extended period of time, subject to deductions for failing to meet contractually defined performance standards

A "DBFO" or "DBFM"

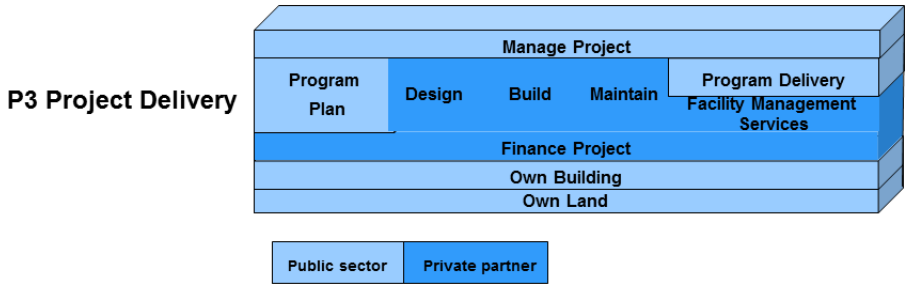
P3s in Alberta – An Overview

Traditional Delivery - Most common method of delivery is design-bid-build (DBB) with operations and maintenance (O&M) procured and managed separately



P3s in Alberta – An Overview

P3 Project Delivery - A P3 is a different, non-traditional way for government to create capital assets (such as roads, schools, and other types of government facilities)



P3s in Alberta – An Overview
The Value Proposition

What if design and build is combined, i.e. a "DB"?
- Synergy
- Risk transfer
- Innovation and efficiency

What if O&M is added, i.e. a "DBO" or "DBM"?
- Life-cycle view
- Risk transfer
- Innovation and efficiency

What if financing is added, i.e. a "DBFO" or "DBFM"?
- Helps address cash flow needs
- Brings added discipline from lender if funds at risk

The Design-(Bid-)Build is the conventional procurement process.

Currently the program delivery, maintenance or management functions are done by Government of Alberta.

By taking a P3 approach, synergies can be developed, for example, combining the design and build functions under one contract. Previously, this was a confrontational relationship. A P3 contract can mitigate this.

By adding the maintenance functions, it forces a lifecycle view of the asset over its anticipated lifespan. For example, typically a designer does not return to a building and ask 'what did we do right or wrong about this building'. The maintenance staff can probably answer that question.

The addition of Financing helps to address a cash-flow. In addition it increases the discipline on the project because the overall contractor has funds at risk.

Typically the Government of Alberta co-finances projects, for example there will be 50% public versus partner funding for a project.

All projects are conducted using these Guiding Principles. The benefits of a P3 are noted on slide 6. Slide 7 lists the six projects that have been signed to date.

P3 Project Guiding Principles

- Project must generate value-for-money
- Lowest compliant net present value bidder is the Preferred Proponent
- Project agreement is negotiated upfront, no changes after final submissions
- Risk assigned to party who can best manage the risk
- Open and transparent process- oversight by Fairness Auditor throughout
- Competitive process – ideally 3 proponents

Potential P3 Benefits

Benefits include:

- Generates value-for-money
- Delivers schedule certainty and cost certainty
- Addresses life cycle costs of project ("30-year warranty")
- Encourages innovation and efficiency
- Allocate risk appropriately

Value for Money (VFM)

PROJECT	PSC NPV	BID NPV	VFM $	VFM %
SE AHD (2004 $)	$ 497M	$493 M	$4 M	0.8%
NEST (2006 $)	$1.0 B	$650 M	$350 M	35.0%
NW AHD (2008 $)	$1.6 B	$1.4 B	$200 M	14.3%
SEST (2010 $)	$1.8 B	$ 769 M	$1 B	58.0%
NE AHD (2012$)	$2.2 B	$1.8 B	$371 M	17.0%
ASAP I (2008 $)	$731 M	$634 M	$97 M	13.3%
ASAP II (2010 $)	$358 M	$253 M	$105 M	29.5%
ASAP III (2012 $)	$332 M	$289 M	$43 M	13.0%
EVAN THOMAS (2012$)	$62 M	$60 M	$2 M	3.9%
			Weighted Average	25.31%

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There average weight of the savings design has been 25% on the Alberta projects.

Criticisms of P3s

- **Lack of transparency**
  - More oversight and transparency on P3s than traditional projects
  - Province posts P3 procurement documents, agreement and VFM report
- **Public service levels suffer**
  - Service levels are defined and measured
  - More accountability and an "extended warranty" with long term, performance-based contract
- **Government is privatizing public services**
  - Government owns infrastructure
  - Government remains accountable for delivering public services

Lack of Transparency: The SPO considers P3 projects to be more transparent because of the fairness auditor and the public posting of all P3-agreements.

Public Service Levels Suffer: Because the Government defines the service levels, they are better defined and measured.

Criticisms of P3s

- **Cost of private financing is higher than rates at what government can borrow**
  - Can be offset by innovation, economy of scale, earlier delivery
  - Enforces risk transfer in agreement
- **Is just a way to get off-book financing**
  - Accounting standards don't allow this
  - It's not free money
- **Private sector is making a profit**
  - They do on traditionally delivered projects as well
  - Competitive procurement is conducted
- **Small local contractors can't participate**
  - Can get involved through subcontracts

Alberta 10

Higher Private Financing Costs: this is mitigated through a blend of public funds.

Neil noted the other bullets on the slide.

A list of projects was discussed including the bundling of some projects (e.g. schools).

Summary of Alberta's P3 Projects

Constructed and operational:

- Alberta Schools Alternative Procurement (ASAP) project, Phase 1 – eighteen schools (K-4, K-6, K-9)
- ASAP, Phase 2 – ten schools (K-6, 5-9, K-9)
- Anthony Henday Northwest
- Anthony Henday Southeast
- Southeast Stoney Trail
- Northeast Stoney Trail

Under construction:

- Anthony Henday Northeast

Alberta's P3 Projects

Pipeline (Proposed):

- Affordable Housing Project
- Calgary Cancer Project
- Building Alberta's School Construction Program (BASCP)
- Calgary SW Ring Road

The pipeline of projects was discussed. Neill noted that many are at the business case step of the P3-process. This means that there is a very detailed analysis of a project. Typically this leads to a profound understanding of the project because of the analysis, or 'I now understand what my project is'.

The traditional Build-(Bid-)Design process does not always force a government to get into the details. The P3 process does this and yields a better understanding of the project. The long-term lifecycle analysis forces this understanding.

Wayne Mandryk

Manager of LRT Design and Construction, City of Edmonton

Wayne Mandryk is a Professional Engineer and currently the Manager of LRT Design and Construction for the City of Edmonton who is tasked with the responsibility to implement new lines and extensions to Edmonton's existing Light Rail Transit system. Wayne was the Manager of Edmonton Transit until 2005. Since 2005 Wayne led the implementation of the LRT extension from the University of Alberta to the Century Park transit orientated development in South Edmonton, and is now overseeing the construction of an extension north from the downtown Churchill station to the Northern Institute of Technology (NAIT), and the development of a planned new line from Southeast to West Edmonton using a Public-Private Partnership agreement for construction and operations.

THE CITY OF Edmonton

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Public Private Partnership's (P3's) – development in City of Edmonton

- 2007 – City Council directs Office of City Auditor to assess advantages and risks of P3's
- 2008 – Auditor recommends need for P3 policy and procedures
- 2010 – May, 26, City Council approves "Public Private Partnership (P3)" policy C555

The focus of Wayne's discussion was the Valley Line of the city's Light Rail Transit (LRT) network. In designing this P3 project, the City of Edmonton made use of many of the methodologies developed for the Government of Alberta.

Policy C555 – Public Private Partnership (P3)

- The City is committed to ensure "Value for Money" is achieved in infrastructure and service delivery, public interest is protected, and Councils priorities are met.
- The P3 policy will:

-apply to large scale (over $30million) complex public infrastructure projects and

- provide a consistent framework for selection, evaluation, approval, delivery and monitoring.

A P3 delivery model for this project was not selected in isolation. The City had been considering P3s for a number of years and their knowledge was based on the experience of other governments. For example, the Canada train line in Vancouver or the construction of the Anthony Henday in Edmonton.

Policy C555 – Public Private Partnership (P3) will be considered where they serve to:

a. Deliver value for money
b. Clearly articulate and manage outcomes
c. Leverage private sector expertise and innovation through a competitive process
d. Create certainty around costs andschedule
e. Optimize use of asset through life cycle

A chronology of P3 use was reviewed including the approval of policy of C555: Public Private Partnership policy. The conditions for using a P3 include its financial size ($30+ million) and complexity. Thus the City of Edmonton will consider a P3 when they can meet one of 5 conditions.

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An analysis completed by PriceWaterHouse of the Southeast and West LRT line indicated that there could be savings of approximately 10% Value for Money.

More important for this project was the guarantee of cost and the schedule given that the project was being considered in support of the 2017 World Expo.

This project was later broken into stages. The smaller section of the P3 still indicated that there was value for money.

The Valley Line Stage 1 P3 includes all the elements presented here.

Edmonton's Valley Line LRT - City Council Approvals

- December 2009 - Southeast and West Corridors
- January 2011 – Southeast and West Concept Plans
- February 2012 Downtown Concept Plan

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Valley Line Stage 1

13 km
11 at grade stops
1 above grade station
1400 stall Park n' Ride
500 m tunnel
River Bridge
O & M Facility

The City of Edmonton

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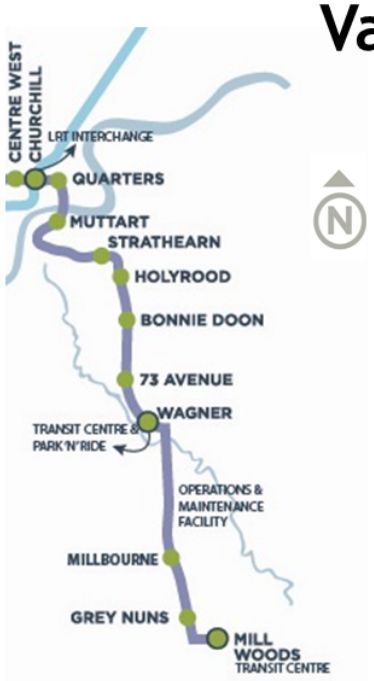
Valley Line Stage 1



Public-Private-Partnership

Design
Build
Finance
Vehicles
Operate
Maintain

Edmonton

This line is straightforward as the line operates as a separate line. This P3 was approved on April 15.

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Valley Line LRT - stage 1

Project Status & Schedule:

- April 15, 2014 - Council approves funding strategy and procurement
- April 23, RFQ issued, Closes June 17
- RFP initiation – Fall 2014
- Financial Close of Project Agreement – Fall 2015
- Construction Start – Spring 2016
- Revenue Service - December 2020

Edmonton

The following dates are the current estimated and firm dates for the Valley Line including it being operational for service in late 2020.

Funding Status

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Source	Amount	Status
City	$800 Million	Strategy approved with partial funds in place
Federal (P3 Canada)	$250 Million	Approved Conditional funding agreement signed
Provincial (Green Trip)	$250 Million	Supported by CRB Has Provincial Commitment
Provincial (Green Trip) transfer from North LRT to NAIT	$60 Million	Supported by CRB Has Provincial Commitment
Provincial Interest Free Loan	$140 Million	Have Provincial Commitment for up to $200 million
Other Federal Funding (Possible Future BCF)	$150 Million	Application submitted Requires Federal Approval
Other Provincial Funding	$150 Million	Commitment subject to receiving Federal contribution
Total	***$1,800 Million***	

Funding is as indicated which includes support from the Federal and Provincial levels. The $800 million City funding includes an anticipated $500-600 Million of private funding. The nature of this funding has not been specified at this point.

The attraction of the P3 varies on a case by case basis. There is considerable front-end work for P3s. The big-gest attraction for this project was Schedule and Cost Certainty.

What was the attraction to a P3?

- Schedule Certainty
- Cost Certainty
- Value for money
- Funding

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Concerns - Resistance

- Budget Control
- Private Financing
- Changes
- Private Operations

The long term commitment of 30 years is a challenge for council.

In addition, budgets are set on a year over year basis and a P3 moves the Valley Line to being a fixed or non-discretionary cost.

Higher private financing must be considered as well as project changes.

There is ongoing concern about a private organization operating public infrastructure. As a result, performance agreements are critical to a P3. Private financing helps to sharpen the focus of the parties involved (the consortium, investors, lenders) to ensure that project and operations performance is maintained.

To close, this is a picture of the extradosed bridge crossing the North Saskatchewan River to be called the Tawatina Bridge. [Editors note, see http://en.wikipedia.org/wiki/Extradosed_bridge for definition, also see www.edmonton.ca/city_government/documents/Tawatina_Bridge_2013.pdf for the bridge's name.]

We believe the P3 model is appropriate for this project. Nevertheless, for those of us who have been involved in project claims over the years, the first piece of advice is 'look at the contract'. As a result, we will spend time and effort looking at the contract to ensure that it is in the best interest of the Council and Taxpayers.

THANK YOU www.edmonton.ca/lrtprojects

Edmonton

Dr. Stephen Stanley

Senior Vice President, Water Services, EPCOR

Dr. Stephen Stanley holds a B.Sc. in Civil Engineering, a M.Sc. in Water Resources Engineering and a PhD in Environmental Engineering, all from the University of Alberta. He is also a graduate of the Executive Program at Queen's University.

Dr. Stanley is currently the Senior Vice President for EPCOR Utilities Inc. where he is the executive in charge of EPCOR Water Services in Canada. EPCOR Water Services provides water and wastewater services to more than 75 communities in Western Canada including over 1 million people in the Edmonton region. EPCOR has also recently expanded to the United States and is now the largest private water utility in both Arizona and New Mexico. EPCOR also provides water and wastewater services to industrial clients like Suncor and Albian Sands Oil Sands in Fort McMurray.

Prior to joining EPCOR, Steve was a professor at the University of Alberta in the Department of Civil and Environmental Engineering.

Dr. Stanley is currently on the Board of Directors of the Alberta Chamber of Resources, the External Advisory Council for the School of Public Health, University of Alberta, the External Advisory Board for the University of Alberta Water Initiative and served on the Management Advisory Council for the Alberta Water Research Institute.

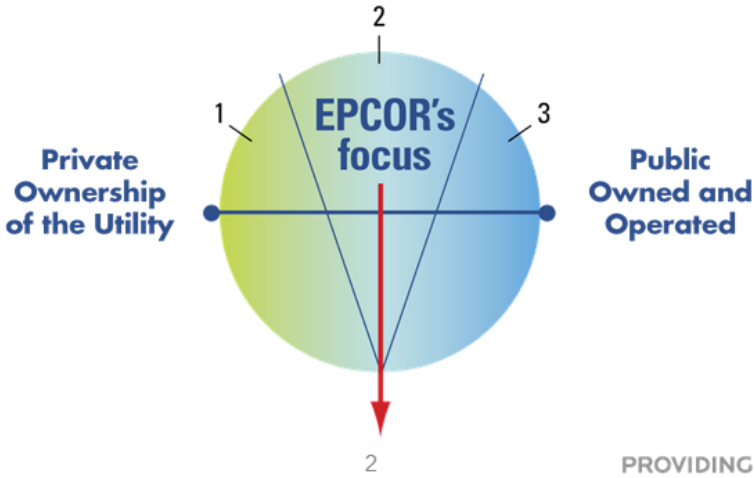
Dr. Stanley thanked the FMI and IPAC for holding this conference and noted that while there are a number of points where the speakers will not agree, there are a number where they will agree. This includes the importance of getting the preliminary agreement right at the start. Another thing is that a P3 is not appropriate for all infrastructure projects. Before getting to this, he first explained a bit about EPCOR.

EPCOR is a power and water utility, based in Edmonton and wholly owned by the City of Edmonton. It runs as a private entity with a growth mandate. It has been in Edmonton for over 100 years and now has expanded across Western Canada and into the United States. Many of the initiatives in these communities are related to a P3 model. It is also now the largest private utility in the states of Arizona and New Mexico.

EPCOR's focus has been on waste-water treatment facilities. In addition, the projects he will be discussing have public ownership of the assets with private operations. This is the common model for most of Canada.

Our alternate service delivery model

- Introduce a balanced approach based on philosophy of blending **public sensibilities** and **private sector efficiency**



Dr. Stanley noted that he would discuss how and where the public sensibilities blend with the private sector efficiencies.

On the private sector efficiency side True Cost is important as it represents the costs to not only build but to also operate a facility over its life. The private sector does a better job at developing and implementing productivity improvements.

In other words our projects are a middle-ground that recognizes the competing public versus private priorities.

Alternate delivery model: a creative blending of forces

- Public Sensibilities
  - Long-term horizon
  - Public engagement
  - Environmental protection
  - Sustainable development
  - Social sensitivity
  - Community investment
  - Tax advantages

- Private Sector Efficiency
  - True cost of service
  - Productivity standards
  - De-politicized service
  - Competitiveness
  - Customer focus
  - Accountability
  - Freedom to grow and be entrepreneurial
  - Performance-based competition

EPCOR tends to play both sides of the P3 space. EPCOR owns facilities and bids on the operation of these facilities.

Value for money in water projects

- Key VFM elements in alternative delivery
  1. Life cycle delivery of projects
  2. Allocate risk to the party best positioned to manage the risk
  3. Integrated approach to design-build-finance-operate
  4. Innovation
  5. Certainty and fiscal accountability

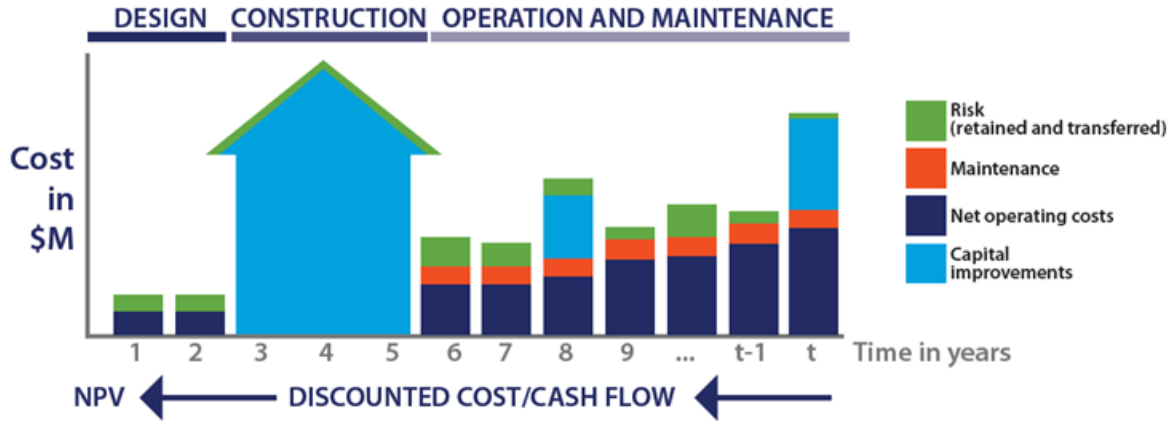
One of the focuses of EPRCOR bids is the lifecycle cost focus. So it takes all components of the expected cost of a project at a Net Present Value to derive a bid proposal.

A team or a consortium is created that will work together to reduce the lifecycle costs. Tradeoffs are considered between the capital, operating and maintenance costs throughout the project's life.

Most projects focus on the construction portion—the large area in the diagram. Nevertheless, only 30-50% of the total costs are actually part of the construction of the asset.

The operational costs tend to be high for waste water treatment, in particular for power consumption. This long term view (focus on the true cost of owning this asset) is the greatest benefit to the tax or rate payer.

Actual project costs over the life cycle



- Over the life cycle, project capital construction costs are only a percentage of the overall cost impact of new infrastructure – typically, capital only makes up 30-50% of construction costs, with the rest related to financing and O&M.
- Most projects never get priced for the entire life of the project.

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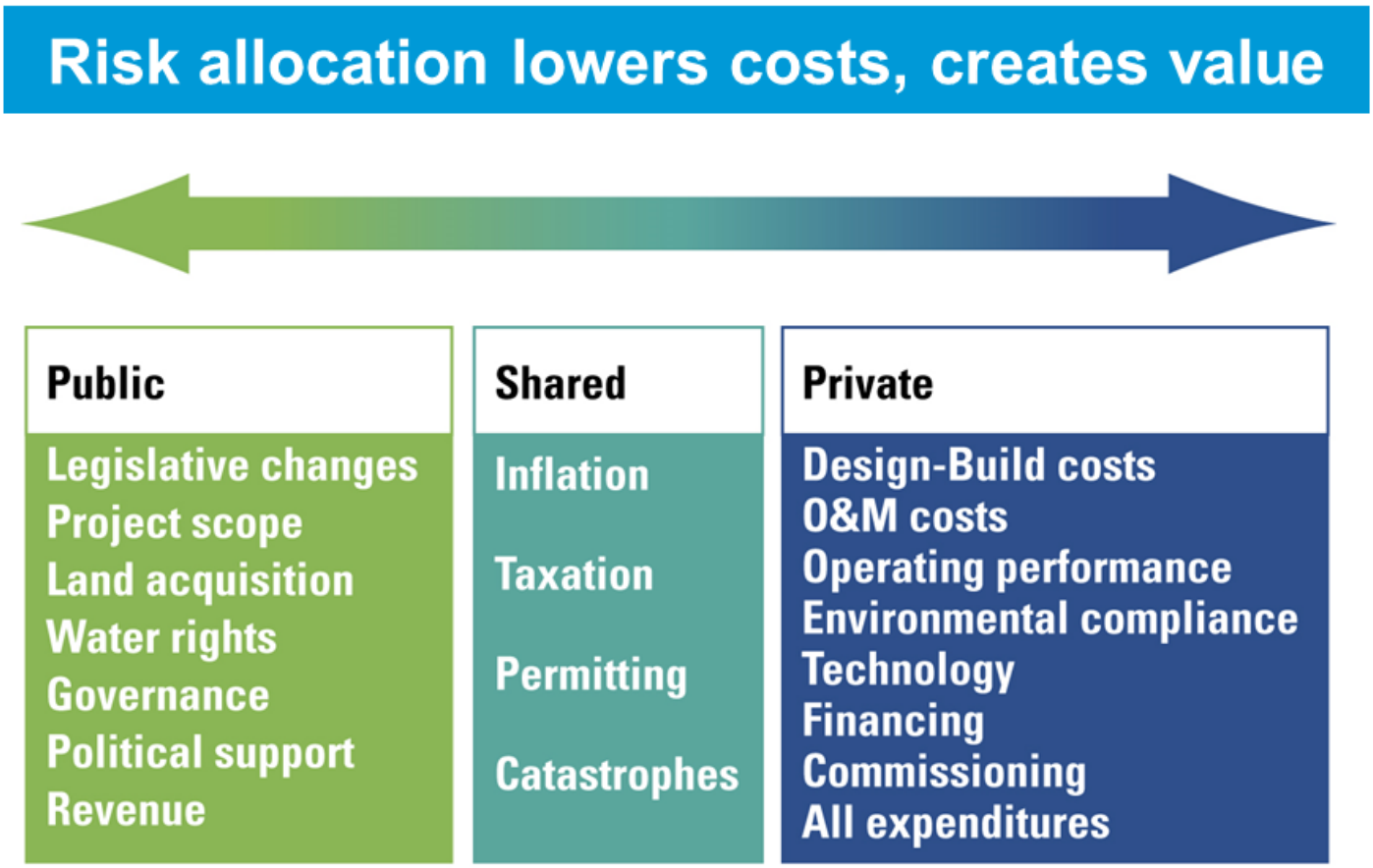
PROVIDING MORE EPCOR

Risk allocation is very real to EPCOR and it sees very real risks being transferred to itself. Once again, the risk mitigation is done via an integrated or ream approach.

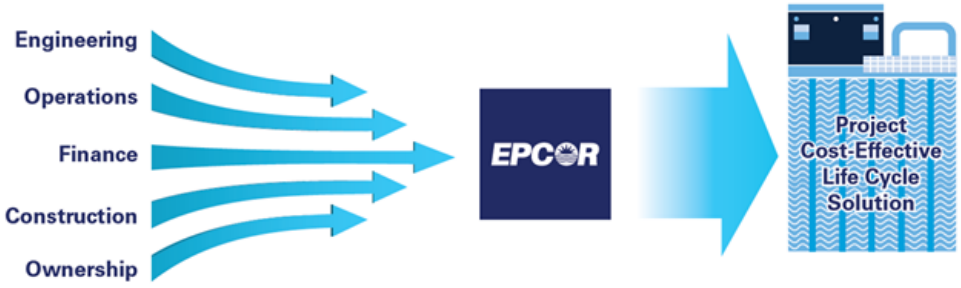
On this note, the party who can best manage the risks should assume the risks. A good example are the water quality standards over the life of the projects. If this risk was transferred to EPCOR, it would take a worst case scenario to mitigate the risk.

As a result, there are mechanisms to make contract changes to respond to these type of changes. Some of the risks are shared as indicated above. Operational performance is very much EPCOR's risk. The Britannia Mine facility has very specific requirements for effluent. If the company does not meet those requirements for even a day, it is penalized. If the plant is not working, the taxpayers is not paying anything for the operation of the facility. On EPCOR's side, we see that is a significant risk transfer.



Integrated approach

- **Integrated delivery** allows early input from all stakeholders (engineers, operators, contractor, owners, financier) to optimize the outcome and focus on life cycle implications.

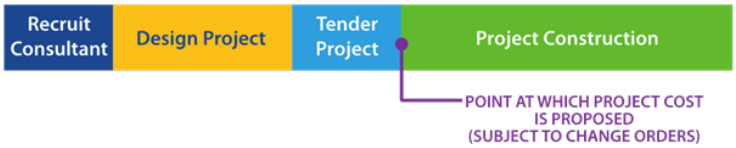


- **Traditional delivery** encourages a silo approach, with only one design solution proposed by the engineer and competition limited to pricing only. It does not focus on life cycle.

Innovation under alternative delivery

- **Competition of ideas** early – creates opportunity to innovate before design is complete
- **Outcome-based**, risk-mitigated solutions, rather than one prescribed by a single engineering firm
- **Schedule** – alternate delivery allows project to be completed in a shorter timeframe, saving time and money

Traditional Approach



Alternate Delivery Approach

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Normally these types of projects are done in silos. The design is done by an engineering firm, construction by another firm and the operations or financing by the public sector.

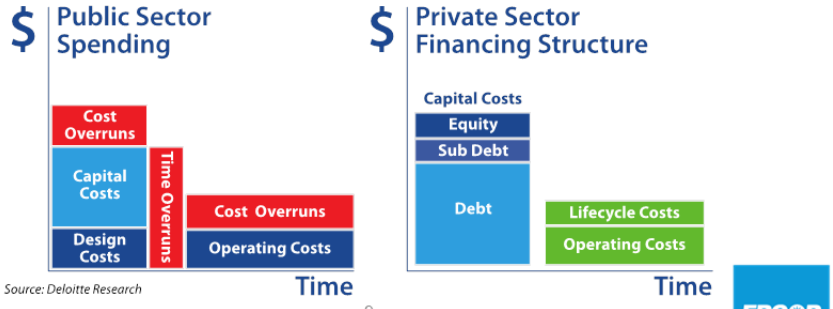
Certainly there is more effort at the front end to set up the contracts. Even this cost though is declining, as expertise is being developed and gained by both the public and private sectors. We are starting to see standardized templates.

In other words, the integrated approach leads to better design and greater certainty of the full cost of the project. This has resulted in savings of time and money in the procurement of the infrastructure.

Certainty and Fiscal Accountability

- Multiple players responsible for each component
- No single point of responsibility – cost certainty is unlikely
- High probability of cost overruns across the phases

- Single point of responsibility
- High degree of fiscal discipline – cost overruns borne by public secto
- Life cycle costs pre-established
- Built-in payment holdbacks as penalties for non-performance



9

EPCOR

The traditional method of procurement sees many of the costs and risks being borne by the public sector.

In contrast the private sector is on the hook for project schedules and costs, which therefore sharpens their focus.

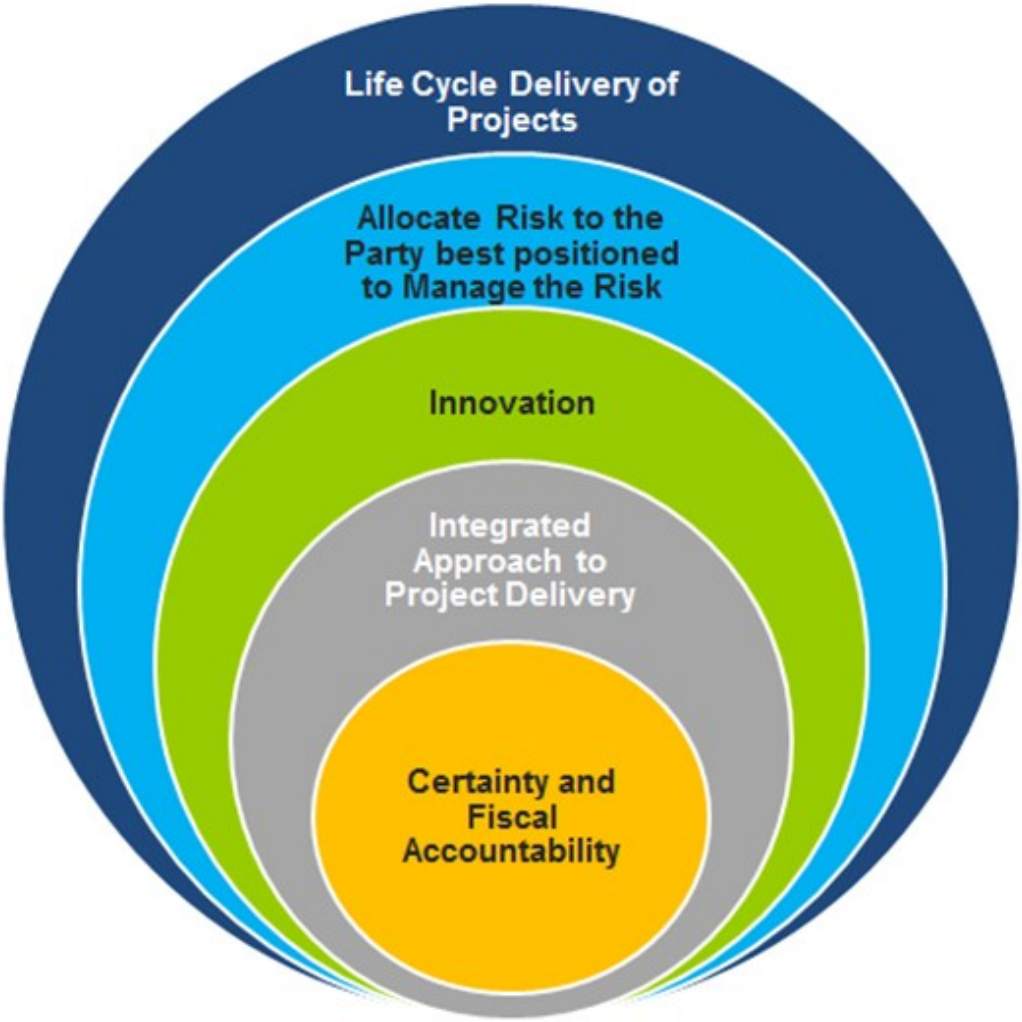
By way of an example, Regina will have a 30 year price to operate their waste water facility.

Cumulative effect of VFM in alternate delivery

There is a cumulative effect of the P3 model which builds and integrates on each previous step. It is important to note that there is considerable back and forth going on project decisions.

For example, do we now spend more on an energy-efficient pump? What does the building contractor think about a change that improves maintenance?

In a tradition model, often the different parties don't interact in these type of projects.



Some of these projects were seen in previous presenters' slides.

We haven't won all these bids. In some cases the public sector bid was better than our bid.

Some of the projects are relatively small. The capital cost savings typically yields a 30% savings.

Track record – our experience

Project	Year	Public Sector Proposed Cost	Private Sector Alternate Delivery Costs	Savings in Per Cent
Pima County WWTP	2010	$240 M	$164 M	32%
Town of Okotoks WWTP	2007	$24 M	$11 M	46%
District of Sooke WW System	2006	$27 M	$17 M	37%
Britannia Mine WTP	2005	$35 M	$25 M	29%
District of Port Hardy WTP	2000	$6.5 M	$3.7 M	49%
Total		$332.5M	$220.7 M	38.6%

*All figures have been rounded to nearest dollar.

11 PROVIDING MORE EPCOR

Marle Roberts

President Canadian Union of Public Employees – Alberta

Marle became involved in the labour movement in 1986 when she started as a laboratory technician at the City of Medicine Hat's Wastewater Treatment Plant. Between 1986 and 1988 Marle attended the local union meetings and became familiar with what a union meant and why it is important to support your union. In 1988 she was elected as a member of the CUPE 46 Group Benefit Team, negotiating benefits packages with the City of Medicine Hat. In 1990 she became the chair of this committee. Marle was elected as an executive officer of her Local in 1997 and in the year 2000 she became president.

Marle has sat on various committees within her local as well as at the provincial and national level. In 2011 she was elected President of CUPE Alberta. Since her election, Roberts has been active with the 'Kids not Cuts' coalition and the 'Alternative Water Futures' tour.

Marle became active in CUPE with her belief that "education of the members empowers them to deal with workplace issues and understand the importance of solidarity". Marle's desire to help others was the driving force behind her desire to seek election within the Union.

(Notes are pending)

CUPE ALBERTA

Overview

The Canadian P3 market has grown substantially. According to the Conference Board of Canada, we are the second largest spender on P3s for the 2007-2011 time period. Since 2011, there have been a number of reports that have touted P3s and their benefits. Here in Canada, there was a report from the Canadian Council on Public-Private-Partnerships and from Infrastructure Ontario. Toronto hosts the biggest P3 conference in the world. At the conference, attendees speak glowingly of Canada being a P3 Model for the world.

One of the reasons for this large market size is that provincial and municipal governments are required by the Federal Government to use P3s for any projects valued more than $100 Million. As we heard from Dr. Nelms, there are a number of reasons for this including the funding and expertise available to the projects. Thus a P3 model may be selected after it is accessed and a P3 is deemed feasible.

The $100 Million of funding is administered by P3-Canada. Currently, we are the only country in the world where P3 projects are publicly subsidized. And this subsidy is growing. Despite a budget deficit and a number of cuts in other areas, the Federal Government just put another $1.25 billion into P3-Canada for the next 5 years.

In this unique Canadian context, my job this morning is to offer you some critical thinking on why you should not consider a P3 model. Firstly, I will talk about getting the agreement right in the first place - and the consequences of not doing so. Next, I will discuss the importance of transparency in this use of public dollars - and the changes my organization has faced in getting information on P3s. Global examples of P3s can provide lessons for Canada and Alberta about their risks, and Canadian experiences can provide more lessons even closer to home. Finally I want to discuss underlying flaws and fallacies of P3s - the concepts of Value for Money and the Transfer of Risk. Finally, this morning I will leave you with some further reading on P3s.

Before getting to this analysis, I want to give a note of thanks to the FMI and IPAC. Thank you for firstly hosting this conference and secondly offering me a chance to offer this counter point. This morning's conference is a good example of where public servants need to engage in open and objective analysis of public policy. Hopefully after this conference you will be better informed and the public servants in the audience will be able to speak truth to power in the context of P3s [editor's note, this sentence added as a distillation of the above sentiments].

The Importance of Getting it Right the First Time and Over Time

But back to P3s and comments for this morning. Given the dollars and size of projects involved, my first observations on P3s is the importance that a government get it right from the start because of the long duration of the contract and their dubious track record - including many P3 failures. To get part way through a P3 initiative - and then discover that something is not working - represents considerable risk and potential costs to taxpayers.

We heard earlier this morning of the importance of doing the work upfront to get the P3 agreement right. To be clear, getting it right includes costs paid to the procurement process, P3 consultants, accounting and law firms. Over the life of the P3 there is also a higher transaction cost. For example, the measurement of performance so as to determine whether and how much a penalty should be assessed for non-performance.

Information Transparency

Unfortunately, the information to understand the value and success of a P3 and the accounting and financial analysis of P3s can be very complicated. In addition, publicly available and essential information concerning P3s is not available in Canada. The experience of the Canadian Union of Public Employees (CUPE) is that accounting information on P3s is very difficult to get and is difficult to properly analyze once you have it. Often CUPE has had to resort to Freedom of Information and Protection of Privacy or FOIPP requests. Once received, these FOIPP requests are often heavily censored because of commercial confidentiality. As a result, I do not believe that P3-process is as open and transparent as it should be.

The Global and Canadian Experiences with P3s

Information on P3s is important to prevent failures, and there have been numerous failures of P3s worldwide. Let's start our review of P3 failures with the United Kingdom's Public Finance Initiative PFI program - their version of a P3.

The UK had one of the largest P3 programs in the world until just recently. The program then imploded as a result of massive cost overruns, bankruptcies and even corruption. Dozens of UK hospitals ran into financial difficulties with their P3 payments resulting in redirecting monies to these payments from basic health services. There were also reports of these hospitals being charged excessively for what should be basic maintenance. The result of this experience was that the UK taxpayer was stuck with these costs. At the same time, the financiers of these projects in some cases flipped their investment and realized massive windfall gains on their investments.

What is the UK experience of their PFI program? A deficit from this experience of $500 billion Canadian dollars was created from this program. In other words, the PFI program in the UK created nearly as much debt for that nation as what our federal government has accrued across many decades.

In Paris, France, the water services was repatriated by the government because of corruption associated with their P3. Similar problems have been report in Spain, Eastern Europe and Russia.

So what is this lesson for Canada from this global experience? To start, our model is based on the UK model, and we now know how that turned out for them. Beyond that, some specific Canadian examples are worth exploring.

In Ontario their Auditor General found that the P3 option costs $600 Million more over the public or traditional building methods. Nova Scotia's Auditor General found that operators of P3-built schools took advantage of the agreements and as a result, it cost an additional $32 Million over a traditional operating model. The Confederation Bridge to Prince Edward Island had a cost of $45 million because of the P3 model. To return to an earlier comment, we found that accessing this information to be difficult and there was no transparency in these arrangements that we would have expected.

Finally, let's discuss the McGill University Health Centre P3 example. It was awarded in 2010 and managed by SNC Lavalin. Unfortunately, it was not a successful P3. The Quebec Auditor General noted the limited and poor information provided to the respective decision makers - apparently they share in CUPE's pain of access to information. The traditional or public option would have been $10 Million cheaper and as many of you know, this P3 lead directly to the Charbonneau Commission on corruption [Editors Note, see http://en.wikipedia.org/wiki/Charbonneau_Commission].

The Flaw and Fallacy of Value for Money and the Transfer of Risk

A common reason for adopting a P3 model is because of the calculated Value for Money and the idea of a Transfer of Risk to the party who can best bear that risk.

Our analysis indicates that there is not a positive Value for Money for all P3s. Where there is a positive value, taxpayers should ask how it was formulated. Larry Blain formerly the President and CEO of Partnership BC said about 8 years ago "Public sector comparators won't do you much good anyways, because I can make the public sector comparator as bad as we want to, in order to make the private sector look good."
[Editors note, Source: Municipal Finance Authority meeting March 26, 2003, http://www.cupe.bc.ca/sites/default/files/pres%20MFA%202007.pdf].

It is these types of statements that should give public servants pause before entering into a P3 arrangement. This returns to a previous theme I introduced on the transparency of the information, the accounting for the information and whether there is any 'creative accounting' being done to always make the private sector look good.

As for the risks of a P3, University of Toronto Professor Matti Siemiatycki reviewed 28 Ontario P3 projects and he found that not one of the projects had a lower base cost than the traditional procurement methods. All were justified on the basis of the 'so-called' risk transfer. [Editors Note, see http://www.cupe2544.ca/the-hidden-price-of-public-private-partnerships/]

Our analysis indicates that most of the risk transferred to the Private P of P3s is in the construction phase and the cost of doing so in an inflexible P3 arrangement is higher than under a traditional procurement method. After a project is completed, we found very little real operational risk transfer. In particular demand risk is often an under represented component of a project's risk assessment.

Once again, CUPE has found it difficult to get information on how a risk transfer was calculated or quantified. When we have received the information, our conclusion is that there is very little risk transferred in P3 projects here in Canada.

Are P3s effective? are they a good idea? While traditional procurement methods are not perfect and not always right, in general P3s are bad deals for communities, workers and taxpayers.

P3s need considerable and expensive upfront work so as to not leave taxpayers with a 30 year legacy of a bad contract. Information on P3s is not always available to stakeholders and event decision makers. When it is available, vital elements may be censored to protect the rights of the commercial interest despite the use of public funds. Global and Canadian examples range from poor to criminal in nature. P3s rest on the concept of Value for Money but as we saw earlier, this calculation can be gamed and may not be credible. The ideal of a transferred risk is illusionary.

If P3s are not a good deal for taxpayers, who profits from them? P3s are good deals for the consortiums who build them and the financiers who fund them. Investors in particular profit from P3s who are guaranteed lucrative and guaranteed rates of return for an extended period while bearing little of the risk associated with the project.

Conclusion

To close, when thinking about P3s, I am asking each of you to do some reading and specifically a guide published by CUPE on P3s. Written by an economics professor, John Loxley from the University of Manitoba; this guide should be part of the discussion on the role P3s play here in Canada. [Editors note, available: https://cupe.ca/asking-right-questions-guide-municipalities-considering-p3s].

Thank you once again for the opportunity to bring CUPE's perspective to this important topic and I look forward to the question and answer period.

Question and Answer Period

Editors Notes:

Individual questions are presented as follows. Responses are not attributed to individual panel members unless it makes sense to do so. Once again, questions and responses have been edited as required. [Editors Note: Unfortunately technical problems resulted in the loss of some of the initial questions.]

Question 1: Can P3s work for smaller scale projects and is there a minimum project size before a P3 does not make sense?

The federal threshold is $100 Million and the City of Edmonton threshold is $30 Million. For neither federal, provincial or City of Edmonton projects is a P3 is not a foregone conclusion. All that is required is that a P3 is evaluated for projects meeting the threshold. Smaller projects, for example those shown in the EPCOR presentation, have been signed and are in play. The biggest limitation is the upfront costs for these projects and therefore ensuring there is sufficient economies of scale for the project.

Question 2: What are the Panel's perspectives on Ms. Robert's comments in regards to transparency?

There is a fairness monitor/auditor in place who is reputable to both the public and private parties. A high level of competition results because the cards are on the table with the process. Risk is mitigated via workshops, advisors who have experience on both alternative and traditional procurement approaches. Risk quantification is a challenging process. Nevertheless we compare the risk assessment on both the traditional and alternate perspectives. Ultimately risks are documented, are addressed in the contract and determined who will retain or assume the risk.

Most of the material relating to the bid process are all public documents. While there is some redaction due to commercial terms, most of the information is available. In addition, the documents are made pubic or not are equivalent to the traditional methods.

Question 3: What is a reasonable approach to quantifying risks?

A reasonable approach for transparency is the balancing of the right of the taxpayers against the right of commercial protection. Ms. Roberts pointed to an example of the Edmonton LRT P3 project. She indicated that a coalition formed was unable to construct a business case for the P3 because the information received via public domain and FOIPP routes was insufficient. Another example is the construction of 20 Edmonton schools. The process is now stalled because the vendor went bankrupt.

Another panelist noted the bankruptcy in question was with a sister organization of the company for which the agreement was signed. [Editors link: http://www.journalofcommerce.com/article/id32411].

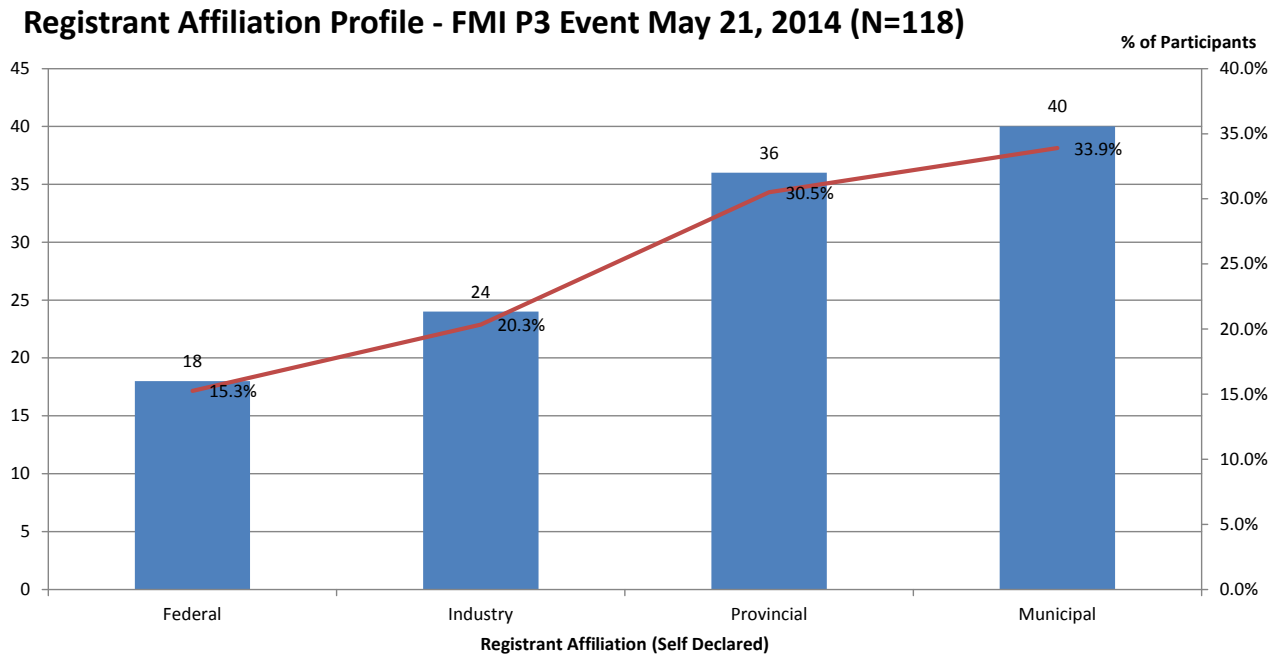
Question 4: What prevents governments from using their lower cost of capital?

Canadian projects typically have a 50-80% of the financing. Thus the private portion of the P3s tend to be in a minority position. This is a significant consideration when developing the contract. When a contract is completed includes a hand back consideration; this is done in coordination with an ongoing review of the maintenance quality of the asset. Private financing brings in a risk adjusted rate that then impacts the risk transfer calculation. In other words, the balance is to ensure there sufficient 'skin in the game'.

Question 5: What mechanisms are in place to ensure the public comparator is as valid as possible ?

The integrity of the estimating costs is important to the process. To start the same internal and external experts are used consistently no matter which bid process is selected. Internal models are developed, updated and used as a control of a public bid against a P3 Bid. Nevertheless, the P3 process involves pitting experience and reputable contractors against each other. This includes using contractors who bid for not only public, but also private facilities.

Final Note: Conference Attendance




The Public Sector P in P3s:
May 21st, 2014 – Sutton Place Hotel, Edmonton Alberta
Panelists and Moderator (Left to Right):
• Wayne Mandryk (City of Edmonton)
• Dr. Cheryl Nelms (Public Works and Government Services Canada)
• Marle Roberts (Canadian Union of Public Employees – Alberta)
• Dr. Stephen Stanley (EPCOR)
• Neill McQuay (Alberta Infrastructure)
• Dr. Robert Ascah (Moderator and Institute for Public Economics)
• Shawn Melnychuk (President, FMI)
• Chris Moore (insert, IPAC)
fmi igf
Alberta Chapter
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EXIT