

## **BACKGROUNDER**

### **Design Bid Build (DBB)**

On September 25, Regina citizens will vote in a referendum to decide how Regina's new wastewater treatment plant will be built: through a Design Bid Build (DBB) model or through a public-private partnership (P3) model.

This backgrounder provides information on DBB, the traditional way of building public infrastructure in Canada.

### **WHAT IS A DBB?**

- DBB stands for Design Bid Build.
- 80-90% of public infrastructure projects in Canada (*eg. roads, schools, hospitals, etc*) are built through traditional procurement such as the DBB model<sup>i</sup>
- There are normally three phases to the DBB process: design of the project, tendering (or procurement) of the project, and construction.

### **WHAT IS THE TRADITIONAL DBB APPROACH TO INFRASTRUCTURE FINANCING?**

- In the traditional approach for infrastructure financing, the public sector (*a*) defines its project goals and objectives, (*b*) secures the financing, and (*c*) specifies the terms of the contract to design and build the infrastructure.
- The public sector provides financing because it can borrow funds at lower rates of interest than can the private sector.
- Other levels of government, such as provincial or federal, often contribute funding to municipal infrastructure projects.

### **IS THE PRIVATE SECTOR EXCLUDED FROM DBB?**

- No. The private sector still plays a critical role in the Design Bid Build process.
- In the DBB process, the public sector determines its infrastructure needs and financing, but it contracts with the private sector to design and build the infrastructure.

### **HOW DOES A DBB DIFFER FROM A P3?**

- Under a DBB model, the public sector finances, owns, operates and maintains the infrastructure (waste water treatment plant). Under a P3 model, a private corporation not only designs and builds the infrastructure for the public sector, but it provides some of the financing and then operates and maintains the project over a long term contract.
- Although the private corporation provides some financing to the P3 project, the corporation usually provides only about 10-20% of that financing in the form of equity (the company's own finances). The private company will expect to make money from its equity investment in the range of 10 to 14%. The remaining 80-90% of the private financing is borrowed at high interest rates.

- With a DBB, the public sector maintains control of the public infrastructure, upholds the public good, and is accountable to citizens.
- Under a P3, a private corporation operates the infrastructure for up to 30-40 years and receives monthly payments from the public sector to cover its operating costs, its borrowing charges and profits.
- In both cases, the full costs of the infrastructure project are paid for by taxpayers, or in the case of the Regina wastewater treatment plant, by utility rate payers. With a P3, we pay more.

### **WHY IS DBB A GOOD ECONOMIC CHOICE?**

- Design Bid Build (DBB) costs less than a P3 approach<sup>ii</sup>
- An independent study by economist Hugh Mackenzie estimates the private borrowing in the proposed P3 wastewater treatment plant will cost Regina taxpayers at least \$61 million more than if the city borrowed the money. The City of Regina has not disclosed its economic assumptions so private borrowing costs could be even higher than \$61 million.
- Building the traditional way:
  - Avoids higher borrowing costs
  - Avoids paying public dollars for private profits for 30 years
  - Avoids higher upfront costs to negotiate a complicated contract with a consortium of private companies
  - Allows for transparency and democratic accountability for the project unlike P3 contracts which aren't made public because of "commercial confidentiality"
  - Allows for flexibility to change the project over the years without having to renegotiate a contract at high costs
  - Increases the likelihood that small and medium-sized local contractors will be able to bid on various aspects of the project.

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<sup>i</sup> Iacobacci, Mario, *Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments*. The Conference Board of Canada, Ottawa, 2010, p. i.

<sup>ii</sup> P 3 *Financial Analysis of the City of Regina Waste Water Treatment Plant Expansion and Upgrade*. Hugh Mackenzie, May 6, 2013.

**On Sept 25**  
**Keep water public!**

**Vote YES!**

Pledge to vote YES: Text "YES" to 306-988-1754  
or text INFO for more information

 Regina Water Watch [ReginaWaterWatch.ca](http://ReginaWaterWatch.ca)