Organics Processing Facilities Project - Guide to P3

P3 Context

The need for new infrastructure is increasing and governments at all levels struggle to keep pace with public demands for greater and improved infrastructure and services.

Municipalities face challenges in funding their infrastructure needs given the requirement to balance operating budgets and manage municipal debt levels:

- Funds may be diverted away from maintenance and renewal to address more urgent needs, leading to a growing backlog of repair and renewal projects
- As populations grow, municipalities need to improve and expand service

In many jurisdictions around the world, Public-Private-Partnerships (P3) have become a common tool for delivering projects, building infrastructure and delivering services. In Canada, all orders of government are increasingly turning to P3 as an alternative means of procurement to help address the infrastructure funding deficit.

What is a P3?

At a high-level, a P3 is any transaction structure involving both private and public parties working together towards a common goal.

Some common definitions include:

- "A cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards"
  - The Canadian Council for Public-Private Partnerships

- "A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance"
  - World Bank Group

- "A legally binding contract between government and business for the delivery of services and the provision of assets, such as roads, bridges and hospitals. The contract allocates responsibilities and business risks among the various partners"
  - Partnerships BC
The P3 Spectrum
There is a range of P3 models that allocate varying degrees of responsibility and risks between the public and private partners. The Organics Processing Facilities (OPF) Project is proposed to use a Design-Build Finance Operate Maintain (DBFOM) delivery method.

DBFOM Project Structure
In a DBFOM agreement, tenders are sought for the integrated design, construction and maintenance of an asset and long-term operation by the contractor to meet defined specification objectives.

The Owner has a single point contractual arrangement with the private sector party (Project Co) consisting of all the other counterparties.
The P3 Process

The implementation of a P3 can commonly be broken down into three phases:

**Planning**
- Initial Project Screen*
- Secondary Screen*
- Business Case
  - Project description
  - Procurement Options
  - Risk Analysis
  - Market Sounding
  - Quantitative Analysis
  - Value-for-Money
  - Approvals

**Procurement**
- Request for Qualifications
- Request for Proposals
- Approvals
- Commercial and Financial Close

**Contract management**
- Performance reporting and monitoring
- Contract administration
- Governance
- Commissioning and Completion
- Communications

*Note: An Initial Project Screen and Secondary Screen are required as part of the City of Edmonton Policy C555 and may not be a requirement in other jurisdictions

P3 Advantages and Disadvantages

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<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tr>
<td>Long-term, whole-life view of an asset in planning, design and operations</td>
<td>Private sector cost of financing can mean increased capital costs</td>
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<td>Predictable payments by the Owner over the long term</td>
<td>Procurement process can be longer in comparison with traditional procurement</td>
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<td>Increased levels of due diligence and oversight through the construction and operational phases due to the multiple parties involved including lenders</td>
<td>P3 agreements are long-term, complicated and comparatively inflexible to changes during the operation term</td>
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<td>Performance-based requirements that incentivize on-budget, on-time and on-spec delivery</td>
<td>Transfer of risk and responsibility to the Private Sector comes with some loss of control for the Public Sector Owner</td>
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<td>Where the P3 spans the lifecycle of the asset, assured adequate funding of maintenance and lifecycle costs</td>
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<td>Allocation of risks to the party best able to manage them</td>
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