Chapter 8: Design, Build, Finance, and Operate

Introduction

There is significant interest in the design, build, finance and operate concept with respect to school provision in Canada. This approach builds on successful public-private infrastructure partnerships such as the development of toll highways, bridges, and water and sewage treatment plants.

Terms such as build, own and transfer (BOT), build, own, operate and transfer (BOOT) are used to reflect the same general concept.

Revenue Stream

The main difference between public-private partnerships in the provision of schools, and public-private partnerships in the provision of other public infrastructure is that school partnerships have no readily available revenue stream. User fees are generally a significant part of the “equation” in other public-private infrastructure partnerships and in some cases can service 100% of the debt for the project.

Ministry officials in New Brunswick and Nova Scotia are trying to incorporate revenue generation in their public-private partnerships. For example, the current proposal call in Nova Scotia requests a business plan with revenue projections from its private sector partners. To date, renting the school buildings to private school operators during non-school hours and fee-for-service community use have been identified as sources of revenue. The projected revenue, however, is quite limited.

The Nova Scotia experience is showing that school location is an important variable in revenue generation. The Province and school boards will have to provide greater latitude to private partners in the siting of schools in order to maximize revenue generation; this is currently under discussion in Nova Scotia.

Cost Savings

Notwithstanding the revenue stream issue, the overall reduction in project costs, and operating savings are other key considerations in public-private partnerships.
A competitive process for the design and construction of public infrastructure has demonstrated cost savings for many projects in many jurisdictions. Generally, when there is a proposal call, design build architects and builders will find creative ways to reduce the project costs while still maintaining the quality necessary for the project to be cost effective in the long term. Ministry officials in Nova Scotia and New Brunswick believe this has been the case for school projects in their respective provinces.

Similarly, there are examples of savings when private sector service providers operate public facilities. For example, there are private sector caretaking firms that can provide school facility cleaning and maintenance services in a cost effective manner. The same is true in the case of food services.

Notwithstanding the comments above, it should be noted that design build and private sector operation of schools are not always “cheaper”. They can be cost neutral or more expensive when compared with traditional practices.

**Flexibility**

The four elements in design, build, finance and operate need not all be included in every project. There are many examples of design build that do not include financing and operating. There are examples of design, build, operate that do not include financing, for example, Highway 407. There are examples of design, build, finance that do not include operating, for example, Nova Scotia’s Sydney Junior High School. Evergreen Park School in New Brunswick, a partnership between the province and Greenarm Corporation, is an example of a project that includes build, finance and operate.

Any combination is possible depending upon the local circumstances. It should be noted that private sector partners are available to participate with any combination of services.

**Financing**

The private sector can provide the financing for school construction and is quite eager to provide such financing. The financing can be structured by private sector firms in a very flexible manner, with many different repayment schedules.

In terms of provision of financial resources, particularly where such financial resources may not be readily available in the public sector, and where flexibility of structuring and repayment is desired, there is an advantage to private financing of school construction.
A key question is the cost of private sector financing relative to the cost of public sector financing. Chapter 7 outlines an analysis of private sector infrastructure financing which has been prepared by KPMG.

KPMG’s conclusions are that private sector financing may be more expensive than public sector financing as a result of the risk element. However, there may be other factors such as the use of capital cost allowance and structured financing that make it less expensive than public sector financing. The particular circumstances of each project will determine the relative cost advantage or disadvantage of private sector over public sector financing. From a government perspective, tax expenditure will also have to be factored into the equation.

**Competitive Financing**

The experience of design build consortia in Ontario and the Nova Scotia projects strongly suggests that financing should be separated from the other elements in the design, build, finance, operate process.

After the design stage or during construction (construction financing could be handled separately) there should be a competitive process among private sector firms to provide the permanent financing for the project.

Nova Scotia is currently undertaking a request for proposals to private sector firms to provide permanent financing for eight school projects. The private sector firms are being requested to provide proposals for 20 year operating leases for the school projects.

When the architects, builders and finance firms are “bundled” as a consortium bidding on a project, the most advantageous financing terms and conditions for the project may not be provided.

It should be noted that when private sector financing is used, an extended period is often required for the terms and conditions of the financial agreement to be negotiated. This has been the experience for both the Waterloo Roman Catholic Separate School Board and the Province of Nova Scotia. Greater public sector experience with private sector project financing, however, should expedite the process in the future.
Recommendations

It is recommended that:

9.0 Design, Build, Finance and Operate

9.1. Design, build, finance and operate should be viewed as separate elements that can be used together or separately depending on the circumstances of the project(s).

9.2. Whenever possible, finance should be separated from the other elements and be addressed through a competitive process.

9.3. Public-private partnerships in the provision of school facilities should attempt to incorporate revenue generation opportunities to help offset the cost of the project(s).

9.4. School boards should be flexible in locating their schools, whenever possible, to maximize revenue generation opportunities.