

C-B analysis of
Options - P3
Public delivery

PPP office should identify projects
Given parameters set.

Role of FDI & the hydroelectric
sector (barrages generate)

Introduction to Public Private Partnerships in Canada

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• Initially executed through govt dept (savings earned).

• PPP agencies were set up.
Capacity building was priority to ensure agencies function properly.

↳ Federally funded to enable states realise benefits.

Knowledge? ^{Govt support}
Attributes
Capacity (theory & practice)

PPP procurement Strategy



Increases possibility for the govt to increase capacity to hire state.
Capacity to hire state to identify projects to be done in public sector.

Canada and Public Private Partnerships

Today's presentation:

- The Canadian PPP market
- Successful and award winning projects
- Traditional vs. PPP projects in the Canadian context
- Risk transfer & VfM
- Canadian PPP Project Structure Attributes

Definition*

A cooperative venture between the 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, rewards and outcomes to those best able to manage them.

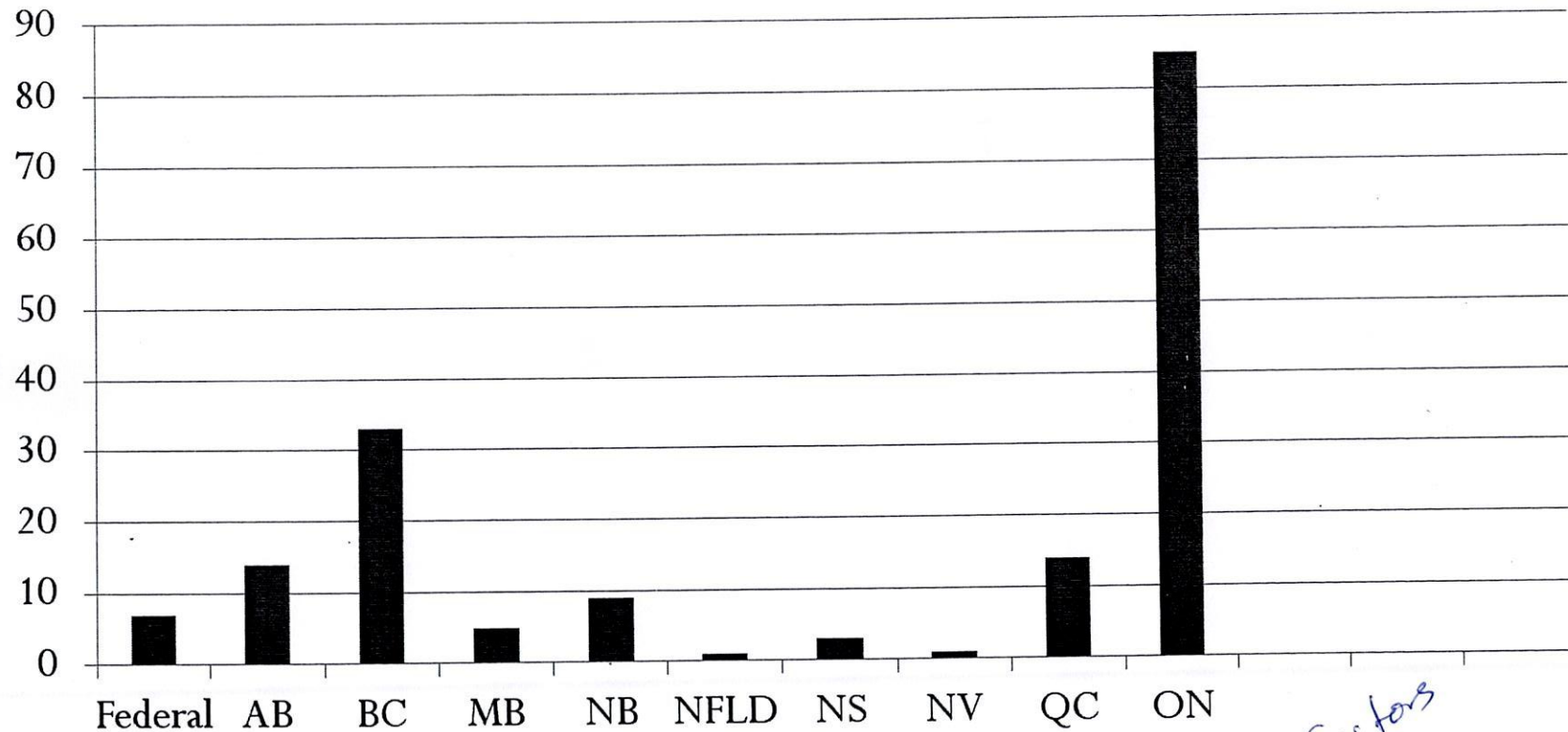
***The Canadian Council for Public Private Partnerships**

Canadian PPP Agencies

PPP / AFP Websites:

- www.pppcouncil.ca – The Canadian Council for Public Private Partnerships
- www.partnershipsbc.ca – Province of British Columbia
- www.infrastructureontario.ca – Province of Ontario
- www.p3canada.ca – Government of Canada
- <http://www.treasuryboard.gov.ab.ca/> - Province of Alberta
- www.ipsamerics.com – private sector integrated advisory team (legal, financial, engineering & project integration)

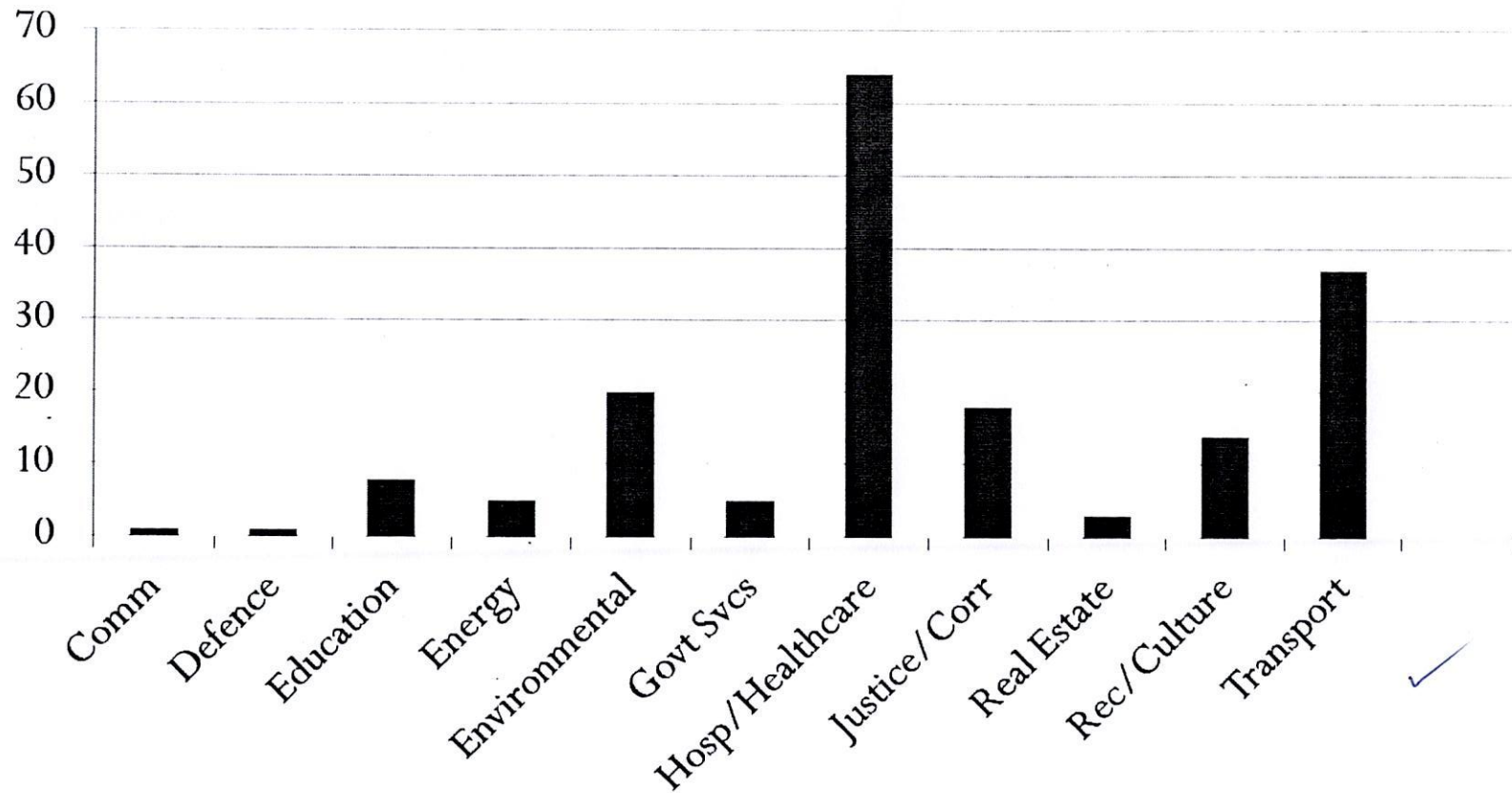
PPP Projects completed 2005 to 2012



Sectors
Can
defense
education
environmental
Health - hospitals
Courts
real estate
transport

Canadian PPP Projects by Sector

Project Type



Sample Projects

Successes & Award Recipients

Successful Projects : Key Components (Municipal Projects only)	Award Winning Projects (Provincial Projects only)
<p>Winnipeg: Disraeli Bridge & Chief Peguis Trail Extension Specific need identified for traffic management</p>	<p>ASAP 1: Bundles of schools (over 40 to date) built and maintained in Alberta</p>
<p>Canmore: Water & Wastewater System Growing community needed environmental solution</p>	<p>Government of Ontario: Data Centre housing all electronic records</p>
<p>London: John Labatt Centre Community and Council supported project</p>	<p>Surrey BC Pretrial Corrections Centre – jail and holding facility</p>
<p>Kelowna: Prospera Place Redevelopment of town centre had full support</p>	<p>New Brunswick Highway System – provision of divided highway throughout the province</p>
<p>Moncton: City Hall & Water Treatment Facility Poor water quality and limited capital available</p>	<p>McGill University Hospital Centre – Montreal Major teaching and research hospital</p>

Current PPP (Mis)conceptions

- No capacity within the public sector
- Limited support from other levels of government
- Public sector resistance
- Too expensive & too cumbersome to manage
- Only appropriate for \$100M + projects
- Can't attract local companies
- PPPs are Privatization
- Local resident opposition

What are some challenges?

- Limited understanding of PPP/AFP frameworks – PPPs are not privatizations, the asset is owned by the government
- Does the country need a federal framework to assist the development of a PPP program?
- Under investment from all levels of government to support growth in infrastructure
- Critical need for improvements after years of under investment
- Support from other levels of government for long term projects is improving but limited by budgetary constraints
- Need to develop capacity to address infrastructure needs other than using traditional procurement
- Finding \$\$\$ for build and ongoing maintenance

Why Choose PPP for Infrastructure?

- Infrastructure investment required to ensure ongoing economic development and to attract inward investment
- Limited capacity to fund capital investment even partially from current income and government funding base
- All sectors could benefit from broader based expertise & know how to deliver best in class solutions in face of growing expectations from residents, businesses and the community
- Transparency in the procurement and operational process

The top five reasons to know more about P3s

1. P3 provide the most efficient use of scarce capital
2. The public sector receives best in class solutions through integrated design and delivery from content experts
3. Value for money is integral to the process and drives efficiency
4. Transparency of the P3 process provides clarity and ease of governance
5. The asset is protected through the long term operation and maintenance of the facility by the private partner

Opportunities to Proceed

- Appropriate sizing of projects
- Bundling of projects to attract competition
- Provision of training and capacity building for the municipal sector is well developed
- Interest from PPP business community (both Canada and internationally) in the international sector as an emerging opportunity
- Canadian PPP sector is experienced and recognized as world leader

Traditional vs. PPP

Procurement Comparison

Traditional:

- Each phase of the capital project is procured separately: the design is tendered, the construction is then tendered and finally the operating or maintenance contract is tendered. All contracts generally are awarded to separate organizations and there is limited coordination among the parties.
- Controls are input based - prescribing specific inputs or materials to be used in delivering the outputs such as the type of washroom facilities, doorknobs.

PPP:

- There is a requirement for full integration of the design/build/finance/operational teams. One procurement document is developed for the complete project and all teams work together to deliver an integrated solution
- Controls are output based - Performance-based contracts specify deliverables in terms of the outputs (e.g. lane availability, or number of classrooms, etc.) desired by end users.

Traditional vs. PPP Procurement Comparison

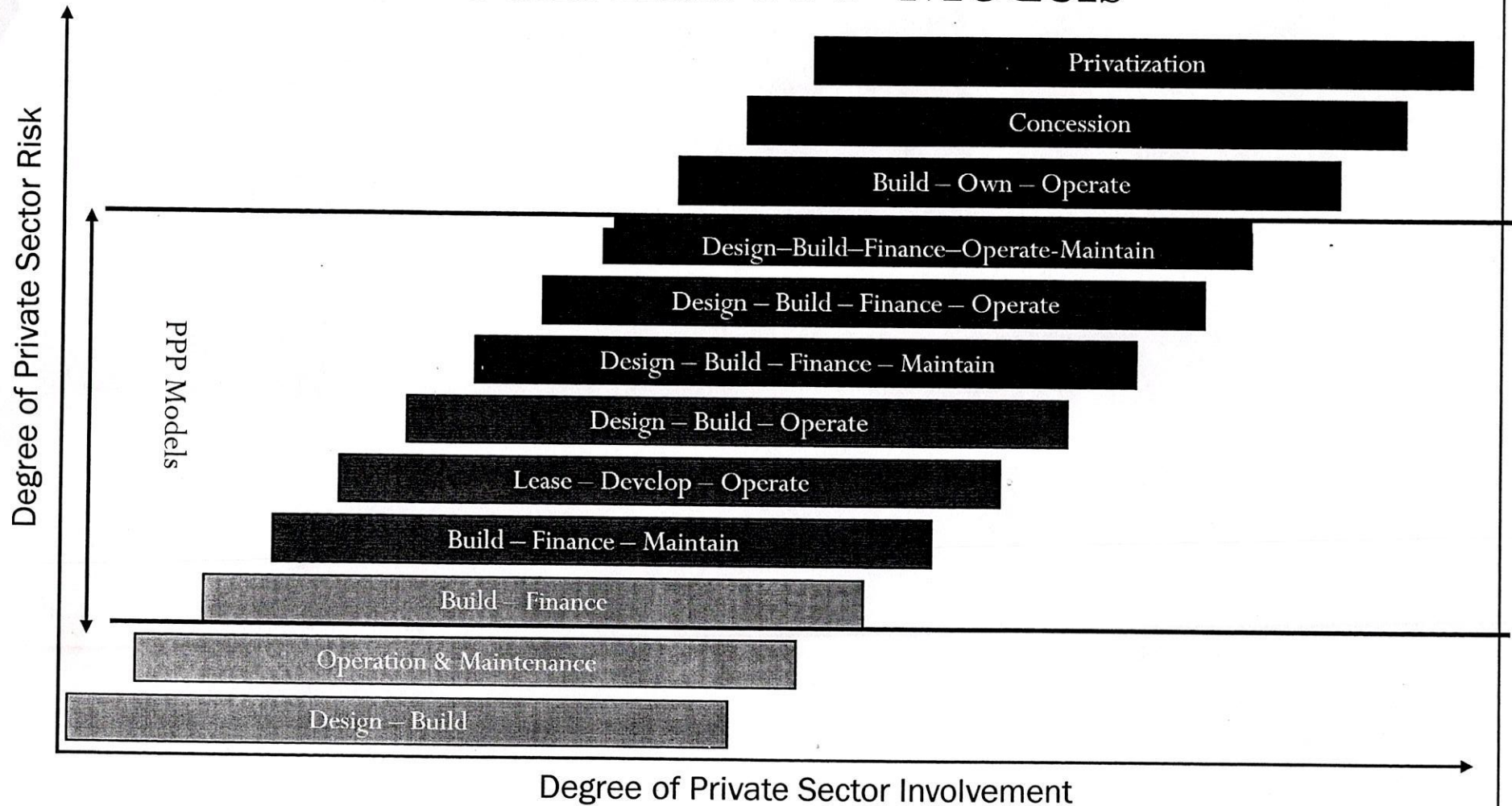
Traditional

- Monthly ongoing payments are made to each successful proponent during the overall project
- Private finance is limited to the input of working capital on construction projects
- Project stewardship rests with the public sector or their contract management firm

PPP

- Payments are made only upon substantial completion of the project or occasionally upon major benchmark completion
- Financing is transferred to the private partner and the majority of financing is a debt/equity mix provided by the private sector
- The private sector has project stewardship risks transferred to them from the public sector

Canadian PPP Models



Key elements for all PPPs

- The focus is long term, providing solutions to needs for a minimum of twenty years
- All PPPs require commitment from both the public and private partners which is based on trust and a common understanding for the ultimate benefit of the community
- Goals of both the public and private sector must be aligned, they are not necessarily the same but must not be in conflict
- There must be a focus on problem solving and transfer of knowledge among the partners
- The agreements will be formal in nature to reduce potential for conflict but the working relationships are informal and designed to operate as team based

Pre Project Questions

Pre project issues:

- What type of project is being considered?
- Is there an estimated project cost and deliverable?
- How supportive is the administration?
- What is the knowledge level regarding PPPs in the community?
- What are the community attitudes?
- What is the internal public sector capacity to take on a project?

Why P3?

- Transfers risk, primarily financial, to partner best able to manage the risk
- Brings alternative sources of capital for investment in public infrastructure
- Delivers operating/maintenance cost benefits from private sector experts
- Increases accountability for the delivery and operation of an asset
- Delivers consistent overall long-term asset management
- Warranties the asset for the full term of the concession period

Key Considerations for Success

- Leadership support
- Stakeholder assessment & management
- Well defined projects including business case
- The right team and expert advisors
- Risk assessment –identification of risks & risk sharing
- Clarity about major differences between PPP & traditional build

Key Considerations for Success

- Infrastructure with high barriers to entry
 - Highly regulated sectors
 - Capital intensive
- Stable and/or predictable cash flows
 - Predictable demand
 - Commercial and pricing risks that are acceptable and bankable

Key Considerations for Success

- Output or service delivery driven
 - Utilize output specifications
 - Substantial operating or maintenance component
- Long-term asset
 - Long useful asset life
 - Focus on life cycle costing and value engineering

Responsibilities

Private Partner

- Organizes partnerships among leaders in the private sector able to ensure project performance
- Mitigates financial and other development risks
- Delivers best in class solutions on time and budget
- Instills community involvement

Public Partner

- Protects partners from political risk (changes in officials and risk of policy flips)
- Brokers deal to reflect political reality
- Provides the political lead, identifies project champion
- Fully supports policy of P3

Value for Money Purpose

Why is a VfM undertaken:

To evaluate and quantify the benefits and cost savings that can be achieved through the use of a PPP as opposed to public provision alone, as described in a Public Sector Comparator (PSC – A Benchmark & Evaluation tool which benchmark the cost of government service delivery).

The public sector may also prepare a shadow bid to further evaluate the potential savings.

Shadow Bid & PSC

Shadow Bid:

- The estimated total cost developed by the public sector of delivery of the project using PPP procurement

Public Sector Comparator (PSC):

- A detailed analysis carried out by the public partner and or advisors to determine the all-in lifecycle cost of providing the project or service using traditional procurement. The PSC can then be measured against the private sector proposal to determine the overall benefit (in quantitative terms) to the public sector

The VfM Analysis

- Defines and evaluates the “Public Sector Comparator” for the project
- Aids in the decision of how the private sector can participate to optimize project delivery
- Quantifies the exchange of risks and benefits between the public and private partners

The PSC and VfM

- The Public Sector Comparator is the cost associated with the public sector provision of the project
 - It is a benchmark for comparing PPP proposals
 - Includes the costs of traditional procurement plus the anticipated costs of public sector ownership
 - It is a realistic expectation, based on sound data and analysis, of what the public sector will pay to do the project on its own

Life Cycle Costs

Costs over the entire Life Cycle of the project must be considered for an accurate VfM analysis

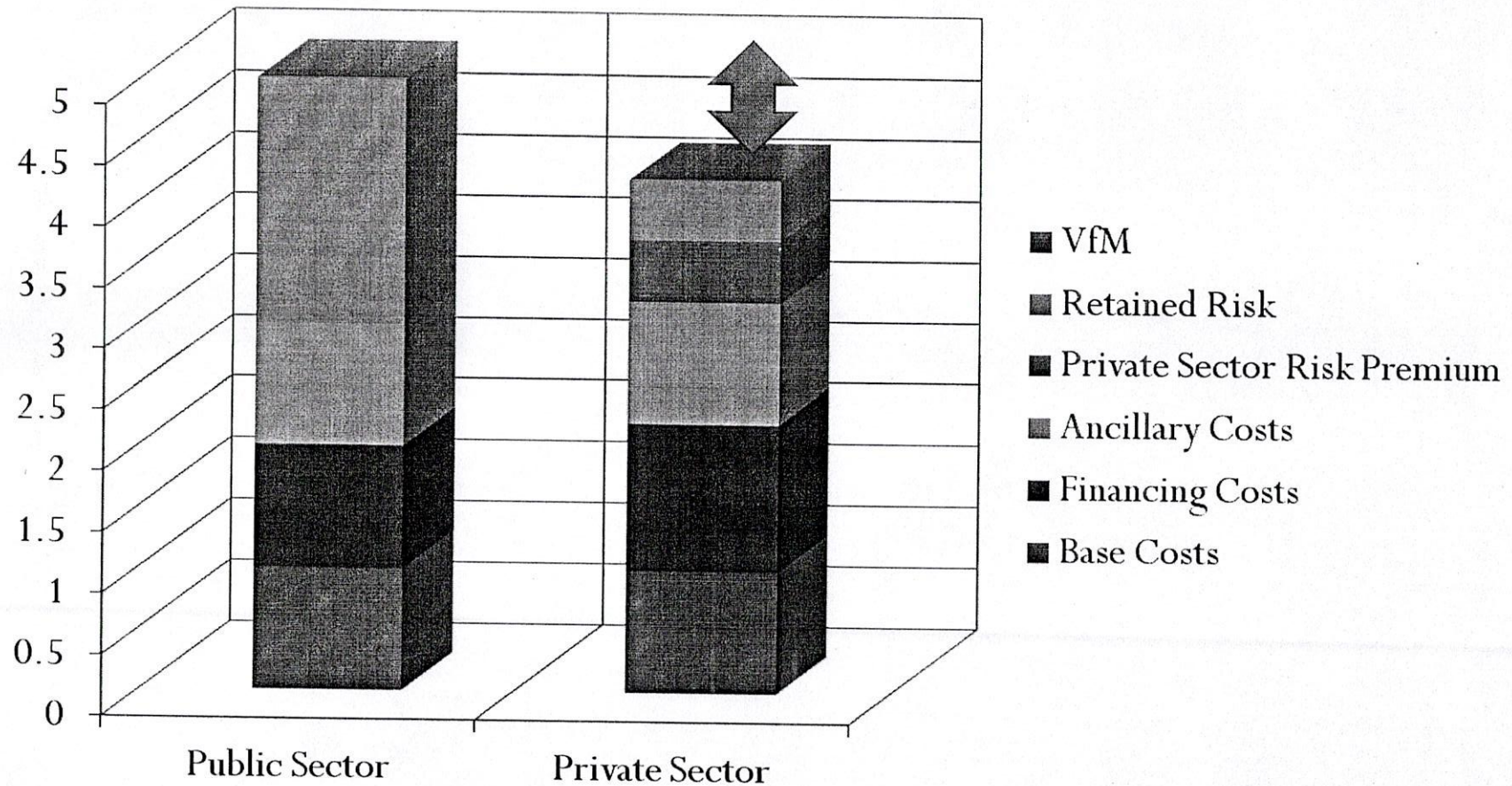
- Costs include:
 - Traditional project costs associated with planning, finance, construction, operating/maintenance of the project
 - Costs associated with “asset handover” at the end of the concession period
 - Changes in supply and demand over life of the asset
 - Public sector compliance monitoring

Final VfM Considerations

Factors to consider:

- Long term stability of potential revenue based on cost or demand simulations – if applicable
- Importance of Lifecycle Cost
- Understand and anticipate costs ahead of time
- Be particularly careful of taking on projects that are considered high risk or subject to major technical or requirement changes
- Understand the concept of the public good

VfM is represented by the difference in column height

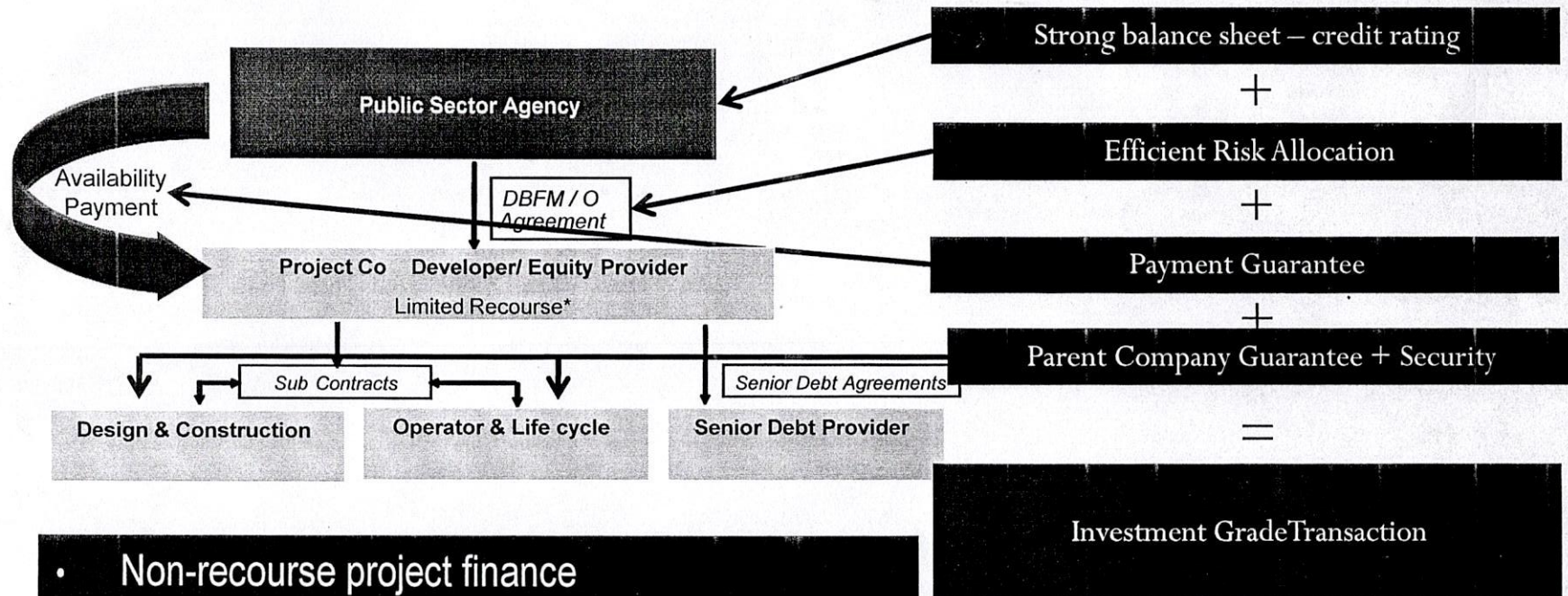


Limited Recourse Principle

- Most DBFO/DBFM transactions in Canada are structured as “limited recourse project finance transactions”
- Private sector equity sponsors create a “special purpose vehicle – project co.”
- Carries out all equity sponsor’s obligations:
 - Borrowing money
 - Managing key contracts
 - Holds all project rights and obligations
 - Lenders recourse in event of a default is limited to property and assets of the project co (limited recourse)

How does this sit to cure Consortium rule?

Structure Attributes



- Non-recourse project finance
- License structure – no charge on title
- Significant risk transfer
- Strong value proposition

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