



Hamilton

7.2

General Issues Committee

December 12, 2011

Deloitte.

Biosolids Management Project – P3 Canada Funding Approval Work Plan (Report - PW11098/FCS11112)

December 12, 2011

Agenda

1. Overview of P3s
2. Overview of P3 Canada Fund – PPP Canada
3. Benefits and Challenges of P3s
4. City of Hamilton's Business Case Work Plan Overview
5. Recommendations

P3s Overview

Deloitte and PPP Canada

Overview of P3s

- Another way to **competitively procure** public-purpose infrastructure assets:
 - Transportation (Local Roads, Bridges and Transit)
 - Utilities (Electricity, Water, Wastewater, Communications)
 - Buildings (Hospitals, Prisons, Courthouses, Schools, Facilities)

} P3 Canada Eligible Categories

} Provincial Procurement Agencies
- **Bundles** together project components that traditionally were not bundled:
 - Design
 - Build
 - Operation
 - Maintenance
 - Financing

} **Almost always included in P3**

} **One or more generally included in P3**

 - Design-Build (“DB”), Design-Build-Finance-Maintain (“DBFM”) etc.
- **Long term arrangements** of 25 – 30 or more years to lock in maintenance and lifecycle costs
- **Ownership** typically remains with public sector (Project Agreement is a license)

PPP Canada

- A \$1.2 Billion fund to stimulate the development of public infrastructure using a P3 approach
- Provinces, Territories, Municipalities, First Nations are eligible to apply
- 15 Eligible Infrastructure Categories
- Targeting:
 - Public infrastructure with an economic focus
 - Well structured P3s that achieve Value for Money
 - Projects that build the P3 market



PPP Canada

- Staged Selection and Application Process
- Nature and level of funding support dependent on project:
 - Maximum 25% of construction costs
 - Range of potential instruments including grant contributions, loans and loan guarantees
- Hamilton Biosolids Management Project has been screened into the program
- Next Steps:
 - P3 Business Case
 - PPP Canada Board Decision

Benefits of P3s

Bring construction forward

- P3s enable the public sector to spread cost of infrastructure investment over lifetime of the asset. Private sector has strong incentive to complete project within defined and agreed timelines as they need the stream of revenues to repay capital costs.

On-Time & On-Budget Delivery

- Payments are aligned to the delivery of project objectives – hence P3s have a solid track record of on-time or early construction completion.

Risk transfer

- Well-designed P3s ensure enhanced risk transfer to the private sector. For example: P3s help maintain infrastructure by transferring lifecycle risk for a facility to the private partner.

Accountability

- The concept of “pay for performance” is at the heart of the P3 delivery methodology. Performance standards are clearly defined and payment is linked to the private partner’s ability to deliver against these standards.

Fiscal planning certainty

- P3s result in contracts that spread out fixed payments over the life of the contract making it easier for the public sector to budget in the fiscal plans. These payments factor in lifecycle and maintenance requirements, ensuring appropriate and cost-saving investments in the project over the life of the P3 contract.



Benefits of P3s (cont.)

Enables public sector to focus on outcomes and core business

- P3s enable governments to focus on outcomes, instead of inputs.
- Governments can focus leadership attention on the outcome-based public value they are trying to create. Private sector core competencies are effectively leveraged through properly structured P3 arrangements.

Investment in upfront planning

- Considerable upfront planning is required to proceed with a P3 project. Discipline of planning process results in better understanding of functional needs and articulating requirements to the market.

Cost savings through quality and innovation

- Shifting long-term operation and maintenance responsibilities to the private sector creates incentive to ensure long-term construction and operations quality and innovation.

Strong customer service orientation

- Private sector infrastructure providers rely on user fees from customers for revenue and thus have a strong incentive to provide superior customer service.

Leveraging strengths

- P3s require a full infrastructure solution to be developed and implemented with cost certainty in a long-term contract. This requires consortia to involve skilled and experienced firms with core business in construction, operations and maintenance to ensure quality construction of the asset with longevity over the contract.



Challenges of P3s

Risk premium

- Risk transfer premium is included in upfront in costs.

Complex procurement process

- Complex procurement (technical, legal, financial, commercial) requires more investment of time to develop bid documents and project agreement -- higher procurement costs.

Staff time investment

- Require significant investment by staff (in additional to “day-jobs”) – dedicated resources required to Financial Close.

Clear understanding and communication of “Affordability”

- Clear understanding of “Affordability” for bid purposes (budget) and public communication - costs or budget should be considered as NPV of construction + maintenance/lifecycle

Political champion

- Need for a political champion – Council support

Application of P3 model

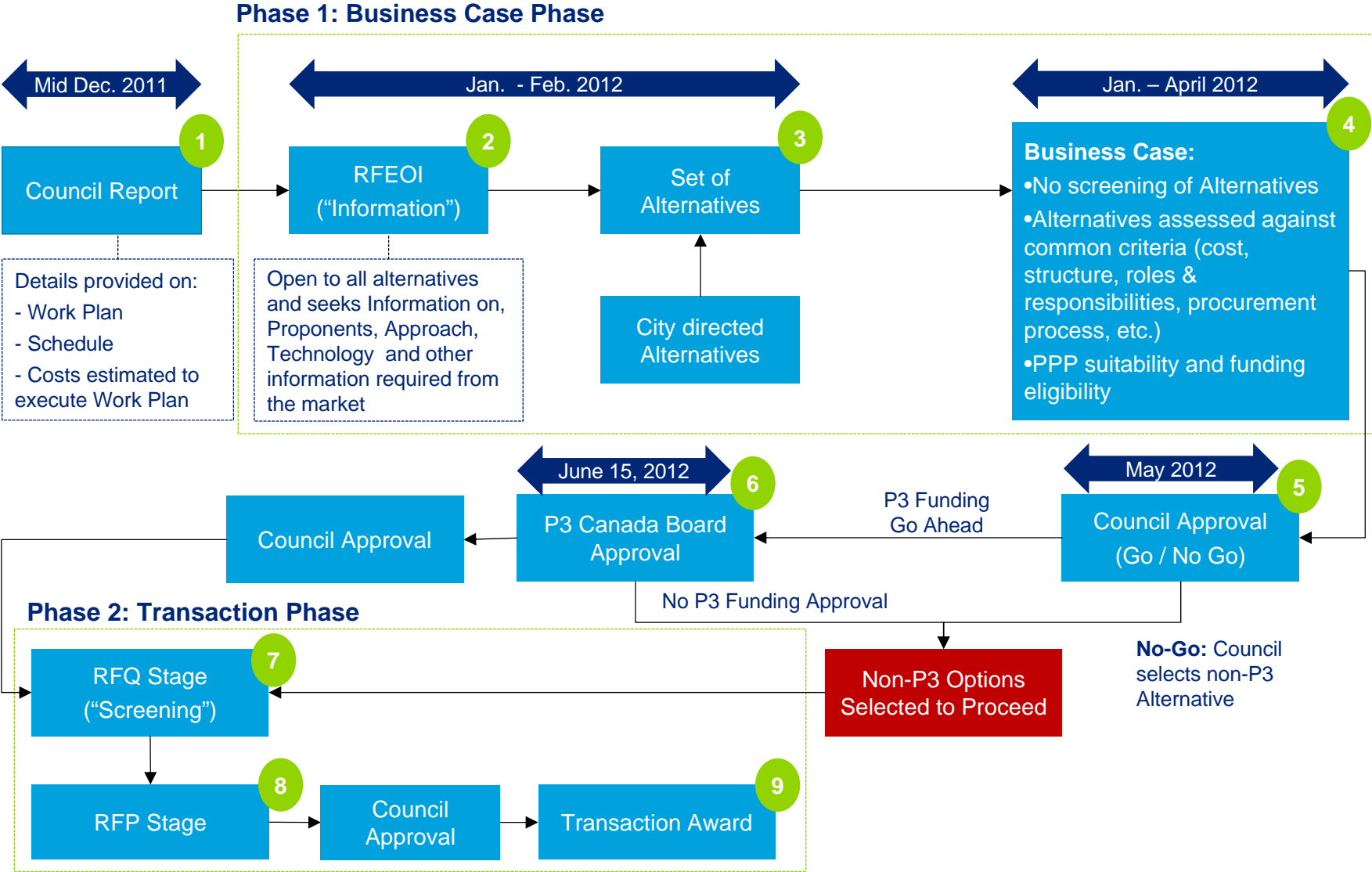
- No value realized if P3 model applied to unsuitable projects



Business Case Work Plan

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City of Hamilton's Business Case Work Plan Overview



Business Case Work Plan Description by Step

- **Phase 1: Business Case Phase (January to June 2012 - Cost Estimate \$300K)**

- 1 Assumes Work Plan approved by GIC December 12, 2011

- 2 3 Request for Expressions of Interest (“RFEOI”) – A formal market sounding exercise to seek out information on all technology alternatives (“Alternatives”) from market participants

- Alternatives may include the following: Land Application, Alternative Stabilization, Thermal Reduction

- 4 Business Case: All Alternatives (RFEOI responses and City directed) will be assessed against common criteria, including cost, structure, roles and responsibilities, and procurement process, amongst others

- PPP Suitability – Alternatives will be assessed to determine suitability for a P3 project structure

- PPP Funding Eligibility – Business Case will assess if the Alternatives would be eligible for P3 funding

- Preparation of detailed implementation plan and costing for procurement options (Phase 2) and capital investment phase (Phase 3)

- Council may choose to drop certain Alternatives that do not meet the criteria

Business Case Work Plan Description by Step (cont.)

- 5 Council approval of Business Case in May 2012
 - Council can elect to go for a P3 or a non-P3 option (based on Alternative)
- 6 P3 Canada approval in June 2012 (if P3 option selected)

- **Phase 2: Transaction Phase (September 2012 to March 2013 - Cost Estimate \$1.5M)**
 - 7 Issuance of Request for Qualifications (“RFQ”)
 - 8 Issuance of Request for Proposals (“RFP”) for all approved Alternatives (P3 or non-P3)
 - Selection of preferred proponent for project
 - Council approval on preferred proponent and P3 Canada funding (if applicable)
 - 9 Transaction Award to Successful Proponent
 - Timeline and costs are indicative: Business Plan will provide more detailed implementation plan and costing schedule for Phase 2

Business Case Work Plan Description by Step (cont.)

- **Phase 3: Capital Investment Phase (March 2013 to March 2016 – Cost Estimate \$73M)**
 - Will follow after Council and P3 Canada Board (if applicable) approval
 - Completion of transaction with preferred proponent – finalization and execution of project agreement(s) (financial close)

Recommendations

- a) That the General Manager, Public Works be authorized and directed to proceed with Phase 1 of the P3 Canada Funding Approval Work Plan for the City's Biosolids Management Project, at a cost estimate of \$300,000 to be funded from Project 5160966910 WWTP - Biosolids MP Implementation;
- b) That after completion of Phase 1 staff report back to Council prior to proceeding to Phase 2.