

The Canadian P3 Model- Will it Work in the US?

Chris Taylor

**ULI Spring Conference, 4/10/14
Vancouver, British Columbia**



US Context

- The west coast states need to spend hundreds of billions on infrastructure in the next 30 years -need to re-think how we deliver and finance it
- Financial reality = *fewer* federal grants + *declining* revenues + *falling* general obligation debt capacity
- Strong demand for infra projects from investors but the public sector needs to be able to structure projects into investment-ready opportunities
- Managing full life-cycle costs effectively requires a different approach
- Successful models have been proven, we don't need to reinvent the wheel

What is the WCX?

- A 1st of its kind regional platform to accelerate performance-based infrastructure market development, best practices, and improve the public sector project pipeline.
- Non-profit organization, governed by board representing CA, BC, OR and WA
- Provide support and technical assistance to public sector agencies
- Initial funding provided by Rockefeller Foundation with states now allocating funds

WCX Focus Areas

- Develop and share best practices and standards for performance based infrastructure/DBFM
- Pilot projects to demonstrate benefits of Design-Build-Finance-Maintain (DBFM) contracting
- Assist agencies to build capacity to:
 - Evaluate and implement DBFM contracts
 - Incorporate life cycle costs into project planning
 - Strengthen the quality of the project pipeline to attract institutional investment

WCX Progress Points

- Framework Agreement Signed – 10/12
- ED Hiring – 4/13
- Outreach to 300+ stakeholders – 2013
- Governors commit to pilot projects- 10/13
- WCX Project Standards Issued – 12/13
- Establish Advisory Council – 1/14
- Oregon Legislature adopts HB 4111 – 2/14
- Form non-profit entity – 4/14
- CGI Commitment with EPA/USDA/states- 4/14

Center of Expertise

A **public entity** (government, public/private corporation, or nonprofit) **that supports other government agencies to procure projects using performance based (or “PPP”) approach**; it is not the procurement agency.

It is a “dedicated” agency, meaning that it has a permanent structure dealing with multiple projects versus ad-hoc teams put together in agencies or departments for a specific project.

Supports government agencies in procuring projects that span multiple sectors

Moving forward on Public Private Partnerships: US and International Experience with PPP Units,

E. Istrate and R. Puentes, December 2011 (Brookings Institution)

Functions of a Center of Expertise

Promote Best Practices

- Standardization of procedures, documents, and requirements
- Reduce transaction costs,
- Improve private participation,
- Avoid pitfalls in structuring and managing contracts,
- Assure protection of the public interest

Best Practices Recommendation

States should establish a dedicated Center of Expertise to tackle bottlenecks in the process and protect the public interest

- Complexity requires dedicated high-skill unit
- Should not be in, or report to, a procuring agency
- Technical assistance and policy guidance most common functions, with promotion of best practices

WCX Near Term Goals

- Identify **pilot projects** to implement using DBFM procurement
 - Provide higher value for money
 - Harness private sector innovation
 - Reduce life cycle costs through long term performance based procurement
 - Develop skills and capacity in state and local government
 - Tap expertise of Advisory Council and other experts

WCX Medium Term Goals

- **Establish best practices in a West Coast regional marketplace**
 - Project standards
 - Promote use of consistent approach by public agencies to evaluate taxpayer value
 - Expand the market for investable infrastructure
- **Create platform for aggregation of smaller projects within a region**
 - Such as water/wastewater and social infra

US Challenges

- Lack of accurate info re. projected vs. actual costs
- Failure to account for true costs of long term maintenance of assets
- Overly simplistic comparison of cost of public vs. private capital, ignoring risk transfer and innovation
- Bureaucratic inertia: DBB/muni finance model has a century of history in US

US Challenges (2)

- Shift in infrastructure funding and delivery from federal/ state level to regional/local level = vastly greater # of agencies involved in projects
- Lack of enabling legislation in many places
- Misconception that model only applies to revenue-generating assets
- Skepticism due to confusion about performance based model vs. privatization

US Opportunities

- Massive infrastructure deficit is focusing attention on the need for investment
- Growing bipartisan political consensus that new approaches are needed
- Expansion beyond transportation sector
- Strong investor interest
- More domestic success stories