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Public-Private Partnerships (P3s) and Municipalities

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2008.10.01

Sponsor of the last project :



The Federation
of Canadian Municipalities

Hamel, Pierre J. (2007). *Public-Private Partnerships (P3s) and Municipalities: Beyond Principles, a Brief Overview of Practices*, produced at the request of the Federation of Canadian Municipalities (FCM), Montréal : Groupe de recherche sur l'innovation municipale (GRIM), INRS-Urbanisation, Culture et Société, 110 p.
<http://www.uqs.inrs.ca/pdf/PPPMunEn.pdf>

public-private partnerships (P3s)

neither revolutionary
nor even especially novel
in the world of local government

P3 = increased involvement
of the private partner

financing of capital assets
and longer-term agreements

no clear reason
to force municipalities
to “consider P3s”

This would suggest
that elected officials and municipal
employees are ignoring P3s and
making decisions without considering
all the options available to them.

no clear reason
to force municipalities
to “consider P3s”

it is more reasonable to assume that
municipal governments are aware of
their options,
which vary considerably from one case
to another.

no clear reason
to force municipalities
to “consider P3s”

We can blame municipalities for many
shortcomings,
but we certainly cannot accuse them of all
operating in the same manner,
never changing their minds, systematically
going private or, on the contrary, turning
their backs on the private sector.

P3s are not a cure-all

P3s not a magic solution

to the real problem

of financing infrastructure,
the primary and often only real
challenge facing local
governments.

The problem of financing
municipal infrastructure

not related to

the availability of the needed funding,
access to financial markets,
debt ratings,
or the cost of loans taken by
municipalities.

Private financing =
a poor solution
to a non-existent problem

traditional municipal financing is simple,
relatively **easy**
and, above all, much **less costly** than the
private-sector equivalent

The problem of municipal
infrastructure financing

the level of municipal revenue

and the characteristics of taxes

P3s not a magic solution to this revenue shortfall

the funds paid out each year to a P3 partner
are more or less the same amount
as the annual repayments
on a municipal loan taken out
for a traditional project

One of the Great P3 Illusions:
A Fake Loan,
“Off the Balance Sheet”

Believing that you can have your cake
and eat it too

If this seems **too good to be true**,
that is exactly the case.

A Fake Loan?



New York, February 08, 2006 -- **Moody's**

Investors Service has revised the University of Quebec at Montreal's (**UQAM**) debt rating to A2 from A1. The rating outlook is stable. The downgrade reflects an expected sharp increase in financial obligations as the university embarks on a large capital improvement project. [...]

If the university's obligation under the lease were added to its outstanding debt, the university's debt burden would more than double [...].

The problem of municipal infrastructure financing

the difficulty of convincing people that they must pay more, simply to ensure that nothing changes, which is not a very good sell

P3s = Risk Sharing ?



Rail industry
Red signals
Editorial
[The Guardian](#),
Thursday September 11 2008

[...] The idea was that the long-term job of renewing the tube would be split between two private groups, while the state ran services. But the cost of the work soared out of control. **The bigger of the two, Metronet, went bust** while the second, Tubelines, is being offered around £2bn less than it wants for essential work between 2010-2017. Either the bill must be met, or less work will be done. [...]

P3s = flexibility ?

The **preliminary discussions**, prior to pricing and procurement, are **longer and more arduous** for a P3 project than for a traditional one.

P3s = flexibility ?

“You can change a law,

a bylaw and even a constitution,

but terminating a contract is very
complicated and very expensive”

P3s = flexibility ?

PPP on the London Underground is both
costly and complicated. ... 135 volumes
and 28,000 pages of contract.

During the October 2005 safety crisis on the
Northern Line, London Underground was
forced to employ an army of lawyers to
read two million words of the PPP
agreement in order to check it was allowed
to impose emergency levels.

P3s = flexibility ?



Sarah McGinnis, Calgary Herald
Wednesday, September 10, 2008

"One of the necessary limitations was that school boards would not be permitted to enter into long-term facility space leases with outside parties such as playschools, day care and community leagues," Alberta Education Deputy Minister Keray Henke said [...]

Some said the preceding citation is out of context. See for yourself the full length article here (blowing up the size of the font) or on line:

<http://www.canada.com/calgaryherald/news/city/story.html?id=9173f794-2be7-48f3-a1cf-440e21f11ca0>

P3 schools off limits for preschools, day cares smcginnis@theherald.canwest.com

Long-term leases with outside parties barred Sarah McGinnis, Calgary Herald Published: Wednesday, September 10, 2008

Parents hoping to have preschools or day-care programs included in new schools built through private-public partnerships to address a "crisis" in services are out of luck.

When nine P3 schools open in Calgary in September 2010, independent day care and preschools will not be welcome to operate in the buildings during school hours.

"One of the necessary limitations was that school boards would not be permitted to enter into long-term facility space leases with outside parties such as playschools, day care and community leagues," Alberta Education Deputy Minister Keray Henke said in a letter to the Calgary Board of Education.

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Contracts to build and maintain the new Calgary schools included in phase one of the province's P3 school plan will be finalized and signed within the month, said Alberta Education spokeswoman Kathy Telfer.

Long-term leasing to outside groups could require extra building requirements that "will have significant implications for the contractor's design, build, finance, maintain obligations, which could compromise or negate the contractor's building guarantees," the letter said.

CBE chairwoman Pat Cochrane said she was aware of the restriction, but could not comment further due to a confidentiality clause the board signed with the private contractor for the P3 schools.

"Alberta is in crisis when it comes to day care, and before and after school care is a big part of that," said Calgary Association of Parents and School Councils president Laura Shutiak.

"When you can have child care at the school, it's very, very easy (for parents). But those programs are very few and far between."

Access to child care is particularly dire in new suburban communities making day-care programs in new P3 schools even more necessary, she said.

With the local day care over capacity, mother-of-two Sheila Swan had been lobbying to incorporate an after-school care program in the new P3 school in Bridlewood.

She was disappointed to hear the option of leasing space for a day care in the school may be off the table.

"We need child care spaces. Why are they now standing in direct opposition to putting them in places where children are," she said.

Long standing joint-use agreements with the City of Calgary, which allow school gyms and fields to be rented out for public use will continue under P3 agreements, said Telfer. But providing space for day care or preschools within the new schools could place a strain on 30-year contracts with the private partners to build and maintain the facilities, she said.

"We really wanted to be focused around the learning needs of students and be able to have the P3 model focus around education," said Telfer.

She pointed to a \$242 million investment over three years by Alberta Child and Youth Services to create 14,000 new child care spaces by 2011 as evidence of the province's commitment to addressing the child-care strain.

P3s = rigidity

The rigidity imposed by long-term undertakings constitutes, paradoxically, what is in theory **one of the soundest arguments in favour of P3s.**

When **faced with a tight municipal budget**, there is sometimes **a strong temptation to put off some non-urgent work** and to defer the necessary investments almost indefinitely, if it does not harm operations in the short-term.

P3s = rigidity

Municipalities can be accused, often rightly, of **some negligence**: they are not always consistent.

In this context, **P3s make it theoretically possible to ensure greater regularity.**

In practice, however, things are not so simple.

P3s limit the accountability of elected officials

Given a 30-year P3,
governed by an agreement signed in 1985
and expiring in 2015,

a new municipal council elected in the fall of
2008 for a four-year term would have no
flexibility at all.

P3s = flexibility ?

P3s limit flexibility in that they constrain
elected officials over the long term and
reduce their ability to adjust to changing
circumstances.

P3s = flexibility ?

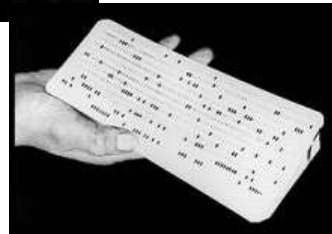
Remember

“main frame solutions”?

Remember keypunch?

It was “hot” in the seventies.





P3s = flexibility ?

Just imagine a 35 years long
P3, signed in 1975...

We would still have two more
years to go!!!

P3s = Transparency ?



[Calgary Board of Education] chairwoman Pat Cochrane said she was aware of the restriction, but could not comment further due to **a confidentiality clause** the board signed with the private contractor for the P3 schools.

P3s =
Transparency ?





Why no-one knows if PFI makes sense

P3s = Competition ?

In addition to reduced flexibility,
elected representatives that are less
directly accountable
and reduced transparency,
P3s also promise **reduced
competition.**

P3s = Competition ?

The Problem: Too Few Bidders

A Formula Better Suited to Very Large
Companies

P3s = Competition ?



September 2008 Canadian Construction
Association Board Meeting

**Public-private partnership model
risks squeezing out smaller
firms, delegates say**

P3s = Competition ?

Cartel Agreements

P3s = Competition ?

Corruption INTERNATIONAL
Herald Tribune

Reuters Monday, April 14, 2008

Siemens corruption investigation
expands **SIEMENS**

€1.3 billion, or \$1.9 billion, of
"unclear payments" made
between 2000 and 2006

UK Dec 2007-
Jan 2008



Postscript: About the Hamilton-Wentworth P3 failure

I said that the Hamilton-Wentworth P3 received a Canadian Council National Award for Public-Private Partnerships : I was wrong.

The project itself did not received such award. Actually, it was already close to its end when the first Awards were given (in 2002).

But one of its main promoter got a personal award as a P3 champion:

http://pppcouncil.ca/nationalAwards_champions.asp

William McMillin (Mac) Carson

Awarded: 2002

In 1974 Mr. Carson became the Commissioner of Social Services for the Regional Municipality of Hamilton-Wentworth and in 1986 became Chief Administrative Officer. As CAO, he had a pioneering role in directing contract negotiations for the first major municipal water and wastewater operating and maintenance contract in Canada. He is former Chair of the Regional Chief Administrators' Group of Ontario, involved as a negotiator in the Social Contract talks. He served as Chair of the Ontario Housing Corporation until he retired in 2000. Mr. MacLaren was a founding member of the CCPPP Board, and co-authored the original membership regulations and by-laws. He continues work as a consultant on organizational restructuring, government relations and executive coaching.

