Canada's Windsor-Essex Parkway

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Ontario's Windsor-Essex Parkway is the first road P3 to close under the Canadian province's own financing and procurement model - the successful financing coming despite a risk that it will be a highway to nowhere.

The Can$1.24 billion (US$1.23 billion) Parkway is the first road project in Ontario to be drawn up under the Alternative Financing and Procurement model, and likely to be one of many as the Canadian province seeks to carry out a major upgrading of transport networks [Transactions Database]. Its completion ahead of schedule and below some budget estimates bodes well for the future of PPP transport projects in Canada.

But perhaps the most intriguing feature of this project is that it went to completion so smoothly despite the lack of official approval across the border for its sister project, the Detroit River International Crossing (DRIC). Without the crossing – still pending in the in-tray of the incoming governor of Michigan at the time of writing – the link between the Canadian and US highway networks at the core of this project will not exist.

Background and Procurement

The Parkway project was developed as part of a rolling programme of infrastructure upgrades in Ontario, but was initially conceived of long before the province had an infrastructure plan. The Parkway and the DRIC are a joint strategic effort of the Canadian and US governments at both federal, provincial and state level. Mindful of rising demand for crossing the Detroit River, and the high volume of trade that uses the crossing area (28 per cent of all US-Canada trade takes place across it, according to a 2006 study) a new transport link was sought. The Canada-US-Ontario-Michigan Border Transportation Partnership was created for this purpose and in 2001 commissioned a feasibility study for the project. The study was completed in January 2004 and confirmed the need for a new river crossing connecting the freeway systems of Ontario and Michigan.

A 2005 report identified Ontario as the third-highest province in Canada for per capita investment need for roads and bridges. Separate reports around the same time identified Can$8 million of required investment in hospitals and Can$5 million in further and higher education.

It was in these circumstances that the provincial government set up Infrastructure Ontario, a Crown corporation, in November 2005 and charged it with delivering projects under the AFP model. At the same time, a five-year plan, ReNew Ontario, was published outlining Can$30 billion of investment to 2010.

Although the provincial government is keen to stress that AFP preserves public control and ownership, the model is essentially a PPP one. Contracts are generally DBFOM , consortia seek to finance their projects largely through bank debt and concessions run for 20 years or more. As a large, complex project, it was virtually assured that the Parkway would be tendered under AFP, as all infrastructure projects over about Can$50 million tend to be in Ontario.

Plans for the Parkway first publicly emerged in an environmental impact assessment, which after a draft stage was submitted by the Canadian DRIC study team to the Ontario Ministry of the Environment in December 2008. In February 2009, Infrastructure Ontario hosted a briefing session and presentation attended by over 80 companies. RFQ followed in June and by October, with the federal and provincial governments having approved environmental assessments, three consortia had been shortlisted:

Rose City Parkway Group

- Aecon Concessions - a division of Aecon Construction Group
- Aecon Construction and Materials
- Fengate Capital
- Dufferin, a division of Holcim (Canada)
- The Miller Group
- MMM Group
- Macquarie Capital Group
- Hochtief PPP Solution North America
- Peter Kiewit Sons Co
- AECOM Canada
- HW Lochner
- Thurber Engineering
- Applied Research Associates
- RC Spencer Associates
- West 8

Windsor Essex Mobility Group

- ACS Infrastructure Canada – lead member with Dragados Canada
- Fluor Canada – lead member
- Acciona Concessions Canada – lead member with Acciona Infrastructure Canada
- Dillon Consulting - local partner
- RBC Dominion Securities - local partner
- Iridium Concesiones de Infraestructuras - local partner
- Hatch Mott MacDonald - local partner
- AMEC Earth and Environmental - local partner
- Amico Infrastructure- local partner
- LEA Consulting - local partner
- AMEC - local partner
- Black & McDonald - local partner

Windsor-Essex Transportation Partners

- Carillion Canada
- The Bank of Nova Scotia
- Stantec Consulting
- PCL
- Bilfinger Berger Project Investments
- HSBC Specialist Investments - HSBC Infrastructure
- John Laing Investments
- Walsh Construction Company - a subsidiary of The Walsh Group
- Parsons Corporation
- Trow Associates

SNC Lavalin and WEP Development Partners were held in reserve to replace the shortlisted bidders if they dropped out; however this did not arise.

At the same time, Transport Canada had put in train the process of preparing the site for construction. BMO Capital Markets was the government's financial adviser.

RFP followed in December 2009 and closed in August 2010. In November it was announced that Windsor Mobility Group had been selected as preferred bidder. Meanwhile, a study commissioned by Michigan Department of Transportation and published in February 2010 confirmed the ongoing need for the Parkway. Among its findings, it concluded that:

- the need for the additional border crossing remained essential despite the current economic downturn
- traffic projections developed as part of the Detroit River International Crossing (DRIC) final environmental impact statement were found to be largely accurate
- strong bi-national commitment to construct a new publicly owned border crossing remained

Project Description

The DBFOM contract comprises the building of a six-lane highway 11km long with 11 tunnels, length totalling 1.8km, and a four-lane service road. The highway runs through the city of Windsor and connects Highway 401 on the Canadian side to Interstate Highway 75 in Detroit, via the Detroit River International Crossing.

It will create a new high-speed route for international traffic to cross the Detroit River without being stopped by traffic lights or having to use suburban roads. The project also involves laying out 300 acres of green space, 20km of recreational trails, landscaping and noise reduction measures including permanent noise barriers.

Financing

At the end of July, *IJ* reported that the "preferred financing mechanism is expected to be bond offerings - as has been typical of the Canadian P3 market". Indeed, the McGill University Health Centre project which closed that month was bond financed. However, in late 2010 the sponsor's preferences swung round from bonds to bank debt.

Exactly why bank debt became the best option is probably due to more than one factor – but cost does not seem to have been one of them. In fact, some sources close to the deal think that bond financing may have been slightly more expensive in this case. Rather, it appears that the appeal of having a relatively small, committed group of investors who well understood the risks involved in a major construction project won through. The negative carry implications of financing the short-term tranche of the deal through bonds were also noted.

The following MLAs provided Can$1.12 billion of debt as a club:

- Banco español de Crédito (Banesto) - $54.4 million
- Bank of Tokyo-Mitsubishi UFJ - $109 million
- BNP Paribas - $109 million
- Caja Madrid (Caja de ahorros Madrid) - $48.3 million
- Crédit Agricole - $109 million
- Dexia Credit Local New York (also the administrative agent) - $109 million
- ING - $87.2 million
- Santander $109 million
- Société Générale - $109 million
- West LB (also the documentation agent) - $109 million

Debt is being provided in two tranches. The first short-term tranche for construction, comprising Can$953 million of the debt, is priced at CDOR plus 200bps. This tranche will mature in September 2014 or two years after substantial completion, whichever is earlier. The long-term tranche of Can$166 million is priced at CDOR plus 225bps, rising with step-ups to 300bps from completion of construction to encourage refinancing. A further Can$42.5 million was provided in mezzanine debt.

The long-term tranche, with a 30-year tenor, is structured as a soft-mini-perm and liable for refinancing after 10 years, failing which lenders will enforce a 100 per cent cash sweep on the facility.

RBC were financial advisors to the sponsors and Tory's were legal advisors.

BMO Capital Markets acted as financial advisors to the government, while Faskens Martineau DuMoulin were legal advisors to the lenders, while URS/Scott Wilson were technical advisors.

ACS, Acciona and Fluor, the consortium's three lead members, were each in for one-third of the Can$124 million equity, provided by Caixanova as a bridge loan.

Financial close was reached on 15 December 2010 – one month ahead of schedule - and disbursement of the loans began on 22 December.

Conclusion

Initial fears about whether the debt markets would be sufficiently liquid to support financing of this deal proved unfounded. Canada is one of the most mature markets in the world for PPP, with the first projects having been launched in the early 1990s, and the high level of government commitment saw the project through to a smooth conclusion. Indeed, it has been indicated by a source with knowledge of the project that the Canadian authorities regard it as a top priority – regardless of the future of the DRIC.

Since the project is availability based, the consortium need not worry in any case. Given the appetite in Ontario for PPP and the clear model in place, it can only be assumed that this will be the first privately financed road project of many in the province.

Project at a glance

Project Name	Windsor-Essex Parkway AFP
Location	City of Windsor, Ontario, Canada
Description	The project will see the building of a six-lane highway 11km long with 11 tunnels, length totalling 1.8km, and a four-lane service road. The highway runs through the city of Windsor and connects Highway 401 on the Canadian side to Interstate Highway 75 in Detroit, via the Detroit River International Crossing. 300 acres of green space will be laid out, 20km of recerational trails created and permanent noise barriers erected
Sponsors	Windsor Essex Mobility Group, lead members: ACS Infrastructure Canada with Dragados Canada, Acciona Concessions Canada with Acciona Infrastructure Canada, Fluor Canada
Loan Concession Period	30 years
Total Project Value	Can$1.24 billion (US$1.22 billion)
Total equity	Can$124 million (US$122 million)
Equity Breakdown	ACS -33.3 per cent Acciona - 33.3 per cent Fluor - 33.3 per cent
Total senior debt	Can$953 million (first tranche); Can$166 million (second tranche)
Senior debt breakdown (first tranche)	Banco Español de Crédito (Banesto) - $54.4 million Bank of Tokyo-Mitsubishi UFJ - $109 million BNP Paribas - $109 million Caja Madrid - $48.3 million Crédit Agricole - $109 million Dexia Credit Local New York - $109 million ING - $87.2 million Santander $109 million Société Générale - $109 million West LB - $109 million

Senior debt pricing	First tranche: CDOR + 200bps; Second tranche: Construction: CDOR + 225bps; significant completion + 2yrs: 225bps; SC + 3-7: 275bps; SC + 7+: 300bps
Debt:equity ratio	90:10
Mandated lead arrangers	Banco Español de Crédito (Banesto) Bank of Tokyo-Mitsubishi UFJ BNP Paribas Caja Madrid Crédit Agricole Dexia Credit Local New York ING Santander Société Générale West LB
Financial adviser to authority	BMO Capital Markets
Financial adviser to sponsors	RBC
Legal adviser to lenders	Faskens Martineau DuMoulin
Legal adviser to sponsors	Tory's
Technical adviser to sponsors	URS/Scott Wilson URS/Scott Wilson
Technical adviser to lenders	
Date of financial close	15 December 2010