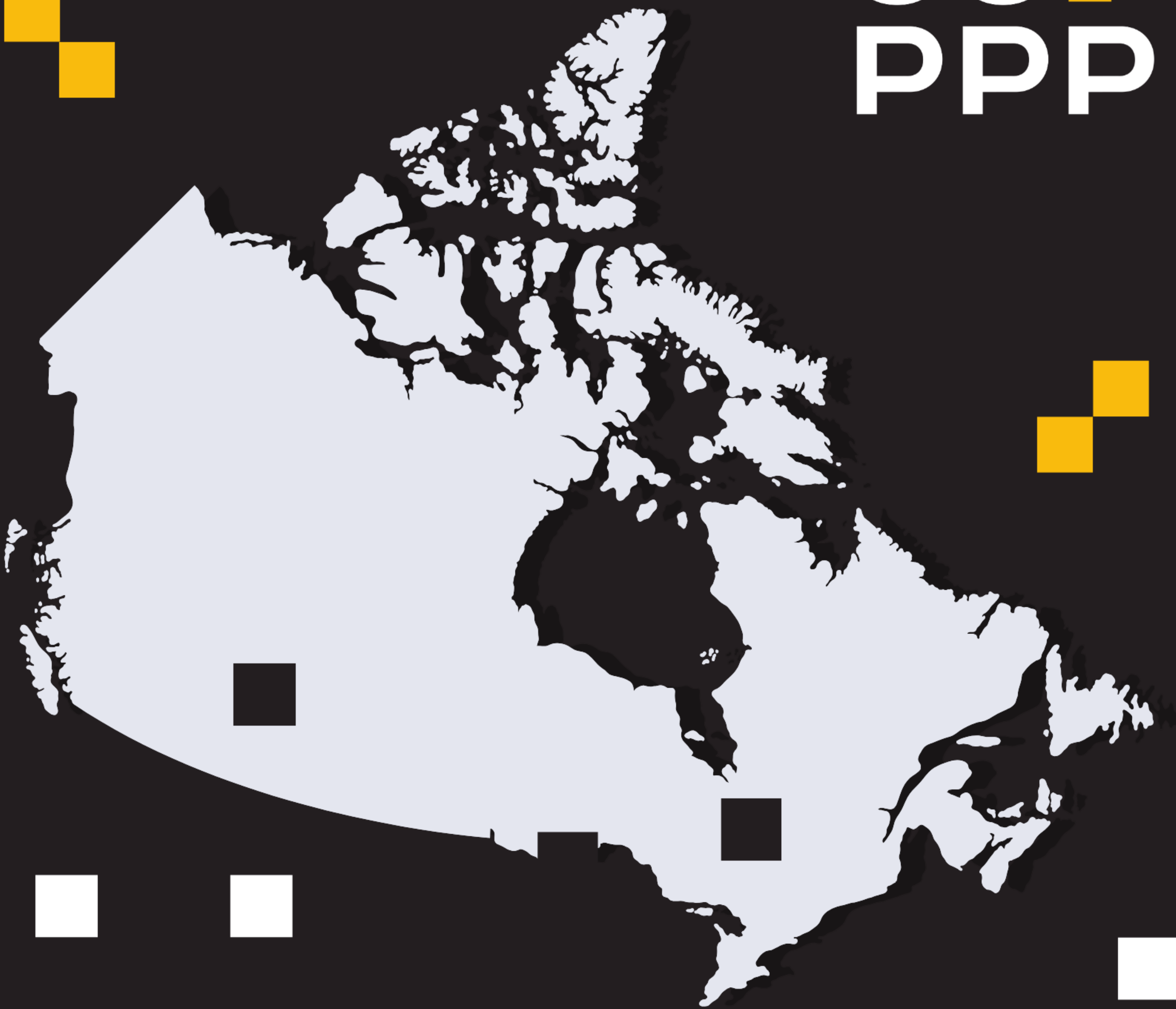

Empowering Municipalities: Unlocking the Potential of P3s for Community Building, Infrastructure Delivery and Asset Management

CCPPP's New Municipal Recommendations

October 2024

The Canadian Council for Public-Private Partnerships | **pppcouncil.ca**

Contents

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We sincerely thank the dedicated members of the CCPPP Municipal Engagement Advisory Group for their support and participation throughout the development of this Municipal P3 Policy Primer. Their collective knowledge and experience in the P3 and infrastructure industries have been invaluable in ensuring the relevance and applicability of the guidance within this document.

We also extend our gratitude to the members of the CCPPP Board, Communications Committee, Policy Network, and Executive Committee for their support and involvement in the development of this document. Additionally, we appreciate our members' ongoing commitment to advancing best practices and knowledge. Their efforts contribute to creating an enabling policy environment that will secure and enhance Canada's infrastructure investment landscape for the long-term benefit of all Canadians.

Executive Summary

Tackling Acute Municipal Infrastructure Needs: Pain Points & Evolving Market Conditions

Canada's municipalities own and operate the majority of Canada's public infrastructure, making them responsible for delivering some of the most critical services Canadians depend on every day — clean drinking water, environmentally responsible solutions to deal with waste and wastewater, safe and reliable transportation options and recreational facilities.

These are basic but critical services Canadians depend on daily. When issues arise with these assets and their delivery, public pressure for quick and affordable solutions can become intense, posing significant risks to public safety, long-term reputation, and trust in government.

In 2023, **Statistics Canada** reported that core public infrastructure in Canada, excluding hospitals, schools, courthouses and affordable housing, had a total replacement value of $2.1 trillion at the end of 2020. **Municipalities owned 61.7 per cent of that total estimated replacement value — $1.328 trillion.**[1]

With aging infrastructure, growing populations, expanded responsibilities in social services, and climate change mitigation, coupled with shrinking federal and provincial infrastructure grants, municipalities face tough choices: either increase debt or raise property taxes to cover funding gaps. This challenge is compounded by rising operations and maintenance (O&M) infrastructure costs, which are often excluded from federal and provincial funding that typically covers only capital expenses. As a result, local governments must manage these ongoing costs while also grappling with inflation, global commodity prices, labour shortages, and other issues that drive up costs and strain their ability to deliver public services and plan for future growth.

At the same time, a major national effort to boost the housing supply for Canadians requires significant investments in community-focused infrastructure such as roads, bridges, transit, water and wastewater systems. Recent research suggests these costs will exceed $100,000 per home, far beyond the financial capacity of municipalities alone.[2] Research commissioned by the Federation of Canadian Municipalities (FCM) puts this number into further context; when factoring in the federal and provincial directives for municipalities to approve 5.8 million homes by 2030, the infrastructure investment gap could amount to $600 billion.[3]

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[11] Statistics Canada. "Canada's Core Public Infrastructure Survey: Replacement values, 2020," March 20, 2023.

[2] Canadian Urban Institute. 2024. *A Jump Start: Providing Infrastructure for More Housing*. [Report]. A Jump Start: Providing Infrastructure for More Housing (canurb.org)

[3] Federation of Canadian Municipalities, Nov 23, 2023. *New research: Canada's housing challenge is also an infrastructure challenge [Press Release]* https://fcm.ca/en/news-media/news-release/new-research-canadas-housing-challenge-also-infrastructure-challenge

Rethinking Municipal Infrastructure Funding

To address these evolving market conditions, municipalities require innovative solutions and revenue streams that consider the entire life cycle of infrastructure assets and support sustainable development and economic growth. **Now, is the time to rethink how we fund municipal infrastructure projects in Canada.**

Embracing alternative procurement approaches that *harness* private capital and expertise, such as Public-Private Partnerships (P3s), is essential for municipalities to deliver, operate and maintain quality infrastructure and make good on their promises to residents.

For more than 30 years, P3s have been an effective tool for delivering projects and managing life cycle costs and risk by building on the expertise of both public and private partners. **With more than 50 municipal P3s undertaken to date, there is a proven track record of delivering successful municipal assets and services across the country.**

Additionally, asset monetization, recycling[4] and the FCM's ***Municipal Growth Framework*** recommendations offer further opportunities to rethink current funding and financing approaches for municipal infrastructure.

This document's considerations and key recommendations and its companion — the more expansive and updated ***Public-Private Partnerships: A Guide for Municipalities*** — have been developed in collaboration with The Canadian Council for Public-Private Partnerships (CCPPP) **Municipal Engagement Advisory Group (MEAG).**

This research, involving both municipal and private sector experts, harnesses best practices, practical considerations and mini-case studies to provide government decision-makers at all levels with high-level insights on how the Council and the P3 model can support municipalities with better information and more options than perhaps were previously considered or understood.

CCPPP has distilled this work into a series of considerations and 11 key recommendations providing a path forward for municipalities to explore alternative finance models, including P3s, to expedite the development and funding of resilient, robust and community-focused infrastructure. This endeavour requires the support and collaboration of federal, provincial and territorial governments and industry to help solve and alleviate the significant and unique challenges Canadian communities face.

[4] Asset recycling is a two-step process: first, monetizing revenue-generating public assets, and second, reinvesting proceeds into existing or new infrastructure. Monetizable assets include toll roads, bridges, airports, transit systems, power grids, and warehouses. This approach has been used by various countries, including Australia, Indonesia, India, Mexico and Uruguay. Learn more: Asset recycling in EMDE infrastructure development can be a win-win-win (worldbank.org)

Summary of Recommendations for Municipalities:

Recommendation 1: Include Operations and Maintenance in Financial Plans: All Canadians need to be mindful that infrastructure issues are not won and done when a new asset is built and the ribbon is cut on opening day. Regardless of the procurement model used, municipalities should incorporate long-term operations and maintenance costs into budget forecasts and funding strategies *before* shovels hit the ground to prevent growing infrastructure deficits and crumbling assets.

Recommendation 2: Evaluate Project Bundling Potential to Achieve Scale: Project bundling using a single P3 agreement presents an opportunity to reduce overall project costs, reduce demands for staff oversight of multiple contractors on multiple projects, transfer risk, expedite delivery and ensure the economies of scale to attract private sector capital.

Recommendation 3: Engage Subject Matter Experts to Execute P3s Effectively: To address in-house infrastructure capacity challenges, municipalities should explore opportunities to retain advisors with infrastructure expertise, particularly in finance and alternative finance/ P3 procurement.

Recommendation 4: Promote Positive Collaboration with Private Partners & Conduct Market Soundings Before You Procure**:** To help ensure project success and the best value for taxpayers, municipalities should engage with private sector partners through transparent, informal consultations before issuing Requests for Qualifications (RFQ) and Request for Proposals (RFP) documentation.

Recommendation 5: Educate Elected Officials on Procurement Processes: While removing political influences from infrastructure decision-making is unrealistic, there is significant value in educating and informing elected officials with clear guidelines on how to balance the need to be transparent and open with residents while respecting the confidentiality required to protect the integrity of the bidding, evaluation and selection process and to shield this process from politicization.

Recommendation 6: Build and Maintain Public Trust and Transparency: Successful municipal projects thrive on strong community engagement, which is key to building public support and trust. Emphasizing openness and transparency — especially about completion timelines and potential construction disruptions — helps to ensure ongoing community buy-in and support.

Recommendation 7: Activate Unsolicited Proposal (USP) Frameworks: Great ideas come from the non-profit and private sector — they see a need and have potential solutions to address the challenge. All levels of government should consider developing policies that incentivize opportunities for unsolicited proposal frameworks (USP) — when and where they make sense — to encourage public and private sector organizations and industry investors to proactively propose creative solutions for municipal infrastructure projects.

Summary of Recommendations for Federal, Provincial and Territorial Governments:

Recommendation 1: Enable Municipalities to Explore P3 and Innovative Funding: CCPPP advocates for empowering municipalities to determine their own funding needs and priorities. To achieve this, federal and provincial governments **must** ensure grant and contribution Terms and Conditions do not inadvertently restrict municipalities from exploring alternative financing options, such as P3s. Specifically, any grant provisions that mandate or favour certain procurement methodologies over others should be revised.

Recommendation 2: Support the Federation of Canadian Municipalities (FCM) Call for a New Municipal Framework: In particular, CCPPP supports the FCM's recommendation that municipalities have access to revenue tools that support the full range of services they provide, including capital and operating costs. In our view, P3s and revenue-generating concession opportunities must be part of a new framework of tools that are encouraged.[5]

Recommendation 3: Federal, Provincial and Territorial Funding for Municipal Infrastructure Must Include Operations and Maintenance: Any ongoing or future federal, provincial and territorial infrastructure funding for municipalities should include provisions for the operations and maintenance of assets. **Ensuring asset management is not an afterthought but a critical criterion for funding contributions.** This approach guarantees that municipalities have planned for maintenance costs, enshrining the long-term sustainability and functionality of infrastructure projects.

Recommendation 4: Engage in Joint Efforts with CCPPP to Advance P3 Capacity Building Tools: One of the many roadblocks municipalities face in considering P3 and alternative finance models is a lack of experience, understanding and capacity to evaluate and deliver these projects. Canada has several procurement agencies and government ministries with deep knowledge of how P3s work, templated agreements and other resources that can potentially be shared with municipalities to advance their understanding of P3s and their capacity to deliver them. We recommend contacting CCPPP and its public sector members when guidance, case studies and best practices are required.

[5] Please refer to Section 4, page 48 of the FCM Municipal Growth Framework, which details key recommendations, including that municipalities should have revenue tools that support the full range of services they provide, including capital and operating costs: Making Canada's Growth a Success: The Case for a Municipal Growth Framework.

Addressing the Elephant in the Room

CCPPP recognizes that significant challenges and negative criticisms surrounding high-profile megaprojects — transit-related, in particular — have recently tested the 30-year reputation of the P3 model in Canada.[6]

The sector, including both public and private leaders, is heeding these concerns and working collaboratively through CCPPP to evolve the P3 model to resolve contentious issues such as risk transfer, which can adversely impact project budgets and timelines (see ***Modernizing Canada's Approach to Public-Private Partnerships (P3s) and its eight recommendations***). This evolution seeks to put communities back at the forefront of infrastructure delivery, operation, and maintenance in Canada.[7] The issues P3 projects have recently encountered are not unique. CCPPP's private sector members maintain that current market conditions — combined with unrealistic project timelines and budgets, challenges with risk transfer and limited competition due to the prevalence of large-scale projects ($500M+) — are making it difficult for **all** public infrastructure procurements ***regardless of the procurement model used***, to deliver projects on time and on budget.

[6] Recent challenges in transit projects are not representative of the P3 model writ large (dozens of hospitals, schools and water/wastewater treatment projects successfully delivered) and do not reflect historical P3 transit successes such as the Canada Line (on-time and on-budget).
[7] The Council's August 2024 policy recommendations shaped and informed the considerations and recommendations found in this municipal P3 policy primer.

Context

The Strain on Municipal Infrastructure: Key Challenges

With a growing infrastructure deficit, Canadian municipalities face broad challenges, including but not limited to:

Limited Funding/Revenue Tools:

Municipalities have limited financial tools to support infrastructure investment. While property taxes, utility fees and other traditional forms of municipal funding — along with unpredictable government grant programs that come with "strings attached" — serve as primary and recurring revenue sources, the current pace of growth is unsustainable.

Conflicting Priorities:

Aging infrastructure, new infrastructure needs and service delivery — amid population growth, changing climate conditions, and uncertain funding from other levels of government — continue to hamper planning. Municipalities often struggle to balance the need for new infrastructure with the cost of upgrading existing assets while also managing other budgetary priorities, such as maintaining essential services and addressing social needs. They must also uphold the high standard of service delivery expected by taxpayers.

Market Fragmentation/ Availability of Expertise:

While larger cities like Vancouver, Calgary , Edmonton, Ottawa,Montreal and Toronto regularly manage large, complex projects, many smaller municipalities face a more disjointed infrastructure maket, with limited resources, expertise and standardized processes to execute such projects effectively. The availability of in-house expertise is often constrained by the number of projects and limited resources.
This underscores the importance of models involving private sector partners that can bring specialized experience and methodologies to address challenges and enhance project delivery in these contexts.

Infrastructure Implications of Housing Policies:

The introduction of new housing policies and legislation by the federal and provincial governments obligates municipalities to significantly increase housing delivery, most often within urban containment boundaries. This, in turn requires additional community-enabling infrastructure and municipal services, further straining municipal finances.

Building Tomorrow's Infrastructure Today: The Role of P3s in Community-Building Infrastructure Delivery and Management

Why P3s?

During the 1990s, governments grappling with significant debt and substantial infrastructure challenges, such as cost overruns and project delays, turned to P3s. These partnerships presented a creative solution to safeguard taxpayers' dollars *and* ensure value for money throughout the entire life cycle of an asset.

Performance-based contracts, which focus on what an asset *needs to deliver* rather than *how to build it* and the inclusion of private capital, spurred management discipline and project innovation and helped attract a wider range of private sector expertise.

In turn, this led to a boom in delivering high quality infrastructure and services to Canadians, reinvigorating an entire generation of assets and driving economic growth and greater living standards.

During this time, P3 projects in Canada established an impressive track record for on-time, on-budget delivery compared with traditional procurement methods. For example, of 78 P3 projects in Ontario that had reached substantial completion as of March 31, 2022, 94 per cent were completed on budget, and nearly 70 per cent were completed on time.[8]

To this day, P3-procured infrastructure is the *only* project type tracked across Canada for value for money, cost, time and life cycle performance.

Why P3s ... Now?

Over the past three decades, Canada has witnessed the continuous evolution of its infrastructure market and the responding adaptation of the P3 model to reflect new government priorities and market realities.

What has remained consistent, however, is that successful P3s thrive on robust partnerships, smart risk allocation and management, shared benefits, and seizing innovative financing opportunities. They are an approach that can help ensure governments can afford tomorrow's infrastructure today.

[8] For more information, please refer to Infrastructure Ontario's Major Projects FAQs - Public Private Partnerships (P3s)

Effective P3s embody four essential attributes:

- Allocate the appropriate risk transfer to the party best suited to manage it
- Consider the whole life cycle of the asset
- Drive innovation and efficiencies; and
- Leverage private capital and expertise.[9]

With more than 300 P3s under construction or in operation in Canada, valued at more than $139.5 billion, there is a wealth of best practices and lessons learned in delivering, operating and maintaining successful municipal assets and services nationwide.

CCPPP continues to believe that in certain situations, alternative procurement tools like P3s can help municipalities deliver larger, bundled or more complex projects. They can also be useful when municipalities lack in-house expertise and need outside support, such as when contemplating creating a new asset class they do not have previous experience operating, such as a biofuel processing facility.

And, at a time when government funding is increasingly scarce, municipalities need to be empowered with more tools that leverage private capital to meet their communities' infrastructure demands.[10] That is why CCPPP remains steadfast in its mission that Canadian governments at all levels should be encouraged and supported to explore and assess P3 and alternative finance options for complex and large-scale infrastructure projects.

Ultimately, P3s are the right option when they offer greater value for money for taxpayers compared to traditional methods.

[9] The Council advocates for procurement models embodying *these **four** essential attributes. These attributes* are foundational to CCPPP's mandate. For more information visit the following section of the Council's website at https://www.pppcouncil.ca/who-we-are/mission-and-vision.

The Municipal P3 Opportunity: Key Considerations

Prioritizing the Long-Term Benefits of Full Life Cycle Cost Consideration

All Canadians need to be mindful that infrastructure issues are not won and done when a new asset is built and the ribbon is cut on opening day.

To prevent growing infrastructure deficits and crumbling assets, municipalities should incorporate long-term operations and maintenance costs into budget forecasts and funding strategies *before* shovels hit the ground. This will ensure our community assets reach their ideal lifespans and dependably serve communities for decades to come.

In P3 projects, municipalities must proactively examine a project's full life cycle cost, usually over 30 years, rather than focusing solely on the initial cost of constructing the asset.

The value of a long-term Design-Build-Finance-Maintain (DBFM) or Design-Build-Finance-Operate-Maintain (DBFOM) agreement means **ongoing maintenance and operations costs are considered upfront and are safeguarded against fund diversion during future budgeting processes**.

With long-term agreements where the private sector must think long-term about how it will operate and maintain the asset, there is a greater incentive to incorporate innovative technology that, for example, reduces heating and cooling costs and helps lower or zero greenhouse gas emissions. This technology may cost more upfront but offers better outcomes and benefits over the asset's life cycle for the municipality. These procurement types also encourage private sector innovation and multidisciplinary collaboration (design, construction, O&M) early in the process, which should help drive down the overall capital expenditure figure.

Let's Dig Deeper: Capturing the Financial Advantages of P3s

Including private finance in municipal projects has significant long-term benefits that are not found in traditional procurement arrangements. These benefits include:

Ensuring long-term asset management costs are considered — A well-structured P3 model accounts for the asset's entire lifespan, influencing decisions throughout the project. **Anticipating operations and maintenance costs upfront ensures adequate funding for the entire life cycle of a project, safeguarding against fund diversion that is not otherwise accounted for in a traditional procurement, which results in cost overruns or, worse, downloads the costs onto future generations**. Including operations and maintenance in the early planning and design brings greater discipline to budget planning but also ensures infrastructure is built to last.

Improving Financial Accountability to Taxpayers — By leveraging private capital and expertise, a well-structured P3 delivers better value for the public dollar. P3s incentivize on-time and on-budget delivery while ensuring the maintenance and rehabilitation of these assets over the long -term. Why? Because the model requires the P3 partner to be invested in the project's success, including selecting the best maintenance and lifecycle options to maximize the asset's operability. If the asset is not constructed to the required quality standards, the P3 partner will face increased operational and capital expenditures over the asset's life, along with financial penalties for failing to meet performance standards.

Enhancing Financial Due Diligence — P3s enhance financial scrutiny by quantifying risks across the project's lifespan and ensuring transparency in financial outcomes, as the operations and maintenance of these assets over the long -term are fully accounted for. These risks are often unaccounted for in traditional government procurements, making P3s essential for ensuring value for money for taxpayers. Fixed-price contracts provide stability by having the private sector raise capital, with the government repaying over the long term. **This approach allows governments to spread the cost of assets over their useful life, effectively addressing risks frequently overlooked in conventional procurement methods.**

Although P3s have been criticized for high initial transaction costs that surpass those of traditional bid-build contracts (and for the private sector's higher borrowing costs), recent research proposes **that the extra financing cost of P3s is justified compensation for risk transfer. This suggests governments have not overpaid when using this procurement tool and offers** insights applicable to similar international contexts and complex projects.[11]

Asset Ownership & Unionized Labour

P3 projects remain publicly owned, publicly controlled and publicly accountable.[12] DBFOM and DBFM models can include provisions for retaining existing public sector employees or transferring them to the private partner's workforce while respecting Collective Bargaining Agreements (CBAs). These arrangements enable municipalities to benefit from private sector expertise while ensuring municipal priorities and standards are upheld. By maintaining control over assets and services, municipalities can enhance public accountability and ensure P3 projects align with community needs and expectations. In addition, labour unions frequently collaborate with the private

[11] Researchers from Stanford University and universities in Finland and South Korea utilized a lengthy time series of financial data from PPPs to compute the financing cost. They found that the "extra financing cost of the PPPs is a justified compensation for the risk transfer." Read the report here: *Are private investors overcompensated in infrastructure projects?*

[12] In a handful of cases, municipalities have reached different agreements with their private sector partners. For example, the Halifax Regional Municipality's (HRM) Organics Management Infrastructure and Long-Term Operating Contract is using a Design-Build-Own-Operate-Transfer (DBOOT) public-private partnership with a 25-to 35-year operations and maintenance period.

sector to deliver Canadian infrastructure projects, creating desirable employment opportunities and pension investments that support tens of thousands of Canadians upon retirement. Water and wastewater treatment projects are well-suited to the P3 model because of their long-term nature, dedicated, stable revenue sources (e.g. utility fees) and requirement for specialized expertise and innovation. The Regina Wastewater Treatment Plant is an excellent case study of how the model can work. Please refer to Appendix 1.

Maximizing Economies of Scale with P3 Project Bundling

Over the years, experts have debated the minimum capital cost threshold above which a P3 will generate Value-for-Money (VfM) for the public sector. Historically, Canadian provinces have set a threshold of $40 million in capital costs before requiring a VfM analysis.

Smaller projects may find it difficult to reach the full benefits of the model because of higher upfront transaction costs relative to overall value and potentially less interest from market-leading consortia. This is an important consideration for municipalities weighing their procurement options.

Most P3 projects in Canada, which have been conducted by the federal and provincial governments, are large and complex, with capital costs ranging from $100 million to more than $1 billion.[13]

Bundling a number of smaller projects into a single procurement enables a beneficial P3 structure for similar assets across multiple sites, different assets at a single site, or diverse assets across multiple sites.

For municipalities struggling to meet the infrastructure demands of growing populations, bundling can deliver cost advantages through economies of scale, appropriate risk transfer, expedited delivery, secure ongoing funding, and reduced design, construction, operation and maintenance expenses. The City of Saskatoon's North Commuter Parkway & Traffic Bridge Project offers municipalities a good example to draw upon. Please refer to Appendix 1.

Leveraging Progressive P3 Approaches for Large and Complex Infrastructure Projects

Progressive P3s are a new evolution of the P3 model. A handful of jurisdictions, most notably Ontario, are leading the exploration of this approach,[14] which is being deployed for complex projects (factoring scope, size, location, timing and risk).

[13] Canadian Council for Public-Private Partnerships. Public Private Partnerships A Guide for Municipalities, November 2011. https://www.pppcouncil.ca/getattachment/1996b3d6-2d4c-44f0-8a05-c684dc8f9b8a/P3-Guide-for-Municipalities-English-Final-un-protected.pdf

[14] Examples of progressive P3s in Ontario include but are not limited to the Ottawa Hospital Civic Campus Redevelopment Project and the VIA High-Frequency Rail (HFR) project. Other jurisdictions, such as British Columbia, have successfully used a progressive approach on non-P3 projects. This procurement approach is developing a good foundation for future expansion across

The progressive approach adjusts the procurement strategy of the P3 model to involve a private partner earlier in the process. It aims to identify market-viable solutions and prioritize selecting and scoping economically feasible P3 projects. The whole point is that the government picks its partner sooner, and the public and private sectors work together to more adequately define and de-risk the project so that when the government is ready to fix the price, the risks have been identified, agreed upon and allocated appropriately. However, this approach requires upfront resources and intensive work to ensure all parties have a clear understanding of the project's scope and risks from the outset.

CCPPP firmly believes risk should be borne by the partner, whether public or private, best equipped to manage it with due consideration to prevailing market conditions. Ultimately, this approach protects taxpayers and enables better project outcomes. CCPPP supports a flexible, "First Principle driven" approach to risk allocation that aligns incentives for both sectors, ensuring better management throughout the project's lifecycle. This is especially true for municipalities that would benefit from greater flexibility in P3 contracts in order to adapt to changing community needs, regulatory shifts and other unexpected events.[15]

At the time of publication in November 2024, the Progressive P3 model had yet to be used at the municipal level, however we can look at the provincial level for examples. The QEII Halifax Infirmary Expansion Project offers an example of how the progressive approach can be adapted to the municipal context. Please see Appendix 1.

Generating Revenue through Concession Models

In some cases, P3s can include user fees that can be shared between both partners or used in part or in full as part of the payment to the private sector. These are referred to as **concessions.**

A concession P3 can include the same components as other full life cycle P3s, such as DBFOMs and DBFMs. However, in a concession, the private sector partner also receives revenue or partial revenue from the asset. The revenue is generated from a service provision, such as road tolls, utility fees or concession/service use fees. The Halifax Regional Municipality Organics Management Infrastructure and Long-Term Operating Contract serves as a reference for how this model can be applied by municipalities. Please see Appendix 1.

In some cases, the revenue generated may not be sufficient to fully repay the private sector partner; therefore, some government payments may still be required.

Municipalities can also explore how concession models might work for other asset classes, such as recreation centres (which to date have been highly subsidized), and emerging infrastructure challenges, such as district energy, biogas capture and conversion to RNG, decarbonization and organic waste management. Although the Canadian public historically tends to take

[15] Please refer to recommendations # 3 of the Council's Modernizing Canada's Approach to P3s Key Recommendations.

a negative view of tolls, there is an important argument to consider: tolls or fees only apply to those using the asset, which it could be argued is fairer than a blanket tax increase or a cut in other services for citizens to fund the new or upgraded infrastructure.

P3s are ultimately the right option when they offer greater value for money for taxpayers compared to traditional methods. To ensure that concession P3 models deliver on this promise, it is crucial to carefully evaluate them, particularly those involving user fees like tolls, to avoid disproportionately affecting vulnerable populations. Municipalities should incorporate provisions in P3 agreements that promote inclusivity and equitable access. This can include implementing income-based fee structures, providing subsidies for low-income households, and ensuring comprehensive accessibility planning. These measures help balance financial implications while maximizing the benefits for all residents.

Now is the Opportune Moment to Rethink Municipal Project Procurement and Financing: CCPPP Recommendations

The landscape of Canadian infrastructure funding is changing. The days of abundant, predictable government infrastructure programs such as the Government of Canada's previous *Investing in Canada Infrastructure Program* appear to be behind us for the time being. Federal and provincial budgets have made housing construction a vital investment focus — but beyond specific criteria for investments to be made in wastewater, stormwater and solid waste systems to bolster home development — there are limited funds earmarked for community infrastructure. Bottom line: We need to get on with new financing solutions.

The Canadian Council for Public-Private Partnerships (CCPPP) urges federal, provincial and territorial governments to collaborate with industry to assist municipalities in exploring alternative finance models, including P3s, to expedite the construction of resilient, robust and community-focused infrastructure.

CCPPP Recommendations for Municipal Governments:

1. **Include Ongoing Operations and Maintenance in Financial Plans:** All Canadians need to be mindful that infrastructure issues are not won and done when a new asset is built, and the ribbon is cut on opening day. Regardless of the procurement model used, municipalities should incorporate long-term operations and maintenance costs into budget forecasts and funding strategies *before* shovels hit the ground to prevent growing infrastructure deficits and crumbling assets. P3 agreements can enhance long-term life cycle performance, drive innovation, improve energy efficiency, and deliver cost savings for taxpayers. However, it is crucial to address how municipalities will manage the financial implications of ongoing operations and maintenance. Since increased taxes might be necessary to subsidize O&M costs for new infrastructure, municipalities should carefully plan for these financial needs, considering both short-term and long-term budgetary impacts, and explore strategies to balance these costs with their revenue streams.

2. **Evaluate Project Bundling Potential to Achieve Scale:** Project bundling using a single P3 agreement presents an opportunity to

reduce overall project costs, reduce demands for staff oversight of multiple contractors on multiple projects, transfer risk, expedite delivery and ensure the economies of scale to attract private sector capital. This approach may be particularly beneficial for road and waste/wastewater treatment projects.

3. **Engage Subject Matter Experts to Execute P3s Effectively:**
   To address in-house infrastructure capacity challenges, municipalities should explore opportunities to retain advisors with infrastructure expertise, particularly in finance and alternative finance/ P3 procurement. External advisers, from design consultants to legal advisers to financial advisers, play a vital role in planning, developing, procuring, and delivering well-structured P3s and can work with municipalities to educate and build skills capacity. CCPPP's updated ***Public-Private Partnerships: A Guide for Municipalities*** provides detailed insights and guidance.

4. **Promote Positive Collaboration with Private Partners & Conduct Market Soundings Before You Procure:**
   To help ensure project success and the best value for taxpayers, municipalities should engage with private sector partners through transparent, informal consultations before issuing Request for Qualifications (RFQ) and Request for Proposals (RFP) documentation. Early engagement helps test the market, identify and address concerns, gather feedback, and refine project requirements, ensuring commercial structures align with market conditions and financial viability. This approach helps prevent projects that fail to meet municipal design and usage standards. By fostering open communication and maintaining strict control over project changes, municipalities can reduce the likelihood of change orders and cost overruns, better manage budgets, and deliver infrastructure projects that citizens can depend on.

5. **Educating Elected Officials on Procurement Processes**:
   While removing political influences from infrastructure decision-making is unrealistic, there is significant value in educating and informing elected officials with clear guidelines on how to balance the need to be transparent and open with residents while respecting the confidentiality required to protect the integrity of the bidding, evaluation and selection process and to shield this process from politicization. This involves informing council members about their specific touchpoints, such as budget approvals, borrowing decisions, and handling of citizen complaints. By clearly outlining these roles and expectations upfront, municipalities can promote transparency, accountability, and more effective management of P3 projects, helping to balance political considerations with the need for efficient and fair infrastructure development.

6. **Build and Maintain Public Trust and Transparency:**
Successful municipal projects thrive on strong community engagement, which is key to building public support and trust. Emphasizing openness and transparency — especially about completion timelines and potential construction disruptions — helps to ensure ongoing community buy-in and support. By addressing these aspects proactively, municipalities can leverage the benefits of P3s to develop, construct, operate and maintain infrastructure projects that meet long-term community needs. Public communications should focus on project outcomes and long-term societal benefits to boost the public's trust in government and the private sector to deliver quality infrastructure on time and on budget rather than on communications milestones tied to election cycles. The updated ***Public-Private Partnerships: A Guide for Municipalities***, available under the Research Section of the Council's website, offers detailed best practices and examples of successful public engagements and communication strategies for P3 projects.

7. **Activate Unsolicited Proposal (USP) Frameworks:**
Great ideas come from the non-profit and private sector — they see a need and have potential solutions to address the challenge. All levels of government should consider developing policies that incentivize opportunities for unsolicited proposal frameworks (USP) — when and where they make sense — to encourage public and private sector organizations and industry investors to proactively propose creative solutions for municipal infrastructure projects. A policy would require coordination among all levels of government to ensure trade agreement obligations and competitive procurement best practices are respected. Ontario offers insights into USP framework structures that could be beneficial, as does the City of Edmonton.[16]

[16] Ontario's unsolicited proposals program provides a clear framework for individuals and companies to submit innovative infrastructure proposals to the Ontario government. To learn more please visit: https://www.ontario.ca/page/unsolicited-proposals . In addition, the City of Edmonton Procurement Standard includes an Unsolicited Proposal section. More information can be found here: https://www.edmonton.ca/sites/default/files/public-files/Procurement%20Standard.pdf?cb=1725552088

CCPPP Recommendations for Federal, Provincial and Territorial Governments:

1. **Enable Municipalities to Explore P3 and Innovative Funding:**
CCPPP advocates for empowering municipalities to determine their own funding needs and priorities. To achieve this, federal and provincial governments must ensure grant and contribution Terms and Conditions do not inadvertently restrict municipalities from exploring alternative financing options, such as P3s. Specifically, any grant provisions that mandate or favour certain procurement methodologies over others should be revised. Such stipulations can hinder the adoption of partnership models and discourage municipalities from considering their assets' full lifecycle costs, including operations and maintenance. By removing these barriers, municipalities can utilize federal, provincial, and territorial grants and contributions alongside private capital for project delivery within a P3 framework. This approach broadens the financial tools available to municipalities and promotes more sustainable and efficient infrastructure development.

2. **Support the Federation of Canadian Municipalities' Call for a New Municipal Framework:**
CCPPP recommends that federal and provincial governments adopt the recommendations outlined by the Federation of Canadian Municipalities (FCM) 's new ***Municipal Growth Framework***. In particular, CCPPP supports the FCM's recommendation for municipalities to have access to revenue tools that support the full range of services they provide, including capital *and* operating costs. In our view, P3s and revenue-generating concession opportunities must be a part of a new framework of tools that are encouraged.[17]

3. **Federal, Provincial and Territorial Funding for Municipal Infrastructure Must Include Operations and Maintenance:**
Any ongoing or future federal, provincial and territorial infrastructure funding for municipalities should include provisions for the operations and maintenance of assets. **Ensuring asset management is not an afterthought but a key criterion for funding contributions is critical.** This approach guarantees that municipalities have planned for maintenance costs, enshrining the long-term sustainability and functionality of infrastructure projects. Incorporating operations, maintenance and renewal in financial planning is the only proactive way to address the replacement of both

[17] Please refer to Section 4, page 48 of the FCM Municipal Growth Framework, which details key recommendations, including that municipalities should have revenue tools that support the full range of services they provide, including capital and operating costs: Making Canada's Growth a Success: The Case for a Municipal Growth Framework (fcm.ca).

current and future municipal infrastructure needs in Canada.

4. **Engage in Joint Efforts with CCPPP to Advance P3 Capacity Building Tools:**
One of the many roadblocks municipalities face in considering P3 and alternative finance models is a lack of experience, understanding and capacity to evaluate and deliver these projects. Canada has several procurement agencies and government ministries with deep knowledge of how P3s work, templated agreements and other resources that can potentially be shared with municipalities to advance their understanding of P3s and their capacity to deliver them. We recommend contacting CCPPP and its public sector members when guidance, case studies and best practices are required.

Supporting Municipalities in Navigating P3s: Updated Guidance and Tools for Procurement Success

As part of its municipal guidance, CCPPP has also updated and released its seminal ***Public-Private Partnerships: A Guide for Municipalities***, first published in 2011, to reflect changing market realities and evolved best practices. This guide is intended to help municipalities *new* to the model assess the viability and appropriateness of P3s for their specific project needs. Representing virtually all major players in the infrastructure sector, including public sector owners and private sector construction, engineering, legal and advisory firms, as well as banks, financiers, and operators, CCPPP is well placed to convene the knowledge and experience necessary to support municipalities in assessing alternative approaches.

As part of our commitment to advance municipal infrastructure delivery and asset management, CCPPP will continue to develop municipal tools, guidance, case studies, peer reviews and more, to support municipalities as they explore their procurement options.

CCPPP welcomes the opportunity to collaborate with all levels of government and key municipal stakeholders to identify gaps in capacity and knowledge and to develop a new suite of tools to support standardized approaches and analysis for determining procurement options. Standardizing procurement approaches and documents will help attract greater private-sector interest in municipal projects.

About CCPPP

To learn more about CCPPP's mission and vision, our members, the Municipal Engagement Advisory Committee and how to get involved visit: https://www.pppcouncil.ca/

Appendix 1: Municipal P3 Project Spotlight

The City of Saskatoon's North Commuter Parkway & Traffic Bridge Project, Saskatchewan

At the time it opened in October 2018, this $293.4-million (NPV) project was the largest infrastructure project ever delivered in the City of Saskatoon and the first bundled transportation P3 in Canada. The 33-year DBFOM performance and availability agreement is comprised of two bundles: 1.) the North Commuter Parkway (8.3 kilometres of new arterial roads) and the new Chief Mistawasis Bridge and 2.) the replacement of the 109-year-old Traffic Bridge.

The new six-lane bridge on the Parkway pays tribute to Chief Mistawasis, the Cree Chief who signed Treaty 6, while the modern steel-truss structure of the rebuilt Traffic Bridge uses complex engineering to preserve its historical character while meeting today's safety standards.

The project's cost savings by using the P3 delivery model were estimated at $69.4 million, compared to conventional project procurement. Graham Commuter Partners is responsible for the operations, maintenance, and repair/rehabilitation of the bridges and roadways until 2048. **Read more**

Regina Wastewater Treatment Plant Upgrade Project, Saskatchewan

Water and wastewater treatment projects are well-suited to the P3 model because of their long-term nature, dedicated, stable revenue sources (e.g. utility fees) and requirement for specialized expertise and innovation.

Like most Canadian cities, Regina typically undertakes most of its major infrastructure projects under a conventional design-bid-build (DBB) procurement model, and it intended to follow the same arrangement to update and expand its WWTP. However, after extensive planning, analysis, discussion and debate, which included a local referendum, the city chose an innovative DBFOM approach and negotiated a 30-year agreement with EPCOR Water Prairies Inc. in 2013.

The contract transferred significant risks to the private sector over the whole life cycle of the project, with estimated savings of $138.1 million compared to traditional procurement. The project replaced aging core infrastructure, thereby improving energy efficiency, reducing greenhouse gas emissions, meeting wastewater effluent quality standards, and improving the water flow into

Wascana Creek and the Qu'Appelle River and lake system. EPCOR successfully completed the facility on time and below budget. The City of Regina retains ownership of the wastewater treatment plant, regulated by the Saskatchewan Water Security Agency. EPCOR will manage operations until June 2044. **Read more**

QEII Halifax Infirmary Expansion Project, Halifax, Nova Scotia

The new acute care tower will feature 216 beds, 16 operating rooms, an intensive care unit and a new, larger emergency department, all designed to modernize and expand hospital services to meet growing patient demands. The project is being delivered under a Progressive Design-Build-Finance-Maintain (DBFM) P3 model, which fosters a collaborative approach to development. Plenary Americas and PCL Investments is working closely with the Province of Nova Scotia, Nova Scotia Health, and its consortium partners, under a two-phase development approach which includes a project development phase, culminating in a binding technical and financial proposal, after which the province may elect to proceed to close the Project Agreement.

During the development phase, design is collaboratively advanced to a significantly greater degree than in a typical hard-bid RFP, while the Project Agreement is negotiated and pricing and schedule refined. In this project, the design-build contractor has also been engaged to deliver a program of early works, designed to de-risk and accelerate project delivery under the fixed price DBFM project agreement.

Early developer involvement offers several important benefits, including enabling early contractor and service provider engagement and coordination to help identify and reduce risks, while also ensuring greater cost certainty. Lender considerations and optimum financing strategies are highlighted by the developer throughout the collaborative process, minimizing delays and pricing inefficiencies**. Read more**

Halifax Regional Municipality (HRM) Organics Management Infrastructure and Long-Term Operating Contract

In December 2020, Halifax Regional Council awarded the contract for a new composting facility to replace two existing facilities (Ragged Lake Composting Facility and Burnside Composting Facility), and to support the continued success of its municipal green cart program. Harbour City Renewables, a Maple Reinders consortium, was selected to design, build, own, operate and transfer the new facility for 25 years as part of this contract.

The facility follows a state-of-the-art design, with all composting activities completed indoors in order to minimize impacts to the neighboring communities and the environment during its operation.

Designed with a capacity to process 60,000 tonnes of organic waste a year, the facility will meet and exceed the *Nova Scotia Environment and Climate Change 2010 Composting Facility Guidelines*. Construction activities for the new facility started in spring 2021 and reached substantial completion in April 2024, including installation and testing of the equipment required for the operation of the facility. Hot commissioning activities are expected to continue until September 2024. Once completed, the new facility will enter its 25-year operating period. **Read more**

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