

# Public-Private Partnerships

Alberta is starting to embrace P3-style developments.  
Not soon enough say some of the advocates

BY MARK KOLKE

I am frequently asked lately by readers, colleagues and clients, "so, what is a P3 exactly?"

The Canadian Council for Public-Private Partnerships defines P3s as "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 and rewards."

What then, defines a P3 project? What does one of these look like? Sometimes it will look like a Confederation Bridge in PEI, a highway 407 in Ontario, or Pearson Airport Terminal 3 in Toronto. It may even in the future look like the proposed new law courts facility that will be built in Calgary.

Sometimes it is just the very business process itself!

There is a lot of debate over P3s, not all of it well informed, in my view. Critics say P3s are about lining the pockets of the greedy private sector. Proponents say harness the private sector to do what they do best - innovate, compete, reduce costs, add value-for-money and produce a high quality facility with prudent approaches to operational and maintenance costs over time.

A great illustration of a very successful Alberta P3 we all know ... can you guess? ... is none other than Alberta's oil and gas industry. A publicly-owned and controlled resource is developed, exploited and managed by private sector stakeholders where resources, risks, responsibilities and rewards are shared. Industry, the public good and all Albertans benefit.

While some critics of P3 have called for caution, they are rightfully wary of "publicly administered, privately run" arrangements.



Interior view of Terminal 3 at Pearson International Airport in Toronto.

PHOTOS COURTESY CALGARY HERALD ARCHIVES

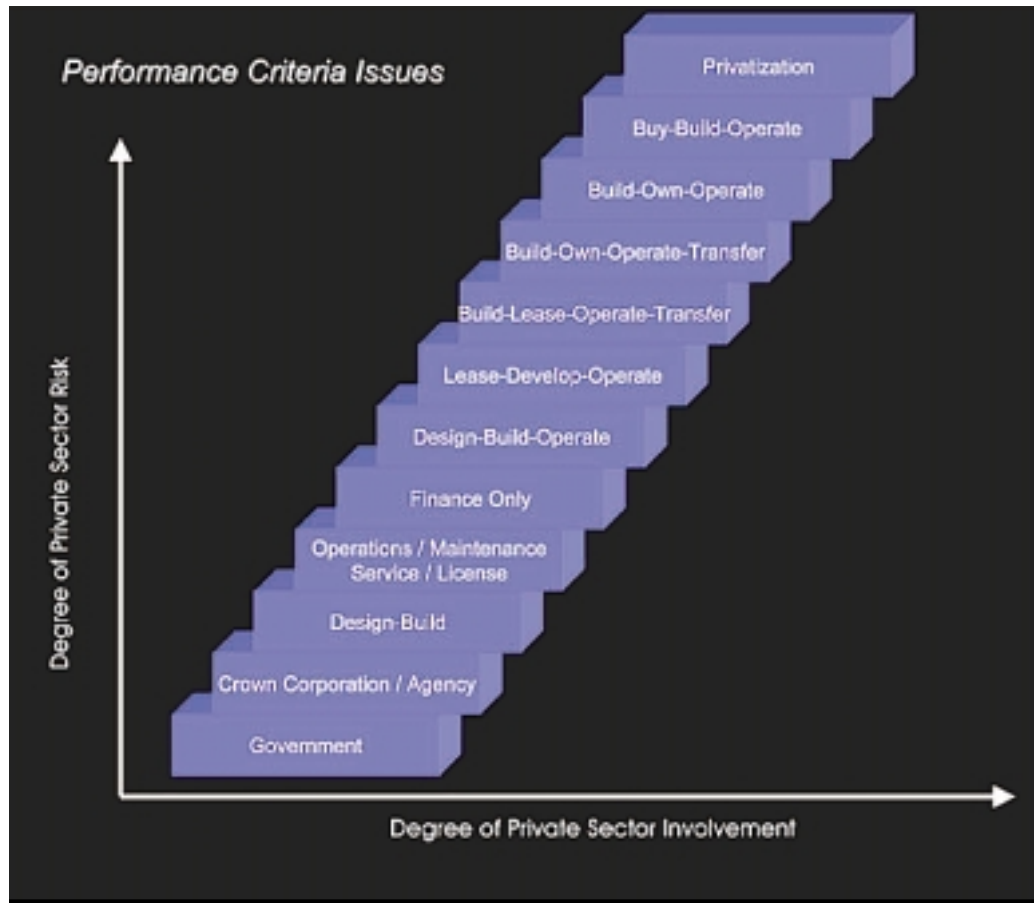
# Degrees of risk

*“Albertans need to know that P3s are just one option being considered as part of an overall capital plan being developed to address infrastructure needs. No one is proposing that all or even many capital projects will be built this way. But, as a component of a larger plan, we’re optimistic that P3s will work well in certain situations.*

*“We simply can’t afford to build all the infrastructure Albertans need all at once, but we can address these pressures quickly and responsibly by fully evaluating all of our options, including public-private partnerships. Albertans need infrastructure now so they can get on with building better lives for themselves and their families.*

*We are investing in Albertans’ future.”*

*– Alberta Infrastructure Minister Ty Lund*



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In Canada and other countries, there are examples of poorly conceived and poorly executed projects, some of which are considered to be the product of expedient politics, greed of suppliers or misunderstood objectives. Some of these criticisms are absolutely valid.

Having said that, when you consider that public sector construction projects typically tend to come in late and over their originally budgeted costs, procurement of projects in a P3 model can address these and a broader range of issues whereby private sector expertise, innovation and contractual controls lay a foundation for creating projects which are clever, cost effective and which meet the objectives of those who need them.

Having personally worked in the P3 environment, I think a great example of how to proceed properly is the approach the Government of Alberta is taking to develop a new law courts facility for Calgary.

Our courts are not only congested, one of the facilities, the Court of Appeal, has been closed over a building health issue. Pressured by Calgary’s growth, the government is responding to real, compelling and proper needs to establish larger court facilities to meet the needs of this city. The need is apparent to all; the only question is how?

Ask yourself, “If I were a politician, would I spend \$250-\$300 million in capital on a new - though much needed - facility which serves lawyers, judges

and criminals?” In the face of general belt tightening in recent years (remember, we still have a net debt in Alberta), in the wake of pressures around health care and education, other infrastructure reinvestment and new approaches to fiscal management ... how would you proceed?

The project is needed. To draw down your capital account by \$ 250-300 million would get the new courts built, but it would also serve to delay needed projects in health care and education in Calgary and other centers in the province. The old way of doing things, which was one of priority setting, waiting, waiting, waiting, priority changing, waiting, waiting, is now being replaced with a process that answers “how can we get these things done in the same time frame using the private sector’s capital to fund it initially provided it is reasonable, prudent and something we are prepared to pay for over time?”

P3 is more about risk transfer than anything else. While some critics say P3 is just a clever way for governments to incur debt off balance sheet and that it is a clever way to finance projects, albeit with borrowing costs higher than government’s experience directly, I would submit those critics “don’t quite get it.”

While having a private sector bidder or consortium deliver both equity and debt to the equation, the P3 process is more complex and more dynamic by far.

The steps from complete government control to complete privatization show that the more government controls the outcome, the less flexibility the P3 component has.

Conversely the more flexibility allowed the P3 component the larger portion of risk and responsibility it assumes.

However, the risk element can be counterbalanced by cost economies produced by innovation and creativity by the P3 partners - in the end providing government with a product which meets its stated needs. If the government can define the objectives clearly and set up a transparent and accountable process, and if the private sector can apply maximum creativity and best management practices, I submit that P3 projects can be completed and operated at less cost than if the government ran the entire how by itself.

### **How does a P3 project come into being?**

Generally speaking a stakeholder [some level of government, a health or education authority, etc.] has a compelling need and does not expect to have capital funds available for the project in a timely fashion; in which case they determine to explore a P3 solution. The development of criteria is usually developed in-house together with some outside consulting advice in terms of financial models, architectural/engineering advice, legal advice and . . . of course, good real estate advice!!!

Following initial broad stroke brainstorming, a set of criteria and objectives are developed and a process - start to finish - for the P3 procurement process starts taking shape. At this stage an Expression of Interest and/or a Request For Qualifications [RFQ] is often issued. Sometimes, depending on the scope of a project and timing, these elements might be combined with a Request for Proposals; however most often these stages are separated by adequate periods of time for proponents and proponent teams to marshal resources, develop responses and organize their business models.

Following review of RFQ submissions, qualifying proponents are invited to submit proposals; they are reviewed, short listed, interviewed and, following negotiation, a contract awarded.

The dynamics of how P3 projects begin, come together and are finally executed will vary widely, especially with respect to timelines. Complicated projects and complicated politics are generally the reasons. The important element which runs common to all these projects is the correlation between "outcome measures" and "innovation."

For governments to comfortably and responsibly oversee these partnerships, they are faced with a number of new challenges:

- while working collaboratively, to be clear to have the focus on performance of the facility and the contract rather than the process of traditional procurement methodology;

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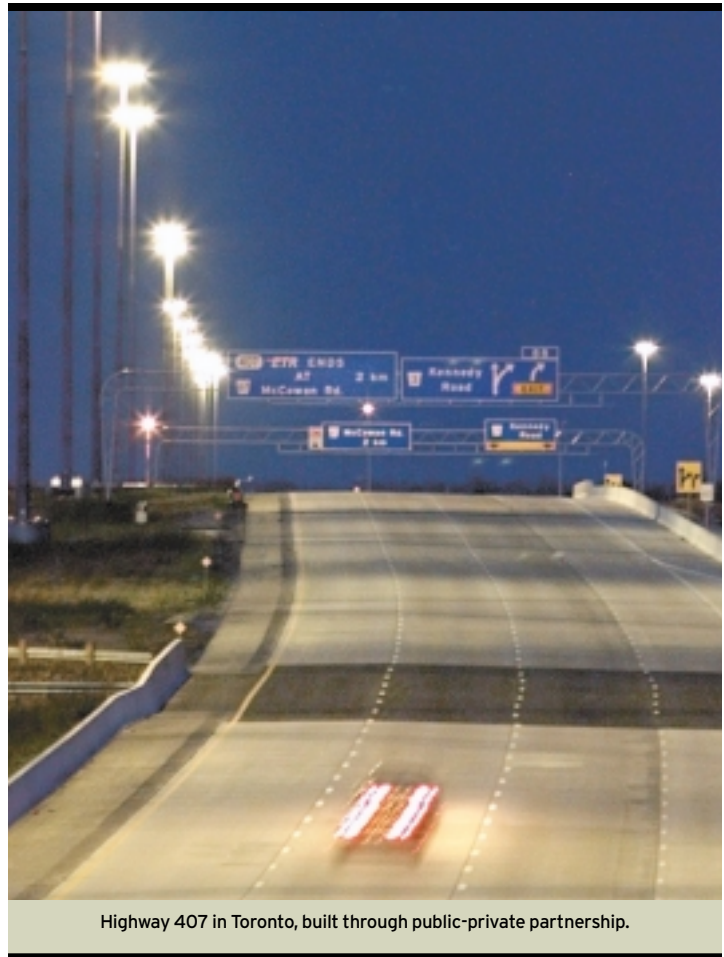
- to reasonably and transparently set performance measures, accountability and level playing field evaluation criteria in order to foster the most important by-product of P3 - innovation, new knowledge and alternative solutions - which produce savings and improved service for users and stakeholders, while providing an opportunity to develop a profitability margin for the private sector partners;

- the structure needs to provide incentives for both proponent and users; whereby savings and decisions can be shared, with rewards divided on a similar plane as are the risks;

- the structure must be one where the proponent partners have an incentive or inducement in the contract to motivate them to do or propose to do things which are in the public interest - something governments typically do well and about which governments are skeptical of the private sector. So developing solutions which might shake things up a little but which are founded on sound planning, use of best practices and which match the project or building with the life of the program, as opposed to building for a “forever” capacity when needs are likely to change in a foreseeable time frame.

When will we know if P3 works in Alberta?

The current debate in Alberta on P3 is focused on whether or not P3 is a valid approach, yet many of the people offering negative opinions are simply frustrated about long overdue - in their view- projects. They see the P3 discussion as something that will serve to slow down rather than accelerate creation of the project they care so much about.



Highway 407 in Toronto, built through public-private partnership.

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While there is debate about current projects, such as overdue health care facilities, law courts, pressure on post secondary education, new neighborhoods needing new schools, roads and roads and roads - the evidence is already in. P3 is alive and well in Alberta and has been for a long time in terms of how projects are created. What is happening today, is a process of putting greater emphasis on this method, on putting rules, processes and a higher level of attention toward it as this method is used for larger higher profile projects.

It is not a question of, should we do P3s? We already do them. It is a question of what types of new P3s we will do in the future. With a growing population, we have a tremendous need for continual infrastructure investment. Not even the Alberta government, bouyed with generous oil and gas revenue, can afford to fund everything on a timely basis. Without advancing the use of P3s, Albertans will only grow more aggravated as they wait endlessly for necessary public facilities.

What the current trend of P3's in Canada heralds is a new era in which the way governments support large capital projects and small ones too is reviewed and possibly

**For further reading:**  
The Canadian Council for Public-Private Partnerships has a number of publications, including P3 guidelines, case studies and Canadian project listings. Inquire at [www.pppcouncil.ca](http://www.pppcouncil.ca) or through email [atpartners@pppcouncil.ca](mailto:atpartners@pppcouncil.ca)

changed very dramatically. To do that requires more than a simple paradigm shift for people who plan, people who advocate and people who decide. It requires a whole new approach to understanding the skills, innovation and capability of the private sector as a partner to be trusted . . . . not as an adversary to be feared.

A new day is coming . . . or perhaps has already dawned in terms of how the Government of Alberta procures solutions to capital intensive programs. They are moving cautiously and far more prudently than many skeptics feared. Ontario is racing ahead with SuperBuild and British Columbia has launched PartnershipsBC; while Alberta's government is moving ahead with less bravado.

That, I think, is a good thing.

While Alberta admittedly has a substantial infrastructure deficit for which P3 might be just the ticket, the government is moving at a steady pace letting communities, departments, health authorities and school authorities demonstrate convincingly that the problem is overdue for implementation AND they have developed a "made right-sized for us" approach to their advocacy . . . the way I see it anyway!

The larger the project, the more complex and time consuming the front-end processes tend to be - however that time invested wisely will yield the best end product. Trust me. . I am not a politician.

*(Mark Kolke, Associate Vice President, Colliers International, is a commercial real estate agent/consultant who specializes in Infrastructure / P3 / Education Facilities. He is publisher of FacilityCalgary a free weekly e-mail newsletter covering commercial real estate, is a member of the Tax and Economic Affairs Committee at the Calgary Chamber of Commerce.*

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