



# ONE YEAR LATER: ONTARIO'S NEW FRAMEWORK FOR INFRASTRUCTURE

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## OVERVIEW

- *New Infrastructure Planning, Financing and Procurement Framework* calls for “innovative engagement of the private sector to leverage expertise and capital”
- Announced by Hon. David Caplan, the Minister of Public Infrastructure Renewal on July 27, 2004

## GOALS AND OBJECTIVES

- Goal of Framework - to increase government's flexibility and creativity with respect to building public infrastructure:
  - “There is no one right model” of infrastructure
  - Public sector encouraged “to be innovative and creative”

# OPPORTUNITIES

- Hospitals and Health Care
- Schools, Colleges and Universities
- Water
- Waste Water
- Public Transit and Reduction of Gridlock
- Roads and Highways
- Affordable Housing
- Other Strategic Infrastructure Priorities

# APPLICATION

- Framework applies to all infrastructure initiatives by:
  - Ontario government
  - Broader public sector, e.g. municipalities, schools, universities, colleges, hospitals and other public-sector institutions and agencies

**FINANCING AND PROCUREMENT MODELS**  
**Identified by the Ontario Government**

<b>Model</b>	<b>Available Projects</b>
Traditional Government Procurement	All
Design-Build	All
Operation/Maintenance Service or Licence	All
Pooled Borrowing	All
Financing	All
Leasing	All
Design-Build-Operate	All
Design-Build-Finance-Operate	All
Design-Build-Own-Operate	Hospitals, elementary and secondary schools, waste and water must remain under public ownership and control.

# PROJECT EVALUATION

- Determination of which financing and procurement option best suits a particular service or project will be based on:
  - **Business Case Analysis**
  - **Value-for-Money Assessment**
  - **Risk Assessment**

# BUSINESS CASE ANALYSIS

- Based on five criteria:
  - Financial
  - Technical
  - Operational
  - Public policy
  - Implementation

## BUSINESS CASE ANALYSIS

- Is there an opportunity for real risk transfer to the private sector?
- Must operational issues be addressed by the public sector, or is there room for a private partner?
- Can the private partner be held accountable for meeting standards?

# BUSINESS CASE ANALYSIS

- What restrictions are imposed by legislation or regulation?
- Are there public policy constraints on private-sector involvement?
- Is it possible to generate meaningful private sector competition?

# CONSULTATION FOR BUSINESS CASE ANALYSIS

- For every proposed initiative, the following must be asked as part of the Business Case Analysis:
  - “ To what extent do various stakeholders such as public elected officials, service users, employees and government officials accept private-sector involvement? ”

# CONSULTATION FOR BUSINESS CASE ANALYSIS

- For initiatives involving water, sewers and hospitals: the community and “key stakeholders” should be consulted about choice of financing and procurement models

# VALUE-FOR-MONEY ASSESSMENT

- ***Public-sector comparators*** (against which a proposal will be measured) to be established
- Comparators will include three key components:
  - capital costs and receipts
  - recurrent costs and receipts
  - sensitivity to changes in discount rate, interest rate, revenue growth costs, *etc.*

# VALUE-FOR-MONEY ASSESSMENT

- Quantitative measures such as:
  - Spin-off job creation
  - Environmental benefit
  - Number of people served
  - Potential for broader economic stimulus

## ACCOUNTING TREATMENT OF INFRASTRUCTURE INVESTMENTS

Maintenance	Expensed
Repairs that do not prolong asset's life	Expensed
Maintenance deferred from prior years	Treat either as <i>Maintenance</i> or as <i>Rehabilitation and Refurbishment</i> , depending on specific nature
Rehabilitation and Refurbishment	Capitalised
New Construction	Capitalised and amortised
Replacement	Capitalised and amortised

# RISK ASSESSMENT

- Draws on Capital Asset Management Framework of Province of British Columbia
- Identify risks and assess whether they are best borne by the public sector or the private sector

# RISK ASSESSMENT

- Policy risks
- Site risks
- Design risks
- Construction risks
- Operation risks
- Repair risks
- Financial risks

## LIMITS ON PRIVATE SECTOR INVOLVEMENT

- Municipalities may contract with the private sector for the operation of water and sewage systems
- Framework is silent on private sector operation of health care infrastructure

# LIMITS ON PRIVATE SECTOR INVOLVEMENT

- If proposed return to the private sector is unreasonable based on risks assumed, proposal would not pass the financial component of the business case analysis

## EXAMPLES OF PRIVATE SECTOR ALTERNATIVE FINANCING

- A Toronto hospital's bond issue to finance capital improvements (*acceptable*)
- The design-build-finance construction of the government casino in Niagara Falls (*acceptable*)
- Sale of Highway 407 (*not acceptable*)

# SOURCES OF INVESTMENT

- Private Sector
- Direct provincial government grants
- Cost-sharing of projects and programs between the provincial government and the federal government
- Pooled financing and low-rate loans to municipalities and other public-sector institutions through the **Ontario Strategic Infrastructure Financing Authority**

## SOURCES OF INVESTMENT

- Public and private sector partnerships including investments from pension funds and others, under certain conditions
- User fees, where appropriate, regulated and “in the public interest”

# SOURCES OF INVESTMENT

- Alternatives under consideration:
  - tax-increment financing
  - value-captured charges
  - revenue bonds
  - dedicated taxes

## UNSOLICITED PROPOSALS

- Must satisfy the tests contained in the Framework and be consistent with the government's investment plans
- Should be sent both to the Ministry of Public Infrastructure Renewal and to the Ministry responsible for the specific investment area

## CONCLUSION

- “The government envisages the private sector taking a lead role in the following areas: overall procurement management of major infrastructure initiatives; sourcing and managing initiative finance; management of infrastructure assets; and providing services associated with specific infrastructure.”

*Building A Better Tomorrow, p. 42*