

Presentation to
The Walkerton Inquiry
Wednesday 20 June 2001

By

Brian F.P. Murphy
Mayor, City of Moncton

And

L.E. (Al) Strang
City Manager, City of Moncton

Introduction

- Moncton is located in the heart of the Maritimes; it is a commercial, tourism and service centre with an enviable quality of life, a dynamic economy, a bilingual and bicultural community and with some of the world's best seafood at our doorstep...
- Turning to potable water issues, Moncton relies on a **surface supply** of water since before its incorporation as a City (1890), three different reservoirs, the latest, Turtle Creek opened in (1966)

Body of the presentation

- Moncton serves its municipality as well as the two neighbouring communities of Dieppe and Riverview with approximately 80,000 people receiving water from the same source.
- Until recently, Moncton's **report card** on water did not achieve high marks: it featured delivery through and **aging infrastructure**, was only treated with chlorine and certainly did not meet the Canadian guidelines for drinking water quality.
- A **Master Plan** of our water system was completed in 1989 that, chief among the recommendations were the need for water treatment and better overall management of the resource.
- Citizens, in random sample surveys conducted by the City, consistently showed concern about **water quality** as the leading municipal service issue.
- The Master Plan led to three other initiatives: a pre-design report for water treatment in 1993, the installation of water meters in 1994, and the raising of the gates at the reservoir's dam to increase its capacity (1998).

- The next major step was water treatment facilities.
- Requests for funding under the earlier Federal-Provincial Infrastructure Program and the New Brunswick Environmental Trust Fund in the early to mid 1990s were unsuccessful.
- The municipality did not have access to the funding required for the plant estimated at **\$32 million** in 1995.
- A partnership with the private sector seemed, on the surface at least, able to provide **a possible option** for the municipality. At the very least it deserved a closer look.
- The municipal council of the day authorized staff to conduct a careful and **in-depth review of a public-private partnership** to determine the feasibility of a public-private solution.
- The review showed the possibility that the plant could be built **faster**, at a **lower cost** and with a substantial **transfer of risk**.
- As a municipality, we were approaching this with few similar and no direct models for comparison. It was most essential to get the best **professional advice** possible we could, and we did.
- Expert consultation in the areas the P3 **process**, **legal** and contractual matters, **financial** matters and **technical** requirements provided the municipality with the advise, the information and the guidance needed to successfully follow through and conclude the process. This **investment** cost the municipality \$680,000.
- A request for qualifications (RFQ) was issued in **November 1995**. The municipality received considerable interest, 20 packages were requested from a variety of parties.
- The events that followed placed an even greater focus on the need to address water quality: a **boil water order** was issued in 1997 when high levels of bacteria were found in the regular testing process. Another followed in 1999.

- In the end, however, nine international consortia responded to the RFQ. Three of these were short listed and invited to answer a request for proposal (RFP). As a side issue, one of these dropped out leaving the City with two parties. Satisfied that we could proceed, we did and eventually negotiated a successful contract with US Filter and its partners.
- Why were they chosen?
 - The size of their plant
 - the operational features included
 - and the patented technology they offered
- All these combined would deliver the water quality required, and more, for \$11 million less (\$9 million in Capital and \$3-\$6 million in Operating cost-savings) than we could by following the traditional route. Moreover, the plant was promised to be operational in 500 days and, in October 1999, 500 days later, it was delivered!
- As the first public-private partnership of its kind in Canada, the City of Moncton was confident that the 20-year lease-license arrangement for the \$23 million plant was the right decision for the residents and for the municipality.
- The traditional municipal method would have added \$120 a year to a typical user's water bill (four-person household), with the savings achieved in the partnership, users would see a **\$91 annual increase** to their water bill.
- Here are a few of the features of the agreement:
- \$15 million **guarantee** was issued from the parent company as protection to the City of Moncton

- A **repair and replacement** program was included in the contract to ensure that the plant, which would be turned over to the City after the 20 years, was in acceptable condition. A portion of the fees paid is reserved specifically for renewal and maintenance.
- User **costs are fixed** and controlled by council except those for which neither party has control: electricity, sludge disposal (more than one tonne of sediment is removed from the water supply every day!) as well as the cost of chemicals are all subject to increases.
- Complete **transfer of risk** from the municipality
- Stringent **water quality guarantees**. The water treatment facilities' **performance standards** included in the contract must exceed the Canadian Drinking Water Guidelines (chart).
- The contract includes a **dispute resolution mechanism** that protects the municipality in the event that guarantees are not met.
- The contract includes an **Innovation Clause** that provides mutual incentive to both parties to develop or take advantage of new technology and methods.
- A unique twist that contributes to the lower cost is a **ruling** obtained from Revenue Canada...it provides:

Designated municipal status:

- the partner company will make the supply of potable water HST exempt
- because the supply of water is considered an exempt supply of a municipal service, the partner company can claim the municipal rebate (.5714%) on its purchases of goods and services.

As well as a

Lease/License Arrangement

- Lease payments for the right to use the facility for 20 years are fully deductible each year by the partner company (the City owns the plant from day-1)
- License for the exclusive right to sell water to the City for 20 years must be capitalized and depreciated each year.

Conclusion:

- Today the cleanest, purest water flows out of our treatment plant, probably the best water in Canada, not only in terms of the performance standards, the advanced technology, the protection against bacteria and parasites but also in terms of its pure taste and crystal clarity.
- The 3P alternative is a definite success in Moncton. Such a partnership deserves careful review for any municipality who faces a similar situation.
- Key to a successful partnership is going into it with your eyes wide open, armed with expert advice and mindful of the long-term impact on your citizens, the municipality and your employees.
- A thorough understanding of each other's business (the public sector and the private sector partners) is fundamental to the success of a 3P.

* * * *

- The story doesn't end here. The City of Moncton has now turned its sights on its aging infrastructure, some pipes as old as 122 years, but on, average, the bulk of the distribution system is between 30 and 70 years old.

- The cost to replace and rehabilitate the system is estimated at \$70 million and could, with the current capital works program, take up to 20 years to complete.
 - The City of Moncton has recently received a proposal on the management, operation and maintenance of our water and sewer system.
 - We are currently performing our due diligence to determine if a potential exists.
 - If it can be demonstrated that a private sector firm can do it better, faster and cheaper, all while keeping control in the hands of council and protecting the jobs, salaries and benefits of our employees...stay tuned!
-