

3. Public-Private Partnerships

Sociétés publiques-privées

Committee Recommendations

That Council:

- 1. Endorse the concept of more fully utilizing Public-Private Partnerships (P3) as a tool which the City can use where appropriate to identify, analyze and implement innovative opportunities for capital project development;**
- 2. Endorse the formation of a Special Delivery Unit within the City Manager's Office to co-ordinate the City's P3 efforts which will complement current centres of expertise and will work with external resources to investigate possible P3 initiatives; and**
- 3. Endorse the framework for dealing with unsolicited P3 proposals the City receives as outlined in this report.**

Recommandations du comité

Que le Conseil :

- 1. appuie le concept de l'utilisation accrue des partenariats entre le secteur public et le secteur privé (P3) en tant qu'outil mis à la disposition de la Ville pour la détermination, l'analyse et la mise en œuvre de moyens innovateurs d'élaboration de projets d'immobilisation;**
- 2. appuie l'établissement, au bureau du Directeur général, d'une unité spéciale chargée de coordonner les efforts de la Ville en ce qui concerne les partenariats entre le secteur public et le secteur privé (P3), qui appuiera les centres d'expertise actuels et travaillera de concert avec les intervenants de l'extérieur pour examiner les possibilités d'initiatives P3;**
- 3. appuie le cadre défini dans le présent rapport pour ce qui concerne la façon de traiter les propositions P3 que la Ville reçoit.**

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Documentation

1. City Manager's report dated 07 June 2002 is immediately attached (ACS2002-CMS-OCM-0003).
2. An Extract of Draft Minute, 18 June 2002, immediately follows the report and includes the voting record.

Report to/Rapport au :
Corporate Services and Economic Development Committee
Comité des services organisationnels et du développement économique
and Council/et au Conseil

07 June 2002 / le 7 juin 2002

Submitted by/Soumis par : Bruce Thom, City Manager/Directeur des services municipaux

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Ref N°: ACS2002-CMR-OCM-0003

SUBJECT: Public-Private Partnerships

OBJET: Sociétés Publiques-Privées

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REPORT RECOMMENDATIONS
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That the Corporate Services and Economic Development Committee recommend Council:

- 1. Endorse the concept of more fully utilizing Public-Private Partnerships (P3) as a tool which the City can use where appropriate to identify, analyze and implement innovative opportunities for capital project development;**
- 2. Endorse the formation of a Special Delivery Unit within the City Manager's Office to coordinate the City's P3 efforts which will complement current centres of expertise and will work with external resources to investigate possible P3 initiatives; and**
- 3. Endorse the framework for dealing with unsolicited P3 proposals the City receives as outlined in this report.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des services organisationnels et du développement économique recommande au Conseil :

- 1. d'appuyer le concept de l'utilisation accrue des partenariats entre le secteur public et le secteur privé (P3) en tant qu'outil mis à la disposition de la Ville pour la détermination, l'analyse et la mise en œuvre de moyens innovateurs d'élaboration de projets d'immobilisation;**
- 2. d'appuyer l'établissement, au bureau du Directeur général, d'une unité spéciale chargée de coordonner les efforts de la Ville en ce qui concerne les partenariats entre le secteur public et le secteur privé (P3), qui appuiera les centres d'expertise actuels et travaillera de concert avec les intervenants de l'extérieur pour examiner les possibilités d'initiatives P3;**
- 3. d'appuyer le cadre défini dans le présent rapport pour ce qui concerne la façon de traiter les propositions P3 que la Ville reçoit.**

BACKGROUND

The issues and challenges surrounding municipal funding have been gaining greater awareness and attention as it becomes clear that, although cities are the economic engines of the country, they do not have the political and financial tools they need to meet the basic requirements of growth. Recent studies by the TD Bank Financial Group and the Federation of Canadian Municipalities have examined this issue and identified the need for other levels of government to change the funding arrangements with municipalities as well as the need for local governments to find innovative strategies to maximize the resources they have.

The City of Ottawa's 2002 Budget process identified pressures and challenges facing the City that remain to be solved over time. These pressures and challenges were created in part from the realignment of responsibilities from the federal and provincial governments to municipalities without also passing on the stable, base-line capital and operating funding for these programs, and the restrictions placed on our ability to fund the requirements of growth and the increased demand for service.

The City is not waiting for the other levels of government to institute a fairer funding model, but will proceed to look at innovative approaches to provide solutions where it can. As the City moves forward in the development of a Long Range Financial Plan, one tool that will certainly be used is public-private partnerships (P3).

Public-private partnerships are arrangements between government and private sector bodies to provide infrastructure, community facilities and related services in a manner that benefits the government, the private sector partner and residents. P3s serve as a vehicle for the injection of private sector financing while allowing governments to maintain their fiscal targets and avoid taking on additional debt.

This report reflects the best experiences and practices of those currently engaged in P3s. If the P3 concept is approved, City staff will establish a Strategic Delivery Unit (SDU) to centralize specialized expertise in public-private partnerships. This unit will create a flexible delivery framework that will enable the City to achieve its objectives and address emerging innovative projects.

The SDU will examine ways to optimize current resources and take advantage of public and private sector best practices in the development, construction, and operation of some of the City's infrastructure projects (like the east and west ice pads). It will examine where the City might leverage capital funding in order to implement projects earlier and in a more cost effective manner. It will ensure P3s operate with a fair and transparent process, which achieves the best value for the municipal tax dollar.

DISCUSSION

Public-private partnerships are not simply about borrowing money from the private sector. As has been proven in other parts of Canada, successful P3 initiatives bring significant benefits to all partners while achieving better "value for money" for ratepayers. The benefits include:

1. Allowing the public and private sectors to focus on and harness their respective responsibilities and strengths;
2. Achieving economies of scale where the private sector partner is involved in similar projects;

3. Accessing specialized and innovative private sector expertise for the design, construction, operation and maintenance of an asset or project over the life of a contract;
4. Taking advantage of the Request for Proposal process, which forces a more accurate and rigorous assessment of what actually needs to be provided;
5. Maintaining the private participants' financial stake in the project which guarantees their commitment to economic efficiency while the government partner protects the public interest;
6. Pursuing an optimal allocation of risk, with each partner taking on the particular risk it is best able to manage.

Public-private partnerships are one of a number of ways of delivering public infrastructure and related services. They are not, however, a substitute for strong and effective governance and decision-making by elected representatives. In all cases, under Council direction administration would remain responsible and accountable for delivering services and projects in a manner, which protects and furthers the public interest.

In entering into a public-private partnership, the City will establish the ground rules and have the ability to shape each P3 to reflect its own objectives, policies and regulations. The City will have well-defined contractual remedies in a P3 arrangement that would guarantee the public interest. However, it is important to stress that no P3 arrangement is risk free. Not all risks can or should be transferred entirely. Risk is the foundation of all business. The more risk a municipality transfers to its private partner, the greater the level of compensation the partner may require in return. The challenge in any partnership is to share the risks in such a way that each partner receives the maximum benefit. It is essential to identify the full range of potential risks and determine which ones should be assumed by the municipality and which should be transferred to the private partner. It is important to maintain enough flexibility to allow innovative risk sharing suggestions from the private sector.

Reporting directly to the City Manager and funded within the existing budget for that office, the proposed Strategic Delivery Unit will act as the centre of expertise for P3 initiatives and other delivery mechanisms, including the development and updating of best practices, procedures and guidance materials. Its broad mandate will include scanning the capital budget for projects approved by Council that could have the potential to move forward as a public-private partnership.

This unit will also participate in the development and implementation of the City's P3 projects, acting as lead advisor to the internal and external teams and as the manager for the project until its hand-over to the line department. It will examine, in collaboration with departmental representatives, the City's capital plans for the expansion, consolidation or building of facilities to determine whether an innovative capital funding arrangement could be applied.

In order to move forward on developing P3 as one of the tools available for capital projects, the City

will investigate the immediate potential for using P3 to develop one of the smaller recreation capital projects. Based on research from other jurisdictions and the business maturity of service providers, recreation-type projects have the highest degree of success in the short term. A smaller scale recreation project would also be relatively quick to complete, and provide an opportunity for City staff to evaluate the potential for this concept.

Within the next six months, the SDU will prioritize potential P3 capital projects from the approved 2002 Capital budget, develop a comprehensive communications strategy, initiate a P3 in recreation for an ice pad in the west or east end, and provide orientation and training to staff.

As the work of this unit develops, time will be taken to properly identify and prioritize potential P3 projects. Special attention will be given to projects that can deliver strong ‘value for money’ results for the City.

To ensure consistency in dealing with the private sector it is important that any P3 initiative be implemented in an open, fair and transparent process. Some of the fundamental drawbacks with unsolicited proposals are a lack of fairness and transparency, loss of control of the process, the solution may be what the private sector proponent deems as appropriate to a municipal need and the lack of determination if value for money was maximized. Therefore, the City is recommending the P3 process not be open to unsolicited proposals from the market. Should unsolicited proposals be received, they could be explored using the following framework:

1. Projects must be part of the approved capital plan to be considered;
2. If an unsolicited proposal is received which does not contain sufficient detail and is merely requesting negotiation of the details of an arrangement, then this proposal should not be further considered;
3. If an unsolicited proposal is received which contains sufficient detail and very strong commitments by the potential partner, the proposal could be considered as part of a “Swiss Challenge”. The Swiss Challenge provides a priority to that bidder within the City’s formal bidding process by allowing it to make changes to its proposal if it does not provide the best value. In other words, the detailed unsolicited proposal would be subject to a formal process, allowing other bidders to participate and providing the initial bidder the opportunity to make changes to their original submission if it did not meet the best value test.

Staff believe that, given the challenges municipalities face in terms of infrastructure funding, the City of Ottawa should move forward to investigate the potential value-added for its residents from public-private partnerships.

Financial Implications

There will be no increase in the City Manager's Budget. This initiative will be funded within existing resources.

DISPOSITION

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The City Manager's Office will undertake to establish a Special Delivery Unit to further develop P3 initiatives for the City.

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Councillor H. Kreling referenced meeting on several occasions with groups using recreational facilities and hearing that the number one priority in his community was an arena, or a double surface. He commented that proponents have also stated that arenas were a prime issue for P3 (public-private partnerships). Councillor Kreling stated another of the proponents' concerns relate to how the City would review unsolicited proposals which sometimes pose a challenge because other amenities or features are attached to them.

Councillor J. Stavinga commented that she had hoped the report would be more substantial and contain a framework to judge the proposals. The City Manager, Bruce Thom, acknowledged that the report contains a fair bit of substance, however not much detail, in part because no other municipality in Canada has this experience. He explained the report was developed through discussions with a top P3 consultant, with Industry Canada and with the Council for Canadian Private/Public Partnerships in Toronto. Mr. Thom highlighted the following three points the Committee should be aware of, and be comfortable with:

- That staff move more aggressively into the P3 practice, examining the budgets and determining where or whether there are possible projects;
- The establishment of a small unit in the City Manager' Office to scan the capital budget for approved projects with the potential to move forward as P3s; and
- A process to handle unsolicited proposals.

Councillor Stavinga believed it was important to establish a framework to deal with proposals and to communicate that P3s will not necessarily deliver in every circumstance: projects have to achieve best value for municipal dollars. She gave the example of a facility in the former Township of Goulbourn where after going through an evaluation process, it was ascertained the municipality could actually build and operate the facility at a better rate and more effectively than the private sector.

Councillor R. Chiarelli suggested that, as long as it remains flexible enough to recognize that the private sector will need to benefit from the partnership, a municipality could reap substantial benefits. He stated that both the construction of the new main library and the solid establishment of a Pay-As-You-Go structure could not happen unless the City made the best of P3 situations. Councillor Chiarelli pointed out that, in some of the cultural institutions, there is a pre-conceived notion that commercial activity is bad and a detriment to the facility whereas the public often has the exact opposite notion.

Councillor P. McNeely believed the City would not progress very far with P3 unless Council moved aggressively and examines some of the projects being proposed. He pointed out that the former

municipality of Cumberland achieved positive results with the Ray Friel facility: service delivery was high quality compared to what the city could deliver. The Councillor pointed out that mechanisms have to be in place, confidentiality has to be respected and a more aggressive approach is needed in order to make some headway.

Mr. Thom indicated that, having had a chance to evaluate this and the establishment of the unit, this was as aggressive as he felt he could be at this time. He spoke about situations in other large municipalities in Ontario where senior personnel were dismissed as a result of moving into the process too rapidly and without enough forethought. He urged Committee members to be patient, as P3 is still in its infancy stage and staff will need to look at best practices elsewhere: notwithstanding this, the City Manager commented if Council directs staff to look at a specific project under this formula, this can be done.

Mayor Chiarelli stated the policy gives Council the tools it needs to do the job, and to be as aggressive yet cautious as it wants to be. He cited a number of examples of projects that have come to his attention, pointing out that the City does not have the means, the expertise or the process to evaluate all these projects due to the interdepartmental nature and staff are busy with the operating responsibilities. Chair Chiarelli expressed the view that an internal unit reporting to the City Manager could look at all aspects of the proposals in an organized manner and within the context of the approved capital program, thus ending the uncertainty of where to go to get expert advice. He also thought Ottawa would be the only city in Canada with a unit equipped to do this work and that this represents a tremendous opportunity for the community.

That the Corporate Services and Economic Development Committee recommend Council:

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CARRIED