

# Public Private Partnerships in Transportation Infrastructure

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# P3s That Work

## ◆ (A) The right project

### ❖ Key factors:

- Project size (transaction costs, risk/reward trade-off, sufficient scale)
- Real scope for innovation in design and service delivery
- Definable and reliable revenue stream
- Synergies in design, building, operations and maintenance
- Potential for risk/reward upside (based on fair risk allocation)

# P3s That Work

- ◆ (B) A Government partner with project and contract management skills
  - ❖ Three key factors:
    - (1) Government, community and private sector support
      - Appropriate legislative framework
      - Clear lines of responsibility within government
      - Consistent, accountable and transparent process
      - Competitive process
      - Predictable pipeline of deals

# P3s That Work

- (2) A Government with a clear, long-term business plan
  - Based on reliable information
    - ➡ Needs assessment
    - ➡ Accurate forecasts
  - Value for money
    - ➡ Reasonable public sector comparators
  - Clear output specifications
    - ➡ Service need and service quality requirements

# P3s That Work

- Risk analysis
  - ➡ Appropriate risk allocation
- Fair and transparent procurement strategy
- (3) Appropriate expertise
  - Understand the legal, technical and financial aspects
  - Conduct a depoliticized decision-making process

# P3s That Work

- Specialized procurement agency:
  - Conduct value-for-money analysis
  - Fair procurement process
  - Assess and implement appropriate risk allocation
  - Monitor and enforce contractual compliance
- ◆ (C) A balanced and effective risk allocation
  - ❖ Ensuring that the risk is measured and allocated to the party best able to manage it.

# Challenges for Transportation and Transit

- ◆ Traffic demand forecasts are notoriously unreliable
  - ❖ Flyvbjerg study:
    - Rail: 9 of 10 projects were off by an average of 106%
    - Road: 50%: actual vs forecast variance was +/- 20%
      - 25%, it was 40%
    - No improvement in 30 years of experience

# Challenges for Transportation and Transit

## ◆ Counterparty Risk

### ❖ Who is contracting entity?

- Roads: government
- Transit: multiple policy-making authorities
  - Canada Line: single contract entity, GVTA retained ridership revenue risk as it followed the policy-making authority

## ◆ Risk allocation

### ❖ Tolls vs. availability payments

- Operating revenue to match O&M or O&M plus capital or full risk transfer – is it sustainable?

# Challenges for Transportation and Transit

- ◆ Risk allocation (cont'd)
  - ❖ Land acquisition/environmental assessments etc
- ◆ Competition from other subsidized modes
- ◆ Design/build split from operate/maintain or DBF vs. DBFOM (Upgrades to existing system with existing operator)
  - Risk gaps between the two entities
  - Loss of innovation potential (design/operation synergies)

# Challenges for Transportation and Transit

- System integration problems
- Reduced lifecycle cost efficiency
- Decreased overall cost certainty of construction and operation (due to split responsibility)
- Potential for decreased schedule certainty
- ◆ Managing Public Support
  - ❖ Transit
    - City of Toronto/TTC/Other challenges
    - London Underground
- ◆ Long term Plan
  - ❖ Move 2020: project size, grouped, DB vs. DBOM
  - ❖ Metrolinx

# Challenges for Transportation and Transit

- o What the Private Sector Needs:
  - ▲ Counterparty certainty
  - ▲ Reduced change of law risk
  - ▲ Design-build/operate-maintain synergies
  - ▲ Clear, transparent “apolitical” procurement process
  - ▲ Financeable revenue stream
  - ▲ Fair contractual risk allocation
  - ▲ Clear regional plan for transit
  - ▲ Appropriate project size