TO: Mayor and Members
   General Issues Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: December 12, 2011

SUBJECT/REPORT NO:
Biosolids Management Project - P3 Canada Funding Approval Workplan
(PW11098/ FCS11112) - (City Wide)

SUBMITTED BY:
Gerry Davis, CMA
General Manager
Public Works Department

Roberto Rossini
General Manager
Finance and Corporate Services

PREPARED BY:
Dan Chauvin
(905) 546-2424, Extension 5988

John Savoia
(905) 546-2424, Extension 7298

SIGNATURE:

RECOMMENDATION:

(a) That the General Manager, Public Works be authorized and directed to proceed with Phase 1 of the P3 Canada Funding Approval Workplan for the City’s Biosolids Management Project as summarized in Appendix B, at a cost estimate of $300,000 to be funded from Project 5160966910 WWTP - Biosolids MP Implementation;

(b) That after completion of Phase 1 staff report back to Council prior to proceeding to Phase 2.
EXECUTIVE SUMMARY

This Report outlines a P3 Canada Funding Approval Workplan for the City’s Biosolids Management Project (‘Workplan’) that meets P3 Canada milestones and timelines, as well as the Council direction as outlined in the Recommendations resulting from the Business Review – Liberty Proposed Incinerator (PW07047(d)) Report as presented to the General Issues Committee on May 9, 2011 and carried to May 18, 2011, which states the following:

a) That staff be directed to develop a scope of work including an estimate of due diligence costs, with full consideration of the P3 Canada Fund Program, to analyze risks identified in the peer review report entitled “Independent Peer Review and Financial Evaluation of City/Liberty Thermal Reduction Options for the Disposal of Biosolids Generated at Woodward WWTP” as well as those identified in report PW07047c, Business Review - Liberty Proposed Incinerator and report back to General Issues Committee in June 2011;

b) That staff be directed to design a procurement process that incorporates necessary risk mitigation strategies and allows for consideration of biosolids management options that conform to the mandatory competitive process required by the P3 Canada Fund and that a report on the proposed process be brought back to Council for its consideration;

c) That staff be directed to submit a Round Three Application to the P3 Canada Fund for a proposed biosolids management project by the deadline of June 30, 2011.

The proposed Workplan highlights the scope of work, scheduling, risk assessments, and estimated cost for each phase of the P3 funding application process with an overall approach that allows the City to analyze a wide range of biosolids management options through a structured business case process following P3 Canada’s Business Case Development Guide.

The Workplan as summarized in Appendix B is broken down into three major Phases of work with individual Steps further detailed in this Report. The first Phase, which is referred to as the Business Case Phase, is associated with activities pertaining to approaching the market to undertake a formal Request for Expression of Interest and completing the associated Business Case Review whereby all proposed alternatives are accepted and assessed against common criteria (technology approach, cost, structure of proponents team, proponent’s roles and responsibilities, etc.) as well as assessed to P3 Canada and funding eligibility. The estimated cost for the City to complete Phase 1 is $300,000 and it is scheduled to be complete by May 2012. The complete results of Phase 1 will be brought to Council for approval prior to proceeding to submitting the Business Case to P3 Canada. At that point Council may choose to continue with or without following the P3 Canada process.

Should Council agree to proceed with P3 Canada funding, the Business Case, as approved by Council, will be submitted to P3 Canada for their review. Considering that the City may put forward a number of viable Biosolids Management alternatives, it is expected that at the conclusion of P3 Canada’s review of the City’s Business Case, P3
Canada will advise which alternatives are eligible for funding and to what degree each alternative can be funded based on their evaluation criteria. At the completion of P3 Canada’s review, staff will return to Council with a Report outlining the results whereby each viable alternative will be re-assessed based on the P3 Canada’s response. At that point Council may choose once again to continue with or without following the P3 Canada process.

Phase 2 of the Workplan is referred to as the Transaction Phase whereby the City will issue a formal Request for Qualifications (RFQ) and a Request for Proposal (RFP) that considers all biosolids management alternatives approved by Council and P3 Canada (if applicable) resulting from Phase 1. Each alternative will be evaluated through a series of evaluation criteria so as to allow a preferred proponent and thereby biosolids management strategy to be selected. At the completion of the RFP process, a Report will be brought to Council outlining the results of the RFP process and the associated costs. At that point Council may choose to proceed with executing the agreement between all parties to proceed with a biosolids management alternative with support from P3 Canada or not. If approved, a report will be brought forward by P3 Canada staff to their Board for final approval. If all parties approve, the project will proceed to Phase 3, Capital Investment. The estimated cost for the City to complete Phase 2 is $1,500,000 with the results of the Request for Proposal process (RFP) to be completed by the first quarter of 2013.

Phase 3 of the process is referred to as the Capital Investment Phase. At this Phase a contract will be executed with the preferred proponent whereby the terms and condition of the project, risk allocations, payment schedule, etc. will be detailed and approved by Council before final contract execution.

Alternatives for Consideration - See Page 7

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS**

**Financial Implications:** Should Council approve this workplan, there are three (3) key financial milestones that must be considered: Phase 1 - Business Case Development, Phase 2 - Transaction, and Phase 3 - Capital Investment.

- **Phase 1 - Business Case Development Phase:** Upon approval of this Report, the City will be committed to undertake Steps 1 through Step 6 as detailed in this Report and summarized in Figure 1 of Appendix B. These combined Steps are referred to as Phase 1. The estimated cost to complete Phase 1 which scope would include consultant fees to prepare a Request for Expression of Interest, develop and analyze the set alternatives and prepare the P3 Canada Business Case document is estimated to be $300,000 to be funded from Project 5160966910 WWTP - Biosolids MP Implementation.

- **Phase 2 - Transaction Phase:** After completion of Phase 1, staff will be returning to Council for direction prior to proceeding with Step 7 through Step 9 as detailed in this Report and summarized in Figure 1 of Appendix B. These combined Steps are referred to as Phase 2. The estimated cost to complete Phase 2 which would
include the development of the Request for Qualification (RPQ) as well as the Request for Proposal (RFP) and a Project Agreement including all technical and financial reviews associated with analyzing each submission is estimated to be $1,500,000 and which cost will be refined through Phase 1 and reported back to Council before proceeding to Phase 2.

- **Phase 3 - Capital Investment Phase:** After completion of Phase 2, staff will be returning to Council for direction prior to proceeding with Phase 3 which would include the award of the RFP for the long-term biosolids management contract. Although the City currently has $73,000,000 identified beginning in year 2015 of the 10-year Rate Budget forecast, any payment made through P3 Canada will likely be paid by completion of construction and any payments made by the City to the Successful Proponent would be done through a payment schedule developed through a Project Agreement.

**Staffing Implications:** N/A

**Legal Implications:** N/A

### HISTORICAL BACKGROUND

The recommendations contained within this Report have City Wide implications.

The Report titled Business Review - Liberty Proposed Incinerator (PW07047(d)) was presented to the General Issues Committee on May 9, 2011 and carried to May 18, 2011. The Council amended recommendations are as follows:

a) **That staff be directed to develop a scope of work including an estimate of due diligence costs, with full consideration of the P3 Canada Fund Program, to analyze risks identified in the peer review report entitled “Independent Peer Review and Financial Evaluation of City/Liberty Thermal Reduction Options for the Disposal of Biosolids Generated at Woodward WWTP” as well as those identified in report PW07047c, Business Review – Liberty Proposed Incinerator and report back to General Issues Committee in June 2011;**

b) **That staff be directed to design a procurement process that incorporates necessary risk mitigation strategies and allows for consideration of biosolids management options that conform to the mandatory competitive process required by the P3 Canada Fund and that a report on the proposed process be brought back to Council for its consideration;**

c) **That staff be directed to submit a Round Three Application to the P3 Canada Fund for a proposed biosolids management project by the deadline of June 30, 2011.**

Subsequently, staff retained the services of Deloitte to assist with the P3 Canada application process and submitted the Round Three Application to the P3 Canada in support of the City’s proposed biosolids management project by the said deadline. The City then received a formal notice from P3 Canada on November 15, 2011 (letter dated November 4, 2011), indicating the application was approved (‘screened in’). The approved application does not serve as acknowledgement that the City will receive
funding, but simply permits the City to proceed to the next phase of the application process. In reference to Appendix A and as outlined in the P3 Canada response, “To be considered for funding, project submissions must meet assessment criteria that are applied at two stages, known as the screening decision and the investment decision.”

Therefore, this Report and its Recommendations outline a Workplan as prepared by staff and consultants from Deloitte that meets P3 Canada’s milestones and timelines, as well as the Council direction as outlined in items a) and b) of the above-mentioned amended Recommendations. The proposed Workplan highlights the proposed scope of work, scheduling, risk assessment, and estimated cost for each phase of the P3 process as well as an approach which allows the City to analyze a wide range of biosolids management options through a structured business case process using P3 Canada’s Business Case Development Guide.

**POLICY IMPLICATIONS**

**The Public Works Business Plan, Innovate Now** - The recommendation from this report will assist in meeting the Public Works key goal to be recognized as the centre of environmental and innovative excellence in Canada. In addition, implementing the recommendations will also assist Public Works in building on our Strategic Vision Drivers as follows:

- **Communities (Services our communities connect with and trust)** -
  Proceeding with the Recommendation allows the City to undertake a selection process for a long-term sustainable biosolids management strategy that services the community for a period of at least 30 years.

- **People (Skilled teams ready for any situation)** -
  Proceeding with the Recommendation allows staff to be exposed to the process of analyzing complex business decisions in consultation with external government funding agencies thereby positioning the City to secure the existing application as well as pursue future funding opportunities.

- **Process (Smart processes to match our needs)** -
  Proceeding with the Recommendation allows the City to select a sustainable long-term biosolids management option through an innovative process that promotes open and transparent technology selection and procurement approach which allows all key decision variables to be considered simultaneously.

- **Finances (Sound finance management for the long haul)** -
  Proceeding with the Recommendation allows the City to select a long-term biosolids management strategy through an open market procurement process that accounts for a more holistic life cycle costing strategy over that of a lowest capital price which may have higher long-term operating and maintenance costs.
RELEVANT CONSULTATION

Corporate Services Department - Staff from the Corporate Services Department are part of the Project Team and assisted in developing the Workplan summarized in Appendix B.

ANALYSIS / RATIONALE FOR RECOMMENDATION

In order to develop the required Workplan that meets Council and P3 Canada requirements, staff retained Deloitte to assist with the process. Deloitte had assisted P3 Canada in developing ‘P3 Canada’s Business Case Development Guide’ and as such is well positioned to assist the City in meeting these deliverables.

A project team was developed with key staff and representatives from Deloitte and through subsequent meetings a detailed Workplan, cost estimates, and associated schedule were developed and are presented in Appendix B for Council’s consideration and approval.

The approach being presented is summarized as follows:

- **Step 1**: Obtain Council approval on the Workplan as presented in this Report.

- **Step 2**: Proceed to the market with a Request for Expression of Interest (RFEOI) open to all biosolids management alternatives seeking information on: proponent structure, approach, technology and other information required from the market.

- **Step 3**: Formulate the set of biosolids management alternatives resulting from the RFEOI and any other alternatives that the City wishes to be included and that will be analyzed through the subsequent Business Case Review steps.

- **Step 4**: Undertake the Business Case process where all alternatives will be accepted and assessed against common criteria (technology approach, cost, structure of proponent’s team, proponent’s roles and responsibilities, etc.) as well as assessed to P3 Canada and funding eligibility.

- **Step 5**: Return to Council for direction. At this stage Council may choose to proceed with or without following the P3 Canada process. A potential exists at this stage that the City’s preferred alternative is not eligible for P3 funding and Council may choose to not continue with the P3 Canada process and proceed on its own. The process would follow to Step 6 should Council wish to continue with following the P3 Canada process.

- **Step 6**: Submit a formal Business Case to P3 Canada. P3 Canada at this stage reviews the City’s Business Case for conformity to their evaluation criteria. P3 Canada may choose to accept any, all, or none of the proposed alternatives. A negative response from P3 Canada at this step is unlikely as P3 Canada staff will be working directly with the City’s project team through all steps leading to this decision. Considering that the City may put forward a number of viable Biosolids Management alternatives, it is expected that at the conclusion of P3 Canada’s review of the City’s Business Case, P3 Canada will advise which alternatives are
eligible for funding and to what degree each alternative can be funded based on their evaluation criteria. At the completion of P3 Canada’s review, staff will return to Council with a Report outlining the results whereby each viable alternative will be re-assessed based on the P3 Canada’s response and Council may choose once again to proceed to Phase 2 of the P3 Canada Funding process or not.

- **Step 7:** Proceed with Request for Qualifications. The Project team would issue a formal binding Request for Qualifications as the first stage of formal procurement. Each submission would be evaluated against a set of criteria and screened in proponents would proceed to Step 8.

- **Step 8:** Proceed to Request for Proposal. The Project team would issue a formal binding Request for Proposal as the final stage of the formal procurement process. Each submission would be evaluated against a set of criteria and a preferred proponent would be identified. The results of this process would be brought back to Council for final approval. Should all terms and conditions be acceptable to both Council and P3 Canada, the process would proceed to the final step of contract award.

- **Step 9:** Award. Contract is executed with the preferred proponent.

### ALTERNATIVES FOR CONSIDERATION:

Alternatives for consideration can only be presented at the completion of Phase 1 as detailed in this Report.

### CORPORATE STRATEGIC PLAN


#### Skilled, Innovative and Respectful Organization

- More innovation, greater teamwork, better client focus.
- Undertaking a P3 Canada approach to infrastructure procurement allows the City to achieve innovation in selecting appropriate technology.

#### Financial Sustainability

- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative, and cost-effective manner.
- Undertaking a P3 Canada approach to infrastructure procurement allows the City to achieve innovation in selecting appropriate technology.

### APPENDICES / SCHEDULES

Appendix “A” Letter from P3 Canada dated November 4, 2011 and received November 15, 2011
Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork

Appendix “B”

Figure 1 - Summary of the P3 Canada Biosolids Management Workplan
Figure 2 - Summary of Project Workplan Schedule
Table 1 - Summary of Cost Estimates by Phase
November 4, 2011

Mr. Dan Chauvin, C.E.T., PMP
Director, Department of Public Works
City of Hamilton
700 Woodward Avenue
Hamilton, ON L8H 6P4

Dear Mr. Chauvin,

On behalf of PPP Canada, I would like to thank you for your interest in Round Three of the P3 Canada Fund. Following the close of Round Three applications on June 30, I am writing to inform you of the outcome of PPP Canada’s Preliminary Assessment of the proposed Hamilton Biosolids Management Project.

The P3 Canada Fund is both merit-based and competitive. To be considered for funding, project submissions must meet assessment criteria that are applied at two stages, known as the screening decision and the investment decision. At the completion of each assessment, the results are considered by our Board of Directors, who weigh the merits of each project and determine which submissions show the greatest potential for success.

The Hamilton Biosolids Management Project has been retained for further analysis. PPP Canada staff has or will be in contact with your officials to discuss specific requirements of the project such as a list of information and other relevant matters.

Thank you again for your interest in the P3 Canada Fund. Should you have any questions about your submission or the P3 Canada Fund process, please feel free to contact Mr. John Arseneau, Vice President, Business Development at (613) 947-9473.

Sincerely,

John McBride

cc. Steve Rohacek, Vice President, Business Development & Lending, Infrastructure Ontario
Business Case Process Flow

Phase 1: Business Case Phase

1. Council Report
   - Details provided on:
     - Work Plan
     - Schedule
     - Costs estimated to execute Work Plan
   - Open to all alternatives and seeks Information on, Proponents, Approach, Technology and other information required from the market
2. RFEOI ("Information")
3. Set of Alternatives
4. Business Case:
   - Consideration of all Alternatives
   - Alternatives assessed against common criteria (cost, structure, roles & responsibilities, procurement process, etc.)
   - PPP suitability and funding eligibility (in consultation with PPP Canada)
   - Jan. - April 2012

Phase 2: Transaction Phase

5. Council Approval
   - P3 Canada Board Approval
   - June 15, 2012
   - Go: P3 Canada Funding App. Go Ahead

   - Council Approval (Go / No Go)
   - May 2012

   - No P3 Funding Approval

   - Selected Alternative may be funded by P3 Canada, based on terms of Board approval.

   - Non-P3 Canada Funded Options Selected to Proceed

   - Non-Go: Council selects only non-P3 Canada eligible Alternative(s)

Phase 3: Capital Investment Phase

6. RFP Stage
   - Council Approval
7. Transaction Award
8. Phase 3: Capital Investment Phase

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Revised Work Plan for the Business Case

APPENDIX “B”
PW11098/FCS11112
Figure 2

<table>
<thead>
<tr>
<th>Tasks</th>
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<th>2012</th>
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<tr>
<td></td>
<td>Oct</td>
<td>Nov</td>
<td>Dec</td>
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<tr>
<td>1 Business Case Outline</td>
<td>24</td>
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<td>1.1 Detailed Work Plan</td>
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<tr>
<td>1.2 Confirm Scope</td>
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<td>1.3 Detailed Table of Contents</td>
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<td>2 Business Case (Phase 1)</td>
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<td>2.1 Council Report</td>
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<td>2.2 Prepare RFEOI Material</td>
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<td>2.3 Issue RFEOI</td>
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<td>2.4 Obtain RFEOI Responses / Develop List of Alternatives</td>
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<td>2.5 Discussion on Project Risks with City and SMEs</td>
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<td>2.6 Detailed Risk Matrix</td>
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<td>2.7 Risk Workshop 1</td>
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<td>2.8 Jurisdictional Scan</td>
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<td>2.9 Market Soundings (if necessary)</td>
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<td>2.10 Shadow Bid Cashflow Model (for each Alternative)</td>
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<td>2.11 Risk Workshop 2</td>
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<td>2.12 Develop Value for Money Analysis</td>
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<td>2.13 Draft Report</td>
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<td>2.14 Risk Workshop 3 (Optional)</td>
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<td>2.15 PPP Investment Review*</td>
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<td>2.16 Revise Draft</td>
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<td>3 Project Management</td>
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<td>3.1 Bi-Weekly Status Calls</td>
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<td>3.2 Senior Management Updates (City)</td>
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<td>4 Council Meetings</td>
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<td>4.1 Updates (Periodic) - PPP Canada Management to attend</td>
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<td>5.1 Senior Management Updates</td>
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<td>5.2 Board Approval</td>
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<td>6 Transaction Process (Phase 2)</td>
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<td>(To follow Business Case and PPP Canada Approvals)</td>
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<td>7 Capital Investment Phase (Phase 3)**</td>
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* Deloitte will be working in collaboration with PPP Investment Committee on review of draft business case modules.
** Capital Investment Phase will begin after Financial Close which is expected in Q1 2013.

Key:
- Project Milestones
- PPP Canada Milestones
- Joint Meetings of PPP Canada Senior Mgmt and City Senior Mgmt
- Deloitte Work
- PPP Canada Work

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Table 1: Summary of Cost Estimates by Phase

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