The British Columbia Public Private Partnership Experience

A Presentation to Urban Land Institute - Minnesota Transportation P3 Conference

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1. The “Road Map”
   - Road and Bridge Maintenance Contracts – 1988
     - Maintenance Standards
     - Employees offered jobs on same terms and conditions (successorship)
     - More complex competitive selection process (alternative to tendering)
   - Design Build
   - The P3 Experience in BC
     - Projects
     - Partnerships BC Inc.

2. Considerations for a Successful P3
• **Road and Bridge Maintenance Contracts – 1988**

• **Maintenance Standards**
  – Mid 1980’s – limit growth of the public service
  – Restrict number of Full Time Employees (FTEs).
  – Privatize road and bridge maintenance
  – Maintenance Standards
    – “activity-based”.
    – 28 Service Areas
    – Quantities of activities
    – road patching, mowing, snow clearing, etc.
    – Contractors invited to submit qualifications and proposals for performing the work at a specific price
    – Selection based on a weighted analysis of work proposals and price proposals

• **Employees offered jobs on same terms and conditions (successorship)**
• More complex competitive selection process (alternative to tendering)
  • BC Legislation requires competitive tendering process
  • Legislation allows Minister of Transportation to approve alternative contracting method if satisfied that it will result in competitively established costs
  • The alternative process (proposals for both work and price) was approved and used for the road and bridge maintenance contracts.
  • The process included a negotiation phase with the “preferred proponent”
• **Design Build**
• **Recognize value of integrated design/construction**
• Early to mid-1990’s
• Combine
  – complex competitive selection processes
  – concept of integrated design and construction contracts.
• **Required**
  – Change contract to combine standard general services agreement, used in contracting for design work, with the standard major project construction agreement
  – identify appropriate evaluation criteria
  – pricing approach that provided cost certainty to the Province
• **Accelerated project delivery**
  • Major impetus behind the introduction of design/build in BC
  • Cautious approach to design/build
    – reference concept
    – “weighted” evaluation approach

• Scored numerous factors including:
  – Design (pass/fail - prescribed design criteria)
  – Contractor Team Experience
  – Key Individuals Experience
  – Guaranteed Maximum Price
• Other Design/Build Challenges
• Federal and provincial approval processes
  – Largely designed to review a final design and accept or reject
  – Greater demand on agency time (and higher agency cost as a consequence)
  – Interaction between agency and design/build contractor (rather than agency and government)
  – Greater perceived agency risk as a consequence of participating in interim design reviews, rather than simply approving or rejecting the final design
• **Innovation (eg. Westview Interchange)**
  - Reference design and several competitors
    - Highway clearance beneath the overpass
    - Significantly raising the approaches in a high-density municipal area
    - Successful proponent – different approach
      - Lowering the highway rather than raising the overpass
      - Significantly lower cost
    - The savings realized by the Province
      - Reduced property acquisition costs
      - Earlier construction completion
      - Lower project costs
• **Risk Transfer**
  - Important consideration during planning and negotiation of design/build projects
  - Unforeseen site conditions
    - Called for risk sharing arrangements
  - Other risk matters
    - Risks associated with subtrade pricing
    - Passed to the design/build contractor
• Resulting benefit
  - Cost management became more relevant during the design process
- **Coquihalla Highway (tolls)**
- Direct Route - difficult Vancouver/ Okanagan access
- Conventional design/bid/build approach
- Vancouver Expo 86
  - Accelerate Coquihalla construction
  - Funded by toll
- Late 1990s – possible P3 conversion
- Arrangement did not proceed
- Significant public opposition
- The tolls have since been removed
• **Lions Gate Suspension Bridge**
  • Major Vancouver transportation link
  • Early example of the private delivery of public infrastructure
    – 1938 toll bridge - to access large West Vancouver land development
    – Acquired by Province and tolls removed
  • Deteriorated Condition – replace all but towers and cables
    – Original plan - upgrade from 3 tight lanes to 4 lane tolled structure
    – Significant time and effort considering technical and legal feasibility
    – In the end, modified design/build approach selected
  • **Contractor** - American Bridge
  • Cut, remove and replace bridge segments in 32 foot sections, and have the bridge open for morning commuter traffic every day
• Abbotsford Hospital
• First significant P3 in BC
• $355 million
• UK Treasury “guidance”
  – Similar concepts and the treatment of risk and contract items
• Significant initial opposition
  – Unions not generally supportive of P3 approach
  – Project proceeded and was successful
  – Significant “value for money”
  – Supported in a review by the Province’s Auditor General.
• **Partnerships BC Inc. (PBC)**

• Single Purpose Agency to coordinate P3 initiative

• Expected Benefits:
  – Promote P3 within BC
  – Develop “best practices” to selection processes and contracting
  – Consistent contracting
  – Consistent risk treatment
  – Develop analysis tools, such as “value for money” analysis

• **Business Model:**
  – Independent board of directors, appointed by the Province
  – Operates on a “fee for service” basis.
  – Review all projects over $50 million to assess P3 potential
• **Sea to Sky Highway – Transportation P3**
  – One of the major successes for BC
  – 2010 Winter Olympics
  – Safety and Reliability
  – $600 million project capital budget
  – Alignment of
    • Project objectives (improved safety and reliability)
    • Evaluation criteria
    • Contract terms
• **Sea to Sky Highway (cont’d)**

  • Evaluation Criteria included:
    – Traffic Modelling to identify anticipated mobility improvements
    – Safety Improvements Formula that considered the cost of accidents of varying severity
  
  • Compensation
    – Availability payment
    – Highway “divided” into sections – Pay for each section to be open
    – Algorithms to determine free traffic flow
    – Payment reductions if congestion
  
  • Result
    – significant safety and mobility improvements
    – On time and within budget
• **Port Mann/Highway 1 (“PMH1”)**
  • $2.46 billion
    – Remove and replace aging tied-arch bridge
    – 37 km of significant highway upgrades
  • To be tolled using modern electronic toll technology
  • Objectives - reduce congestion and travel time; improve safety and accessibility; facilitate reliable transit service HOV, cyclists and pedestrians; and potential future rapid transit
  • Preferred Proponent selected August, 2008
  • Financial Market challenges to completing the project as a P3
  • February 2009 decision to proceed as design/build project
• **Canada Line**
• $1.9 billion
• P3 arrangement to construct and operate a rapid transit line
• Between the Vancouver International Airport, the City of Richmond and downtown Vancouver
• Completed prior to the 2010 Winter Olympics and is currently operating
Major Concepts

- Deciding on P3
- Selling a Business
- Due Diligence
- Competitive Process
- Closing the Deal
Project Objectives
- measurable core
  project objectives

Project Constraints

Scope

Risk Allocation

Financial Analysis

Procurement Options

Best Value to User

Implementation Plan
Selling a Business

- Any P3 is a business
- Purchasers/Bidders will need to do all of the due diligence
- Think like a bidder – identify their issues early and decide how to address them
- What will you pay for (what has value to you?)
- What won’t you pay for (Aesthetics)
- Relative value of the components (tradeoffs in scoring)
Due Diligence

- Previous studies
- Design work
- Property Information
- Internal Memoranda
Competitive Process

- Fairness
- All information necessary to provide a fully informed proposal
- Opportunity to object early to unnecessary price drivers
- Clear rules for selection
Closing the Deal

- Settle the contract up front
- Rules about what can be negotiated/discussed after selection
- How to deal with variations among proponent structures (partnership vs. corporation)
- What to do if you don’t get a bid within your range
Who do you need

- **Legal** – but don’t let them run it
- **Engineers** – they know a lot but not everything
- **Politicians** – commitment to support project; timely decision making; make decisions up front whenever possible;
- **Project Board** – Disciplined process for considering the options; making and recording key decisions (avoid revisiting decisions once made)
- **Project Team** – Best that you have – public servants who can deliver
- **Outside Advisors** – Ability to think like a contractor
Owner’s Process Overview

Stage 1 – Project Need and Justification

Stage 2 - Business Case
- Measurable Objectives
- Initial Risk Assessment
- Value Assessment
- Procurement Approach
- Marketing Strategy

Stage 3 – Procurement “Developing a Partnership”
- Fair and transparent process
- Finalize Risk Allocation – Contract
- Select Preferred Proponent who best meets success measures

Stage 4 – Reaching Financial Close

Stage 5 - Implementation
Managing side issues – fairness, conflicts of interest and confidentiality

• Fairness Reviewer
  – Able to attend all meetings
  – Provide a report to Project Steering Committee
  – Able to raise any concerns with team prior to report – opportunity to address

• Conflict of Interest Adjudicator and Relationship Review Process
  – Conflicts of Interest (Actual, with recommendations for perceived or potential)
  – Unfair Advantage
Deal Flow

• Successful P3’s require commitment from both government and industry