City of St. Albert

CITY COUNCIL POLICY

Alternative Capital Financing

AUTHORITY	APPROVED	Res. No.	mm dd	REVISED	Res. No.	mm
City Council		C311-2012	05 28			

Purpose

To provide a framework governing Alternative Capital Financing arrangements to accomplish the following:

1. Projects identified to be delivered through Alternative Capital Financing arrangements are aligned with Council's priorities;
2. Project delivery resources are harnessed and appropriately allocated;
3. Project risks, rewards and responsibilities are identified, shared and managed; and
4. Public interest is preserved through a fair competitive and transparent process.

Policy Statement

The City of St. Albert is committed to achieving value for money in public infrastructure and service delivery while ensuring the public interest is protected and Council's priorities are met. Alternative Capital Financing arrangements shall be considered where the Project Delivery Model will serve to:

1. deliver improved services and value for money through appropriate allocation of resources, risks, rewards and responsibilities between the City and private sector partners;
2. enhance public benefits or demonstrated public need through clearly articulated and managed outcomes;
3. leverage private sector expertise and innovation opportunities through a competitive and transparent process;
4. improve and increase certainty around costs, schedule, quality and service delivery, and
5. optimize use of the asset and included services over the life of the project delivery model chosen.

The Alternative Capital Financing Policy shall apply to public infrastructure projects that have a potential to generate the efficiency gains needed to offset the incremental costs incurred by the project delivery partners during the development and procurement phases.

Definitions

"Alternative Capital Financing" means a method of financing and delivering capital projects, agreed to between the City and one or more private or Not-for Profit partners, under which the City and its partner(s) share the risks, rewards and responsibilities (including financing responsibilities) of a project, and under which the private or Not-for Profit partner(s) may be responsible for any and all aspects of design, construction, operation and maintenance of the infrastructure and may provide a component of private finance and/or relevant expertise. Projects delivered by any project delivery method other than the traditional Design-Bid-Build delivery model are considered Alternative Capital Financing arrangements.

"Business Case Development" involves acquiring external expertise to conduct a detailed review of, among other things, whether an Alternative Capital Financing arrangement will deliver Value for Money, whether there is a sound procurement strategy and transaction structure and whether it is financially viable.

"Net Present Value (NPV)" means the sum of the present values of all aspects of the project (design, construction, operation and/or maintenance, and financing) expressed in today's dollars.

"Private Entity" means any non-government organization from which the City may procure infrastructure and/or services.

"Private Financing" means cash flow advanced in the form of debt or equity investment in the project by the Private Entity to fund any portion of the capital costs and operating or associated carrying expenditures of the project utilizing an Alternative Capital Financing arrangement.

"Project Business Case" means a document prepared by or for the City of St. Albert to support decision making by describing the need, costs and benefits of a project, the procurement method and the financial and other impacts the project may have.

"Project Delivery Model" means either the traditional Design-Bid-Build model, or another proven alternative delivery method such as Integrated Project Delivery, Design-Build, Construction Management, or Public Private Partnership.

"Public Sector Comparator (PSC)" means a risk adjusted estimate of a project's costs and benefits as if it were delivered under the most efficient form of traditional delivery model by the City. It includes the best estimate of full life cycle costs, benefits and risks over the contract term.

"Shadow Bid" means a risk adjusted estimate of a project's costs and benefits to be developed as if the project were delivered utilizing an Alternative Capital Financing arrangement. It includes the best estimate of full life cycle costs, benefits and risks over the contract term.

"Value for Money (VfM)" means the quantitative and/or qualitative benefits to the public expected from a particular procurement method. Quantitative value is achieved through lower cost of a particular procurement method, whereas qualitative value is achieved when a procurement method better supports the goals of the project without excessive incremental cost.

Responsibilities

1. Council shall:
   a. approve all projects to be included in the Capital Plan;
   b. approve any financial impacts on the Capital or Operating Budgets resulting from an approved Alternative Capital Financing Project; and
   c. approve Alternative Capital Financing arrangements for projects.

2. Administration shall:
   a. consider a variety of possible Project Delivery Models as a capital project procurement method and conduct an assessment of potential Alternative Capital Financing arrangements based on, but not limited to the approved Capital Plan by Council;
   b. seek the approval of Council whenever the Project Business Case leads to a recommendation that a project be delivered through an Alternative Capital Financing arrangement; and
   c. provide advice and seek Council approval for any financial impacts on the Capital or Operating Budgets as part of the Alternative Capital Financing Project Business Case development and approval process.

Standards

1. Guiding Principles form the foundation of this policy to guide the project selection, evaluation and tendering process; Alternative Capital Financing shall only be considered when the following conditions are met:

   a. Alignment with City priorities is achieved
   The project shall be aligned with the City's corporate plans, priorities and services.

   b. Public Interest is protected
   Delivery of public infrastructure and services by a Private Entity including the appropriate engagement of stakeholders shall be considered only when the public interest can be protected. The assessment of public interest includes the impact of the Alternative Capital Financing on service objectives and quality, affordability, public access, health and safety, user rights, security, privacy and public input.

   c. Value for money is demonstrated
   Alternative Capital Financing shall be pursued if it is likely to deliver better value for money for the City and the users than traditional delivery methods. The measure to determine whether value for money is demonstrated on a quantitative assessment basis shall be the difference between the risk-adjusted net costs to the City of traditional delivery (Public Sector Comparator) and the Alternative Capital Financing method (Shadow Bid) using the net present value technique. A Value for Money assessment will be triggered to occur when the project proposed expense to the City of St. Albert exceeds $5 million.

   d. Risks are identified, effectively shared, and managed
   Project risks shall be identified and assessed to ensure effective risk management, allocated to the party best able to manage the risk at the least cost and the party has discretion on how to address the risk. Risk allocation between the parties shall be clear and enforceable with consequential financial outcomes.

   e. Private sector is appropriately engaged
   Private sector confidence shall be maintained through efficient and timely assessment, project authorizations, and competitive procurement processes. Project procurement and delivery processes and outcomes shall be transparent, protect commercial confidentiality, and meet legislated privacy requirements.

2. Pursuit and delivery of Alternative Capital Financing shall follow a three-phase process:

    Phase 1. Assessment and Approval (identify possible projects; critically assess/screen high potential projects; determine if an Alternative Capital Financing Project Business Case Development is warranted; obtain Council approval)

    Phase 2. Procurement (undertake rigorous competitive process, award contract)

    Phase 3. Contract Management (delivery, ongoing performance management and end of contract strategy)

Cross References: A-FS-13 Competitive Bid Policy, C-FS-03 Debt Management Policy