An Overview of Public Private Partnerships

NEFPP Presentation
May 11th, 2006

Presentation Overview

- BC Government Infrastructure Challenge
- Partnerships BC – role & model
- The Partnership Spectrum
- Cost of Private Sector Financing
- Accounting Treatment
- Benefits Realized To-date
BC Government Infrastructure Focus

- Government commitments
  - Deliver on provincial investment priorities (5000 beds; 25,000 seats; 2010; Pacific Gateway)
  - Continue financial accountability

- Strategy
  - Explore alternatives (PPP, asset leveraging)
    - Improve business planning
  - Mitigate Provincial cost/financial exposures
  - Focus on the balance sheet (declining debt-to-GDP)

Driver of Change in BC Infrastructure Projects

- Government Capital Asset Policy
  - Capital Asset Management Framework encourages public agencies to find efficient ways to meet capital service delivery needs

  The framework asks
  - Is there a way to meet needs without new capital spending?
  - Is there a way to better use or manage existing assets to reduce the need for additional expenditures?
  - Is there a way to share the cost and risk of capital acquisition?
Provincial Capital Process

Needs flow from Strategic Plan thru to Service Plans
Which needs ‘require’ capital investment to solve them?
Examine all possible options to conclusively demonstrate the best alternative.
Document that analysis in a business case.

Partnerships BC - Role and Model

- Established in 2002 - BC Company owned by the Province
- Develop partnership market
  - Attracting PPP businesses to BC
  - Centre of expertise
  - Generate “deal flow”
- Business model
  - Government clients
  - Cost of service
  - Embedded in project teams
  - Reduce transaction costs
  - To date: 10 deals and $4.3 billion invested
PBC Value Proposition

Business Planning
- Risk analysis
- Procurement analysis
- Quantitative analysis
- Project management and governance

Approvals
- Knowledge of government processes
- Submission templates (e.g., Term sheets)
- Shareholder relationship

Procurement Process
- Standard procurement documents
- Evaluation approaches
- Alternative models
- Procurement management

General P3 Best Practices and Policies
- Conflict of interest
- Honoraria
- Strategic communications
- Value for money

Our Projects

Britannia Mine
Sea-to-Sky Highway
Sierra Yoyo Desan Road
William R. Bennett Bridge
Kicking Horse Canyon
Canada Line
Academic Ambulatory Care
Abbotsford Regional Hospital and Cancer Centre
Golden Ears Bridge
Status of PPP Projects – Value for Money

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>LIFE-CYCLE COST SAVINGS</th>
<th>% OF PROJECT COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sierra Yoyo Desan Resource Road</td>
<td>Completed 3 months ahead of schedule</td>
<td></td>
</tr>
<tr>
<td>Academic Ambulatory Care Centre (VGH)</td>
<td>$17 million</td>
<td>15%</td>
</tr>
<tr>
<td>Abbotsford Regional Hospital and Cancer Centre</td>
<td>$39 million</td>
<td>10%</td>
</tr>
<tr>
<td>Britannia Mine Water Treatment Plant</td>
<td>$10 million</td>
<td>30%</td>
</tr>
<tr>
<td>Sea to Sky Highway Improvement Project</td>
<td>$131 million in road user benefits</td>
<td>26%</td>
</tr>
<tr>
<td>William R. Bennett Bridge</td>
<td>$25 million</td>
<td>16%</td>
</tr>
<tr>
<td>Richmond-Airport-Vancouver Rapid Transit</td>
<td>$92 million</td>
<td>6%</td>
</tr>
<tr>
<td>Kicking Horse Canyon</td>
<td>VFM Report – April 2006</td>
<td></td>
</tr>
<tr>
<td>Golden Ears Bridge</td>
<td>VFM Report under development</td>
<td></td>
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$4.3 billion investment: $3 billion private capital

Projects in the Market

- Yukon Mobile Radio
- Long Term Care (Northern Health Authority)
- Northern Sports Centre
- Whistler Wastewater
- Primary Care (Vancouver Coastal Health)
- Long Term Care (Vancouver Island Health Authority)
- Royal Roads University
- Pitt River Bridge
PPP Not a Panacea

- Not all projects are suitable for PPP:
  - Scope for innovation and risk transfer
  - Scale to bare transaction costs
    - Standardize – smaller transactions more feasible
  - Scope for operations/maintenance contract (life cycle risk and cost management)

How We Do It

- Feasibility Analysis
- Options Analysis
- Business Case
  - Risk Matrix
  - MCA
  - PSC
- Traditional Procurement
- Contract Documents
- Design Build
  - Stip sum
  - Construction Management
- PBC Alternate Procurement
- REOI
  - RFP
  - LEASE, or
  - CONSESSION AGREEMENT
- DBFO
  - Developer Lease
  - Strategic Partnering
  - Early Partnering
**Comparative Advantages**

<table>
<thead>
<tr>
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<th>Build</th>
<th>Maintain</th>
<th>Operate</th>
<th>Finance</th>
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<tr>
<td>Design</td>
<td>Build</td>
<td>3 Designs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>Build</td>
<td>Maintain</td>
<td>Operate</td>
<td>Innovations – Life cycle costing</td>
</tr>
<tr>
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<td>Operate</td>
<td>Finance</td>
</tr>
<tr>
<td>Improved planning</td>
<td>Payment for performance</td>
<td>Proper maintenance</td>
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</table>

**Value for Money**

Value for Money is a function of

- Competition
- Risk allocation

\[ VFM = f(x \text{ (competition; risk allocation)}) \]

**SUCCESS**

- Select the right projects
- Maximize competition
- Efficient allocation of risk
Government Financing Costs Are Lower – Right?

- If you adjust government’s risk free rate to reflect project risk is there a difference in borrowing costs?
- Have to look at total risk-adjusted life cycle costs to make the comparison
- Public sector cannot replicate value brought by lenders
  - Incentives
  - Discipline
  - Speed

Accounting Treatment

- Value for money is the top priority
- Greater focus on debt-to-GDP
- Looking at other models – but not at the expense of value for money
- Accounting standards & guidelines change
Benefits Realized So Far

- Better project delivery
  - Lifecycle perspective
  - Formal governance
  - Competition drives innovation
  - Transparency and fairness
- Transfer appropriate risks
  - Fixed-price contracts
  - Meet schedule
- Long term certainty cash flow
- Asset maintenance certainty
- Improved knowledge and due diligence
- Performance-based contract
- Better value for money

www.partnershipsbc.ca