



### **P3 Project Bundling Roundtable Briefing**

On February 16, 2017, The Canadian Council for Public-Private Partnerships and S&P Global partnered to host a senior executive roundtable with members of the public and private sector that are active in the Canadian P3 space on best practices in project bundling. Drawing on the expertise of participants, consensus was reached that bundling of infrastructure assets, when done correctly, has untapped potential in Canada to get more infrastructure built, faster and with savings to taxpayers.

This short paper will summarize what was heard at the roundtable and then present high level issues for governments to consider as they move forward with P3 bundling projects and some of the key ingredients needed to make that bundling effective.

#### **What is P3 Bundling?**

A public-private partnership (P3) is a procurement model where a private sector partner – normally under a long-term, fixed price contract – takes responsibility for some combination of designing, building, financing, maintaining, or operating a public infrastructure asset.

P3s provide the opportunity to put private capital to work developing, building, repairing, and maintaining the public’s significant infrastructure needs. They also allow for risks to be allocated to the party best able to manage them. A set of incentives and penalties are put in place to ensure that the private sector delivers a well-built and -maintained asset on-time and on budget. The private sector puts its own “skin in the game” through financing in P3s, which acts as a key driver of performance.

P3s tend to be most attractive for large, complex projects with capital costs exceeding \$50-100M. In Canada, the P3 model has been used on 259 projects worth a value of over \$122B for those that have reached financial close. Savings to government is estimated at up to \$27B on those projects.<sup>1</sup>

P3 bundling is becoming an attractive option for governments to bring private capital and the benefits of the P3 model to smaller assets. When bundled into a single, larger procurement, a beneficial P3 structure can be implemented to address a group of similar assets across multiple sites, an assortment of different assets at a single site, or different assets across multiple sites.

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<sup>1</sup> Canadian Centre for Economic Analysis. “The Economic Impact of Canadian P3 Projects: Why Building Infrastructure ‘on time’ Matters”, November, 2016.

Examples of P3 bundles in Canada include school bundles in Alberta and Saskatchewan, Ontario Provincial Police facilities, On Route service stations along Ontario highways, and the North Commuter Bridge and Parkway project. Bundling allows government to reduce costs, transfer risks, and build projects faster, particularly when using the P3 model.

### **What Issues Were Heard?**

There was broad recognition of an infrastructure deficit in Canada and that municipalities and First Nations in particular were struggling to keep up with their infrastructure needs. Communities are struggling to have strong asset management plans and asset depreciation is a real concern. The participants noted that most local communities do not have a sufficient taxation base to cover the infrastructure they are responsible for, so there is a need for support from senior levels of government.

Given tight budgets and a history of traditionally procured infrastructure projects facing delays, going over budget, and then suffering from deferred maintenance, communities are turning to public-private partnerships to build high quality infrastructure on time and on budget. In addition, a life-cycle approach to asset management is taken to ensure well-maintained and safe infrastructure for decades.

Finally, there was a strong view that jurisdictions in Canada do not fully recognize the opportunity that P3 bundling can bring to improving infrastructure in this country.

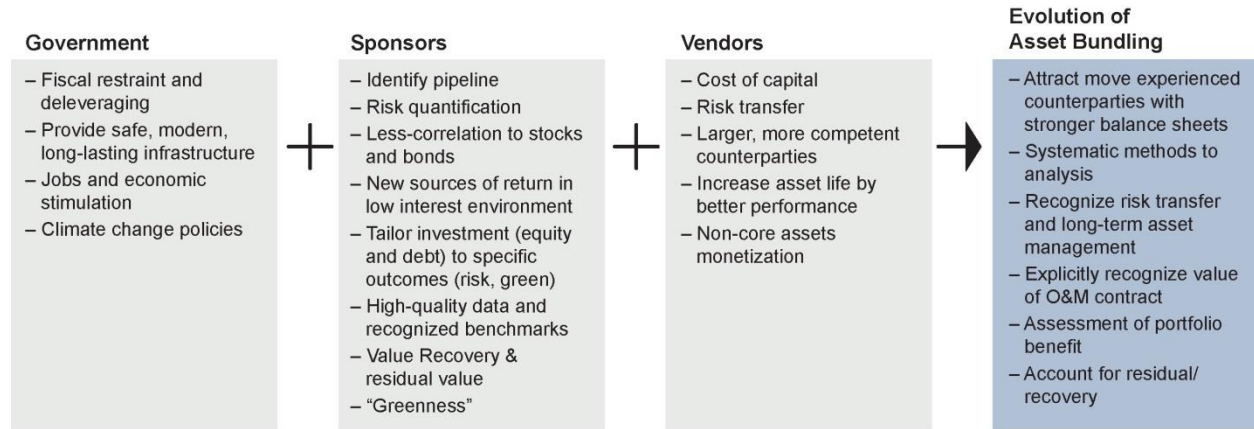
### **Benefits of P3 Bundling?**

Participants agreed about the range of potential benefits of bundling and why bundling is coming to the forefront. Namely, there are certain assets that, if combined into one P3 bundle, can be developed faster and at better value than traditional procurement, as well as attain sufficient scale to attract private capital that wouldn't otherwise be available.

Bundling of similar assets can save on design and construction costs as you do not need to reinvent the wheel for each asset and similar materials can be used and bought in bulk. More standardized design and construction processes also creates the opportunity to save on long-term maintenance from the use of similar replacement parts and equipment. Bundling as a P3 has the added advantage that the private consortium has the ability to spread its risk across a number of projects. For example, if a consortium is building twelve schools and one runs into site specific issues, the consortium can speed up the timelines on the other eleven schools while it sorts out the issue on the challenging site so that overall project timelines are still met. Having the flexibility to better manage risks can ultimately lead to the private sector being able to lower the cost of these projects to government.

## Stakeholders' Considerations Drive Bundling Evolution

This chart, provided by S&P Global Ratings, was shared with roundtable participants and helps to outline how the needs of infrastructure development stakeholders are bringing more attention to bundling.



O&M – Operations and maintenance. Source: S&P Global Ratings.  
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## Conditions for Successful Bundling

The participants of the roundtable spoke about many key conditions that create successful P3 bundles. Below are some of those key conditions for success:

### *Importance of One Counterparty*

Successful P3 bundles in Canada have thus far occurred where there is one government counterparty. This was the case with Ontario Provincial Police facilities as well as Alberta and Saskatchewan schools. Bundling can become more complicated at the municipal or First Nation level where a number of communities, who have differing levels of technical capacity and funding capabilities, may need to combine forces to reap the benefits of bundling. It will often be important, regardless of how many communities the projects cross, that the public sector helps create a single window for the private sector to work with on a bundled project. Infrastructure Ontario, Partnerships BC, and SaskBuilds are great examples of a counterparty in a P3 transaction. Even though a different Ministry, Health Authority, or municipality may be the ultimate owner of a project, these agencies have been the one-stop window for the private sector to engage.

### *Provincial and/or Federal Participation*

The Federal and provincial/territorial governments have a range of support that they can provide to municipalities and First Nations looking to pursue a P3 bundle. There is an opportunity for senior levels of government to play a coordination and facilitation function. Certain provinces in particular can also provide P3 expertise that may not otherwise be found at the local level. Partnerships BC, Infrastructure

Ontario, and SaskBuilds are three P3 procurement agencies that can help local governments prepare and go to market with their projects.

In the case of Saskatchewan schools, the province played a more leading role in pushing school boards to examine the P3 model. The choice before the school boards was between pursuing a P3 and having a clear and predictable budget and timeline on construction versus pursuing a traditional procurement that risked delays while waiting until provincial funding became available through the normal budget process.

#### *Role for Small and Local Contractors*

Bundling can lead to the perception that small and local contractors are being pushed aside for large, international consortia. In practice this has not been the case in Canada. Yes, large Canadian infrastructure companies have been successful in these projects, but evidence suggests that a great deal of that success has been a result of them engaging small and local contractors to assist with the projects usually in a subcontracting role. Governments that are proceeding with P3 bundles should look at best practices on how to engage small and local contractors early on in the project process and ensure there is ample time for large bidders to build relationships with those contractors. Infrastructure Ontario has a process for rewarding local content in bids and there is a suggestion that an approach similar could be used for bundled procurements.

#### *Size*

Participants felt that the size of the P3 bundle is important. The scale has to be big enough to attract private capital (general rule of thumb is capital costs over \$100M), but there was also a view that bundles can become too big as well, which can add risk and/or reduce the number of competitive bidders in the marketplace, which can impact value for money calculations. The size of a project is an issue across all P3 projects, the key difference with bundling is that you could have a number of projects smaller than \$100M bundled to bring the overall capital costs to a level that attracts significant private sector interest.

#### *Concession Length*

Some participants felt that governments could derive greater value for money if they went with longer concession periods on P3s. There was a view that this would force the private sector to go through at least one or two major retrofits of the asset during the concession period. For certain assets, a 30-year (which is the current norm) timeframe may not maximize lifecycle risk transfer. Governments should consider lengthening the concession periods on certain assets to maximize value. Again, not necessarily an issue specific to bundling, but one that is important in the context of any P3 project.

#### *Geography*

Most participants felt that the multi-site, “like asset” model was more achievable as a P3 bundle than a model that groups differing assets on a single site, though both are achievable. However, the point was made that if bundling assets from different geographic locations, there is a need for some proximity to

maximize the ability to utilize resources effectively. This doesn't mean projects can't be in separate communities, but a sufficient number, or sufficient groupings of projects, must be close enough where equipment or human capital can be shared, and where those running the project can oversee challenges that may arise at different sites and manage a range of stakeholder relationships.

### *Public Liability*

There was discussion among the group that should various authorities pool their projects together, the liability of these public entities to the Project Co should ideally be on a joint and several basis (recognizing the various authorities may have an understanding in the background to further detail/split liability) so that the counter-party analysis of the private sector rely on the most creditworthy of the public entities. This also removes finger-pointing possibilities where each, severally liable, entity may point the finger to the other to avoid their own liability.

### **Opportunities**

There was a view among participants that a number of asset classes could be applicable for governments to bundle. Below are some of the assets participants thought were most logical for P3 bundling:

#### *Schools*

Already effective in three Alberta bundles and one bundle in Saskatchewan, there is proof that schools can be bundled and delivered quicker and more cost-effective through the P3 model. The significant need for new and expanded schools in First Nations communities was identified as a major opportunity for a P3 bundle should there be a willing First Nation counterparty. Manitoba is another jurisdiction where a P3 bundle has been identified as a potential opportunity to build schools.

#### *Bridges*

Municipalities across the country are in need of new and upgraded bridges. Participants believe provincial governments could follow the Pennsylvania approach – where 558 structurally deficient bridges across the state were bundled into one P3 to be replaced for 20% less cost than the traditional approach and in three years instead of twelve – and coordinate bundles of projects across the province to ensure timely construction and maintenance to these assets that in some circumstance are a threat to safety.

#### *Roads*

Highway extensions, overpasses, and interchanges are all road project examples that could be bundled by provinces and municipalities to achieve more desirable outcomes. Similar to bridges there may either be some projects within one jurisdiction or across several that could make sense for a bundling

approach. The City of Saskatoon has successfully procured the North Commuter Bridge and Parkway as a successful P3 that is replacing an ageing bridge and parkway connection.

#### *Water/Wastewater*

Municipalities and First Nations have a difficult task of maintaining and upgrading their water/wastewater services. New, tougher regulations require additional resources to ensure the health of these systems. The P3 approach to water and wastewater has been successful in places like Regina and Saint John. Given a strong need across the country, it is worth looking at the opportunity for communities to work together to bundle their projects into a single procurement. The Atlantic Policy Congress has been examining this approach in First Nation communities in the Atlantic Provinces.

#### *Federal Assets*

Border Crossings and Military Accommodations were two infrastructure asset classes that were identified as easy targets for P3 bundling given standardized needs and capital costs that would suit the P3 model very well. It will be important for the federal government to examine the P3 option on its assets as it goes forward.

#### **Conclusion**

The general consensus from the roundtable participants was that P3 project bundling presents an opportunity to get more infrastructure built quicker, on budget, and with efficient risk transfer. A number of sectors could quickly be targeted to benefit from this model, and government can help maximize success by ensuring private and public sector interests are aligned to deliver quality infrastructure that meets the long-term needs of its communities.