

Policy Title: Public-Private Partnerships (P3) Policy
Policy Number: CFO011
Report Number: FCS2008-29, FCS2008-47
Approved by: City Council
Effective Date: 2008 December 15
Business Unit: Finance & Supply

BACKGROUND

Public-Private Partnerships (P3s) are increasingly being pursued by all orders of government as an alternative financing source and delivery model for infrastructure and services. The City of Calgary 10-year Capital plan (2008-2017) has identified over \$10 billion in unfunded capital needs. This has prompted The City to consider financing arrangements beyond traditional methods. One financing alternative that The City would like to explore is the use of P3s as a means to take advantage of potential private financing sources and spread costs over the useful life of the assets. As well, in some cases, access to grants from the other orders of government may be contingent on the project considering a P3 as a method of delivery.

The P3 policy will assist in achieving innovation in customer service and enhance The City's risk management perspective in the implementation of large capital projects and consideration of whether these risks are better managed internally or externally.

Not all infrastructure and services are suited to P3s, and other factors such as market conditions will impact the viability of P3s for that infrastructure and services which would normally provide opportunities for successful P3s. Great care needs to be taken in the evaluation and structure of any P3 The City undertakes in order to ensure the maximum benefit accrues to The City, while minimizing the risks.

The following definition for P3s was adopted by Council on 2008 September 22 (FCS2008-29):

A Public-Private Partnership is a contractual agreement between a public authority and a private entity for the provision of infrastructure and/or services in which:

- i. The private sector participant assumes the responsibility for financing part or all of the project; and/or*
- ii. The City seeks to transfer risks that it would normally assume, based on the private sector participant's ability to better manage those risks; and/or*
- iii. The arrangement extends beyond the initial capital construction of the project.*

Through the same report, Council also approved the following Guiding Principles on Public-Private Partnerships:

- 1. *The public interest is paramount.***
- 2. *Appropriate public control must be preserved.***
- 3. *Accountability and good governance must be maintained.***
- 4. *The project must be a priority as determined by the capital plan.***
- 5. *The project must be approved within both the capital plan and the projected operating budget of the relevant business unit.***
- 6. *The P3 procurement process must be competitive, equitable, transparent, and timely.***
- 7. *The selected P3 delivery model must provide best value for money over the project lifecycle with appropriate consideration of risk transfer, opportunities for innovation, and community issues.***

These principles form the foundation of this policy to guide the project selection, evaluation and tendering process. A discussion paper entitled, Public-Private Partnerships Council Policy Framework, is available to give more in-depth description and analysis regarding this policy.

PURPOSE

This policy is intended to provide a framework for a consistent approach for the:

- identification of potential P3 opportunities;
- evaluation of P3 opportunities; and
- decision-making and procurement processes related to P3s.

This policy will include the role of Council and Administration in the P3 approval process; an administrative policy will be developed once the Council policy is approved that will provide further guidance on a governance structure for P3s within Administration.

A review of best practices from other jurisdictions that have successfully used P3s as a means to deliver large scale public infrastructure projects demonstrates that a clear policy framework needs to be in place to guide the process and ensure consistency in the criteria used to evaluate projects for their potential to be implemented through P3s. Consistency and transparency in the evaluation and decision-making process is of paramount importance to ensure that the risks to The City of entering into each P3 are fully understood and minimized.

Although Administration will seek to develop the internal expertise necessary to carry out all the steps involved in the Project Evaluation Process, it is expected that for the first few potential P3 Projects The City evaluates, independent, external advice and expertise will need to be procured.

POLICY

Policy Statements

Consideration of a Public-Private Partnership

- 1) Identification of a project as a potential public-private partnership will be triggered if the project has been identified as a priority by the relevant business unit as part of its long term capital plan and meets at least one of the following criteria.
 - a) There is a requirement through a funding grant from either the province of Alberta or the federal government that requires that an evaluation of the project for its potential to be delivered as a P3.
 - b) The total project dollar threshold exceeds \$100 million dollars on a net present value (NPV) basis (either as a standard alone project or a bundled project that includes the delivery of various components within a given geographic area).
- 2) Other projects that do not meet the above criteria but are aligned with other major policy objectives of The City may be considered for evaluation as a P3; however, the resources needed to perform the evaluation must be considered relative to the benefit prior to beginning the evaluation process. Priority will be given to the evaluation of projects meeting the above criteria.
- 3) The City may also consider unsolicited proposals as candidates for a P3 evaluation, however, such proposals, along with all P3 projects, must be subject to an open, fair, and transparent public tendering process.
- 4) Projects may involve service components; however, priority will be given to projects that include significant capital and infrastructure lifecycle components.

Project Evaluation Process and Business Case

- 5) The project evaluation process will have three components, which together will form the Project Business Case:
 - a) Initial Project Screen;
 - b) Strategic Assessment; and
 - c) Value-for-Money Assessment.

Each component will be carried out consecutively with the results used to determine whether the project is viable up to that point, and whether proceeding to the next evaluation step is recommended.

- 6) A corporate P3 function, identified within Finance and Supply, will be involved in all P3 evaluations.
- 7) At the conclusion of the project evaluation process, the completed Business Case will be the basis for a recommendation by Administration to Council on whether to proceed with the project as a P3 and begin the Project Tendering Process.

Initial Screen

- 8) Each project that has been identified as a potential P3 will be evaluated against a standard screening criteria.

Strategic Assessment

- 9) Once a project has been identified as a potential P3 through the initial screening process, Administration will undertake a standard evaluation process that will consider the project against strategic and value for money criteria. The strategic assessment will include the following components:
 - a) **Project description;**
 - b) **Description of costs;**
 - c) A preliminary list of **P3 models** to be considered for the project;
 - d) A review of any **project-specific objectives or constraints;**
 - e) A **qualitative risk assessment;**
 - f) A **review of the market of service providers;**
 - g) A review of any relevant **precedent projects** or similar projects; and
 - h) A determination of the preferred P3 delivery model.

Value-for-Money Assessment

- 10) If the Strategic Assessment results in a recommendation that the project be delivered as a P3 or that further analysis is warranted, then Administration will proceed to undertake a Value-for-Money Assessment of the project. The term “value for money” is used to describe the difference in risk-adjusted cost to The City between traditional procurement and P3 procurement and will involve the following components:
 - a) Estimation of the Public Sector Comparator;
 - b) Estimation of the shadow bid; and

- c) Comparison of the Public Sector Comparator to the shadow bid to determine the value for money, if any, offered by the shadow bid. This comparison will consider all components of the Triple Bottom Line.
- 11) The results of the Value-for-Money Assessment will be documented and available to the public no later than at the time a contract is awarded.

Bidding Process

- 12) If Council accepts the recommendation of the Project Business Case to proceed with the development of the project as P3, Administration will enter into a procurement phase of the project that will include the development of tendering documents to pre-qualify and select a private entity that meets all the technical and financial requirements to deliver the project. Administration will follow the existing procurement policies and processes for tendering the contract.
- 13) All projects to be developed as a P3 will be subject to a fair, open and transparent public tendering process, with all tendering documents being published in widely available public media for a length of time sufficient to generate awareness on the part of local, national and international bidders. The City will not sole source any P3 contract.
- 14) The selection of the winning bidder will be based on a multi-stage process whereby the bidding entities will submit a technical proposal that will be evaluated on a pass/fail basis, or scored accordingly to criteria set out in the tendering (Request for Proposals) document. Subsequently, bidders will submit a financial proposal based on a Net Present Value (NPV) total project price. In order to maintain consistency and objectivity, as well as deliver value to taxpayers, Administration will select the lowest net present value bid, unless there are significant differences between bids in terms of the expected social and/or environmental impacts that offset the financial basis for awarding the bid.
- 15) A Selection Committee composed of senior Administration staff from relevant business units, including representation from Supply, will be formed to make a final decision on the successful project bidder. Administration may seek advice from independent external experts as part of this process. The City will also hire a process consultant/fairness auditor to ensure that the selection process adheres to the highest standards of fairness and transparency.
- 16) If the tendering and bidding process results in new information that impacts the evaluation of the project, then the Value-for-Money Assessment will be revised to include the new information and the resulting recommendation will be revised accordingly.

- 17) Administration will prepare an implementation and monitoring plan with a clearly defined monitoring schedule, consistent with existing asset management policies and processes, to ensure that the performance objectives and other terms of the contract are being met. The implementation and contract management will proceed as is currently done with City contracts, whereby Supply works in partnership with the sponsoring business unit. Supply is responsible for monitoring the overall contract, while the sponsoring business unit is responsible for monitoring the technical provisions.

PROCEDURE and RESPONSIBILITIES

Role of Administration and Council

- Council will approve all projects to be included in the capital plan.
- Council will approve P3 delivery for projects and the initiation of the P3 procurement process.
- Administration will identify a P3 function within Finance and Supply that will be responsible for ensuring that the evaluation process is consistently followed.
- Administration will seek the approval of Council whenever the Project Business Case leads to a recommendation that a project be developed as a P3. Council may wish to appoint an independent External Advisory Panel, composed of leading experts from industry, academia and other areas to provide advice on the Business Case and assist in the decision-making process.
- Administration will also provide advice and seek Council approval for any financial impacts on the Capital or Operating Budgets as part of the Project Business Case approval process.
- Administration will ensure that a communications plan is developed and adhered to that ensures appropriate stakeholder involvement, and that is consistent with the City's Engage! communications policy framework.

DEFINITIONS

Net Present Value	The value of a project found by adding the present value of expected future cash flows and the cost of the initial investment
Public-Private Partnership (P3)	A contractual agreement between a public authority and a private entity for the provision of infrastructure and/or services in which:

- i. The private sector participant assumes the responsibility for financing part or all of the project; and/or
- ii. The City seeks to transfer risks that it would normally assume, based on the private sector participant's ability to better manage those risks; and/or
- iii. The arrangement extends beyond the initial capital construction of the project.

Public Sector Comparator

The risk-adjusted cost estimate of a project assuming traditional government delivery.

Shadow Bid

The estimated costs to The City of the project if delivered under the P3 model(s). This is done through cash flow modeling of the private entity's financial approach, and may consider expected private sector efficiencies in capital and operating costs, as well as the cost of private financing.

AMENDMENTS

None.

2010 revision-policy number change from FCS014 to CFO011 due to department reorganization