The Future of Public Private Partnerships (P3s) in Alberta

Issue

Alberta is at a crossroads with respect to how it implements and administers public private partnership (P3) projects. The province's current fiscal deficit, infrastructure deficit and growing population are exerting pressure on how Alberta will finance its future. Alternative financing arrangements such as P3s offer the province a *smart debt* solution.

Background

Five years ago, Canada's infrastructure deficit was estimated at over $120 billion and growing. Even Alberta's prosperous economy at the time did not make it immune to this growing problem. A history of budgetary surpluses once allowed Alberta to finance infrastructure growth out of current revenues but this is no longer the case. Now more than ever the government needs to explore all options for leveraging dwindling budget dollars to address infrastructure needs.

The traditional procurement model for social infrastructure has been the design-bid-build model where, on a project-by-project basis the province solicits bids to build a school, hospital or courthouse, and not only are the costs of construction borne by the province but the long-term cost of maintenance is borne by the associated government agency (e.g., school board or health authority).

The public private partnership model combines the design/construction costs with the long-term maintenance and/or operating costs, as well as the financing of the costs. This model allows the Government of Alberta to privately finance certain portions of its social infrastructure and finance only where the project can demonstrate cost and/or schedule savings through a formalized value for money test. This *smart debt* not only finances infrastructure acquisition, it also formalizes and commits to the long-term maintenance or operation of infrastructure; something that governments around the globe have failed to do.

Canada is well into its third decade of experience with P3s. The first wave of projects in the 1990s produced both successes and failures; partially motivated by the misguided opportunity for *off balance sheet* financing. These high profile projects have formed much of the general public's opinion of P3s. The second wave of P3s in Canada has demonstrated significant cost and schedule savings for social infrastructure projects. Now with the creation of PPP Canada Inc. and the establishment of the P3 Canada program focused on funding municipal infrastructure, Canada's experience closely matches those of the U.K. and Australia where P3s are more common.

The upcoming third wave of P3s will be focused on municipal infrastructure projects. Considering that 90 per cent of infrastructure assets are owned at the municipal level, while only 10 per cent of provincial revenues are generated at the municipal level, illustrates the role that the Government of Alberta will need to play as municipalities do not have the depth of resources required to finance and procure their infrastructure needs. Somewhat unexpectedly, it turns out that the infrastructure maintenance deficit created through traditional procurement represents Alberta's true off balance sheet debt.

Alberta is considered one of the front runner P3 provinces in Canada; however we have completed far fewer P3 projects than BC and Ontario. Alberta is organized distinctly different than British Columbia and Ontario which have structured their P3 administration through a provincially owned crown corporation. Alberta chose to organize an agency within the provincial government to coordinate P3 projects rather than an independent provincial crown corporation.

The Alberta agency structure was born out of necessity. For the first P3s in Alberta the Alberta Transportation and Alberta Infrastructure created a joint task force seconding staff from multiple departments to support the projects. Alberta took the conservative approach in an attempt to keep costs low and to manage the uncertainty of the success of the P3 model going forward. Remarkably, most of the P3s completed under this structure have won awards and generated praise from industry groups. This is a testament to how well program ministries and the agency have controlled and managed extremely complex legal and financial relationships, while managing to secure significant savings for Alberta's taxpayers.

P3s are not well understood by both the general public and the business community. As well, Albertans are traditionally not fond of the province incurring long-term debt. As a result, the benefits of the P3 model need to be clearly communicated. The Alternative Capital Financing Office currently publishes the value for money reports for its P3 projects; however, there are still numerous P3 myths, such as off balance sheet financing, private ownership of public assets and displacing union jobs, that need to be dispelled through a public education process.

It must be noted that the P3 model is not applicable to every project. The high transaction costs and social service characteristics associated with each individual project create a feasibility hurdle that restricts P3 to only 10 per cent to 15 percent of infrastructure projects. Beyond this, the value for money test applied to project candidates can ensure those projects chosen for P3 will provide value for Alberta's stakeholders. Therefore, P3 cannot be considered a replacement of traditional procurement, but merely an alternative.

The Alternative Capital Financing Office and program ministries have done a superior job closing some of the most successful P3s in Canada. However, a commitment by the Government of Alberta to long-term support of P3s will promote deal flow and create the critical mass required for the successes generated in British Columbia and Ontario. Alberta is in a unique position to combine the best practices developed in other provinces with its own successful administration into the leading P3 provincial entity.

Alberta needs to take a leadership role in the third wave of P3s. Municipal governments lack the skills and resources to effectively administer P3 projects; although many have already independently drafted their own P3 policies. Allowing municipalities to reinvent processes that have already been refined by the Alternative Capital Financing Office and program ministries will lead to inefficiencies, inconsistencies and project failures. The Government of Alberta could provide those resources and standardize the P3 evaluation process across the province while also creating economies of scale and enhanced cost savings by consolidating municipal projects.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Promote public education and encourage the use of public private partnerships (P3s) as an alternative model for infrastructure growth and maintenance;

2. Evaluate the possibility of transforming the Alternative Capital Financing Office into a separate crown corporation similar to those in British Columbia and Ontario; and
3. Provide guidance, information and support to municipalities in the planning and administration of public private partnerships (P3’s).