RESOURCE F

Risk Evaluation Template

For municipalities to accurately assess and allocate project risks, it is important to understand the complexity of relationships within the partnership framework. Besides the principle players - i.e. the municipality and its partner - there could be a number of other participants within the arrangement. For example, the development of an air supported structure over municipal tennis courts will involve the following:

- The municipality – land owner
- The partner – the facility owner and operator
- The dome membrane manufacturer
- The HVAC equipment manufacturer
- The supplier of necessary equipment such as lights, air lock door, etc.
- General contractor to perform site work
- Subcontractors, such as trades to install utilities
- Investors
- Insurance company
- Operating equipment supplier
- Service subcontractors, such as contract-out tennis professionals

In a competitive search and selection process, municipalities are well advised to obligate proponents to submit their risk plans as part of the Request for Proposals (RFP) process. The municipality must be satisfied that the risk plan and the allocation of risk are consistent with the municipality's guiding principle associated with risk management. At the very least, the proponent's plan should identify those risks that it is prepared and capable of absorbing. At the same time, the municipality should prepare its own risk plan reflecting the risks it is willing to undertake. The RFP evaluation process should analyze risk patterns and determine if the proponent's submission is in anyway contrary to the municipality's expectations for risk. Regardless of the worthiness of the balance of the proponent's bid, the municipality must be satisfied that the relationship does not violate its risk tolerance.

It is also important to understand that the partner will evaluate its risk exposure compared to its capacity to undertake the risk. Most often, this will relate to the partner's key investment criteria and financial expectations for the project. While these criteria may not be issues of considerable concern for the municipality, it is important that the public partner understand the factors that will drive its external partner's financial decision making. Typically, these criteria include:

- The return on investment
- Return on equity
- Net present value after taxes
- Payback period
- Debt service coverage

The following risks should be of concern to municipalities considering partnerships for year-round tennis court facilities.

MARKET RISK – changes in market conditions, such as variations in local demand for year-round tennis courts, could have a significant impact on the proponent's business plan. In striking a partnership agreement, the municipality should look to transfer market risk to the proponent.

INCOME RISK – this could be caused by overly optimistic financial forecasts in the original business plan, improper assumptions with respect to facility traffic (causing court revenue to underperform), the inability to attract projected numbers of program participants (causing income generated by lessons and leagues to fall short of projections), etc. Unless the municipality includes stipulations in the agreement that could jeopardize the operator's ability to achieve its business plan, the municipality should transfer all income risk to its partner.

CONSTRUCTION DELAYS – this can be caused by unforeseen soil condition, breakdowns of the equipment, manufacturing delays or other common occurrences during the construction phase. If the proponent is expected to absorb this risk, the municipality should expect a substantial risk allowance in the proponent's capital costs estimates. Consequently, this risk is often shared between partners.

COMPLETION DELAYS – this risk is often associated with communication difficulties between partners, last minute design changes, financing difficulties or problems in receiving permits and other construction approvals. This risk can be mitigated with aggressive project management and communication methodology set out at the beginning of the relationship.

OPERATION RISK – breakdowns in equipment, technology foul-ups, the inability to attract the required number of adequately qualified staff, etc., can get in the way of the operator meeting its business plan objectives. Municipalities usually transfer this risk to the partner.

MAINTENANCE RISK – this factor relates to the maintenance and the state of good repair of the facility. This risk can be mitigated with pre-established and written maintenance standards agreed to by both parties. However, in the absence of standards, the operator is free to establish its own operating procedures and protocols, which may not line up with the municipality's expectations. Asking the operator to conform to new or elevated maintenance standards mid-contract could be very expensive to the municipality. Consequently, written maintenance standards should be a schedule of the agreement. Furthermore, the municipality should insist that the operator annually set aside a capital reserve contribution to be used on approved repair and maintenance items.

OBSOLESCENCE RISK – the municipality should establish its expectations with respect to the condition of the facility at the conclusion of the agreement. This is particularly important if the facility is to revert to municipal ownership at the conclusion of the license or lease. This risk should be top of mind when the municipality evaluates the partner's plans for developing the facility. It will therefore be important for the municipality to be assured that the material and finish specifications are acceptable, that equipment is of a reasonable standard and that equipment replacement plans are sufficient to protect municipal interests related to building and equipment quality. This should be an important consideration during the RFP stage, given the fact that at the end of the agreement, the partner will have no further interest in the facility.

Simple Risk Assessment Template

Risk Factor	*Probability (1)*	*Impact (2)*	*Municipal Risk (3)*	*Partner Risk (4)*
Market risk				
Income risk				
Construction delays				
Completion delays				
Operation risk				
Maintenance risk				
Obsolescence risk				
Other				
Other				
Other				

Notes:

1. Rate each risk factor's probability of occurring as high (H), medium (M) or low (L)
2. Estimate the negative impact to the project as significant (S), moderate (M) or limited (L) if the risk event occurs
3. Indicate the estimated proportion of impact (%) that will be absorbed by the municipality
4. Indicate the estimated proportion of impact (%) that will be absorbed by the partner