North American PPP Deal of the Year 2013: Ottawa LRT

14/03/2014

The Ottawa light rail transit PPP uses a hybrid financing structure and had to overcome challenging construction risks. It is the most complex transport PPP to be procured in Ontario, and marks the debut of light rail transit in Canadas federal Capital, Ottawa.

The projects construction risk allowed bank lenders to prove that they remain relevant to PPPs in Canada, though banks lent alongside a private placement, the financing route of choice in Canadian infrastructure.

The project company Rideau Transit Group closed the C$440 million ($397 million) debt financing for the C$2 billion concession on 14 February 2013, just under three months after it became preferred bidder. The debt broke down into a C$225 million fully underwritten, unrated fixed-rate private placement to Sun Life and a short-term revolving bank loan of C$215 million.

The bank debt came from three lenders Scotiabank, Bank of Tokyo-Mitsubishi UFJ and Sumitomo Mitsui Banking Corporation. The five-year revolving credit facility and the long-term private placement were both aggressively priced. The 34.5-year private placement has an average life of 22 years and priced at 230bp over the 30-year government of Canada bond. The bank debt priced at 145bp over CDOR on drawn amounts, but is not exposed to operational risk, since it will be repaid with government milestone payments.

On Ottawa the banks decisively beat back competition from the Canadian short bond market, which had threatened to render bank debt obsolete. Banks are unlikely to return to contention in providing long-term PPP debt, though they would be happy if they retain the short-term business. Indeed the short bank/long bond model, which has existed in Canada for over five years, is just now taking root in Europe.

In addition to the C$440 million debt financing, Canadas federal government and the province of Ontario are each contributing C$600 million, while the city of Ottawa will provide C$479 million. Ottawa will meet its contribution with transfers from a federal fuel tax fund (C$192 million) and provincial fuel tax receipts (C$287 million). The federal governments contribution will come from the Building Canada Fund.

The sponsors are providing C$75 million in equity, and comprise ACS (40%), SNC-Lavalin (40%) and EllisDon (20%). The Rideau shareholders will contribute their equity at the end of construction, and are putting up letters of credit to back their obligations. Other members of the Rideau consortium include Veolia Transportation Services, Adamson, Fast +Epp, MMM Group, IBI, DR Sauer, Hatch Mott MacDonald, Sereca and Thurber Engineering.

Rideau Transit Group General Partnership

STATUS
Closed 12 February 2013
SIZE
C$2 billion
DESCRIPTION
35-year PPP concession for a light rail transit system running through Ottawa, Ontario, Canada
Grantor
City of Ottawa
Sponsors
SNC-Lavalin (40%), ACS (40%), and EllisDon Capital (20%)
Equity
C$75 million
Debt
C$225 million private placement, C$215 million bank loan
Bond arranger
National Bank Financial
Bank lead arrangers
BTMU, National Bank of Canada, Scotiabank, SMBC
Grantor financial adviser
PwC
Grantor legal adviser
Borden Ladner Gervais
Sponsors financial adviser
Scotiabank
Sponsors legal adviser
Davis
Lenders legal adviser
Torys
Lenders technical adviser
Atkins
Sponsors technical adviser

The 35-year design-build-finance-maintain Ottawa LRT concession involves building a 12.5km, 13-station light-rail line, called the Confederation Line. The line, which must be operational by early 2018, will replace Ottawas existing bus rapid transit network and includes a 2.5km tunnel and three underground stations. Rideau will also supply and maintain an initial fleet of 34 vehicles, for which Alstom is supplier. The consortium will also widen Highway 417 under a build-finance contract.

Joint venture of SNC-Lavalin and MMM Group

Sponsors insurance adviser
Cook Advisory Services
Lenders insurance adviser
InTech Risk Management
Model auditor
PKF

The projects construction risk profile is especially challenging, because much of the work lies underground. The process will require extensive and careful tunnelling under the federal capitals city centre, which is substantially built up. Rideau accepted much of the geotechnical risks associated with the tunnels construction, which will encourage Toronto to do the same on its proposed Eglinton line.