Public Private Partnerships: The Secret of Their Success?

Case Studies of the Chambers and Sussex-Mackenzie Development Projects, Ottawa, Canada

By

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EXECUTIVE SUMMARY

In response to the growing pressure to stimulate economic development and moderate public expenditures, officials and agencies at all levels of government have turned to more innovative development approaches which encourage private investment, and derive increased levels of public benefits without increased public expenditures. An example of such an initiative employed by governments involves the integration of public and private interests in joint venture developments, most commonly referred to as "Public-Private Partnerships" (PPPs). Due to the varying degrees of success of these ventures, PPPs have consequently become a subject of widespread academic discussion and scrutiny.

A PPP is defined as a cooperative venture between individuals and/or organizations in the public and private sectors, built on the expertise of each partner, which develops or improves facilities and/or services needed by the public through the appropriate allocation of resources, risks, rewards and responsibilities. In general, through varying policy, implementation and operational conditions, PPPs provide an opportunity for both the private and public sectors to support each other's activities, while not compromising their own interests in urban development. Therefore, the private sector continues to pursue profit-maximizing activities, but does so in a manner consistent with the criteria for community benefit desired by the public sector.

Some of the more publicly recognized PPPs include London, England's Canary Wharf, New York's Battery Park City, the Toronto Harbourfront, and the Canadian Maritime's Confederation Bridge.

Purpose of the Report

This report traces, analyzes and compares two developments in the City of Ottawa, developed by the private sector under the mandate of the National Capital Commission (NCC), a Crown corporation whose mandate is to plan and assist in the development, conservation and enhancement of the natural, built and cultural environments of the National Capital Region (NCR).

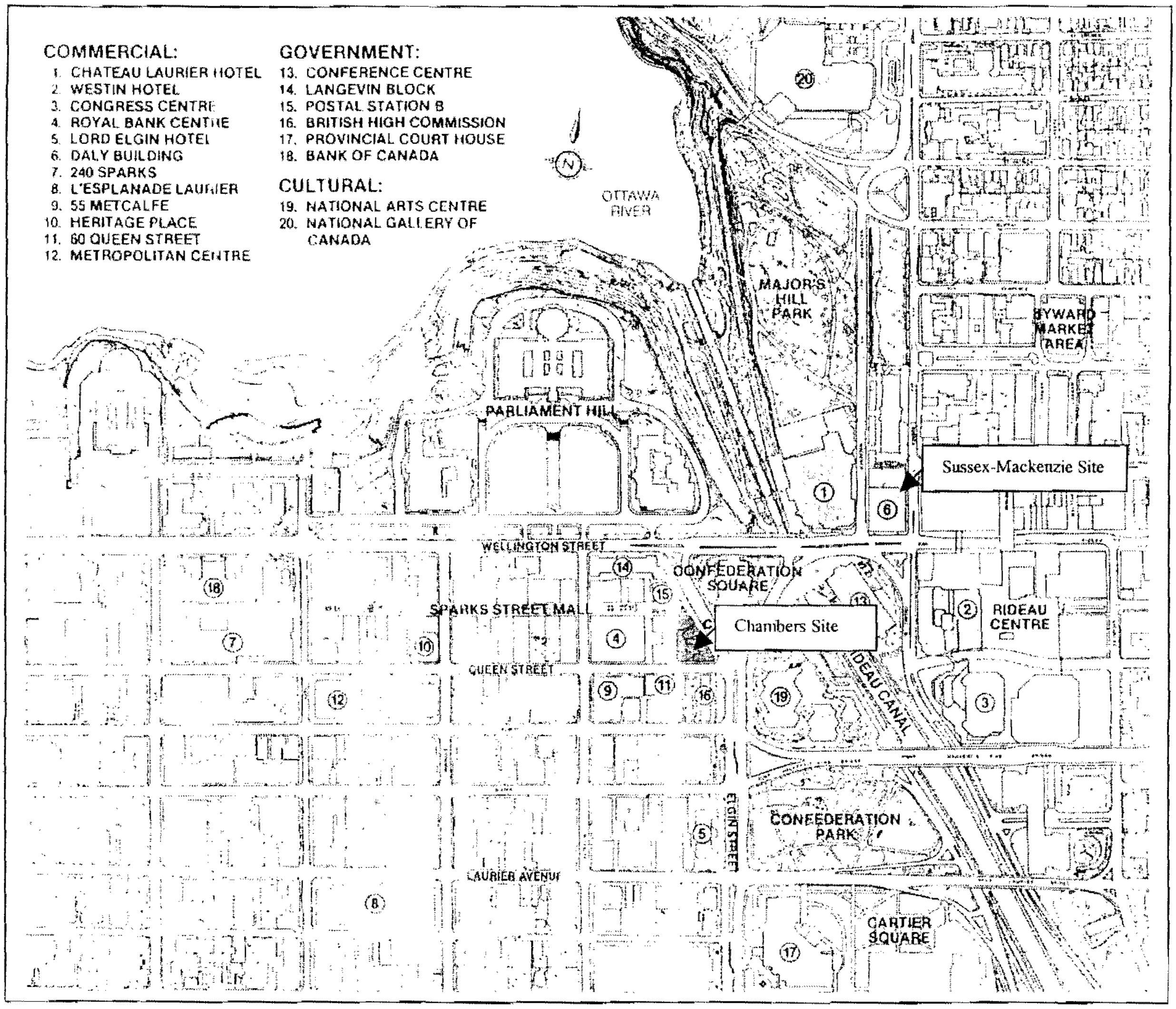
The Sussex-Mackenzie and Chambers sites, both in prestigious locations in the downtown urban core (see Figure E.1), were selected to study how two seemingly parallel urban development opportunities, at the surface, could have produced such opposing results. While an office complex was successfully developed on the Chambers site after its initial proposal call issued in 1987, Sussex-Mackenzie site proposals has experienced several failures, including the multi-purpose entertainment/hotel facility proposed in 1997, and is currently vacant.

Documenting key evidence in both the successes and failures of these agreements provides research that may benefit both public and private interests for urban development in both Ottawa and Canada, and thus help to inform the planning profession of sound planning and development practices where public lands are involved.

Results

Several factors relating to financial, political, policy, and market matters, contributed to the difference in outcome of the two projects, and are categorically summarized in Table E-1, where the "mark" indicates what project was favoured in terms of becoming a reality.

Figure E.1: Chambers and Sussex-Mackenzie Site Locations



Source: National Capital Commission, September 1996.

Table E.1: Summary of Analysis

CRITERIA	CHAMBERS SITE	SUSS-MACK SITE
FINANCIAL		
Developer Resources/Source of Funds	•	•
Security and Performance Bonding Required	•	•
Ground Lease Conditions	•	•
Source and Costs of Project Financing and Rents	•	
Investment by other Organizations	•	
POLITICAL		
Convergence of NCC and City Objectives	•	•
Potential for Public Opposition	•	
Potential for Local Development Industry Opposition	•	•
PUBLIC POLICY		
Clarity and Feasibility of Federal Policy	•	
Development Constraints	•	•
PROCESS		
Proposal Call Process	•	•
Evaluation Criteria	•	
PPP Structure/Risk	•	
MARKET		
Market Demand for types of uses and amenities	•	•
Appropriateness of time of entry into market	•	
Prominence of site/Site conditions	•	•
Capacity of construction industry to accommodate	•	•

It was found that the following factors most significantly contributed to the difference in outcomes of the projects:

1. The Structure of the PPP and Contribution by the NCC:

Although the NCC did not directly finance the project, its actions served to indirectly subsidize and "bail-out" a stalled Chambers project, while similar actions were not provided for the Sussex-Mackenzie initiative. The NCC became the chief tenant in the Chambers Building, and by doing so significantly reduced costs incurred by the developer, and reduced the financial risk of the investment, allowing for funding to be secured. Moreover, a premium rent, above that indicative that during the economic malaise in the early 1990s, indirectly filtered public funds into the project.

2. Appropriateness and Flexibility of the Policy/Process:

This process of selecting a single developer based on their financial proposal alone, used for the Chambers project, was more advantageous in terms of realizing the successful development of the project. Through this process, a financially capable developer could (and was) selected without compromising the design, which in the case of the Chambers was submitted and modified until an agreement was reached. Moreover, the submission of detailed designs along with financial and development team proposals, used in the Sussex-Mackenzie initiative, created too strong a commitment to the design, and the process lacked sufficient flexibility to allow for "normal" modifications to be made, thus to reducing the assurance that a viable project could be facilitated. The inappropriateness and rigidity of the process partly contributed to the failure of the multi-purpose complex proposed for the Sussex-Mackenzie site.

3. <u>Project Financing Related to Allowable Uses:</u>

Due to the nature of the permitted and suggested uses of the Sussex-Mackenzie project, and the sensitivity of its "prominence" as a development opportunity, it had a considerably higher degree of uncertainty and was much larger in terms of financial magnitude, compared to a relatively simple Chambers project. As a result, it was at considerable disadvantage in the absence of public funds. Furthermore, the presence of better investment opportunities and the lack of reliable cash flow associated with developments such as the proposed indoor aquarium as well as restaurants, hotels and so on, made the venture risky to potential investors. Ultimately, the combination of this difficult financing along with the rigidity of the process, discussed above, undermined its success.

Conclusion

Several retrospective and generalizable conclusions have been drawn from the study of the Chambers and Sussex-Mackenzie projects.

The first is that ***public policy in land development requires public money***. It is apparent that leaving all financial risk and responsibility to the private sector, is altogether unrealistic and implausible. The huge capital investments that are required upfront for benefits that accrue well into the future ought to be shared by its beneficiaries: not simply the private developer who benefits from operating revenues, but the public sector whom, in the cases presented in this report, will benefit from lease revenues and the future recapturing of the land (the NCC) and tax revenues (the City). The private sector bearing the burden of the costs under the umbrella of "acceptable" public policy and planning guidelines, for the benefit of the public at large, neither represents the diversity of potential beneficiaries, nor does it in any way enhance the feasibility of a successful partnership.

The second retrospective conclusion is that both sides, ***both the public and private counterparts of the partnership, must have a fundamentally stronger understanding of one another***. The wants of public—property tax, public facilities, cash for land, public "identity" and perception, active role in implementation, retaining of ownership, risk aversion, no obligations, losses—versus the needs of private—long- and short-term profits and cash flows, government assistance with financing, control, fast approvals, reduced up-front costs—ought to be *part of process* to establish the policy framework within which the partnership operates.

The third conclusive statement is that ***PPPs need to be PLAN-oriented, not simply DEAL-oriented*** (SURP 886 Course Notes). The PPP arrangement must first look at what needs to be achieved through the development of the public lands (e.g. the "animation" of the Sussex-Mackenzie area), such that each "side" stands to benefit, as well as the public at large. Based on this, the public and private sectors can work towards a "deal" that can make it happen.

From what has been presented from the Chambers and Sussex-Mackenzie case studies, with a better understanding of each other's needs, and a more appropriate and flexible process, and some sharing of risk, a stronger foundation for a PPP can be built.