

North Island Hospitals, Canada

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Balfour Beatty has used a green bond issue to finance the C\$606.2 million (\$562 million) [North Island Hospitals PPP](#). The issue closed in June and was the first green bond financing for a PPP project in North America, as well as the first green bond issue ever for Canadian public infrastructure.

The issuer for the project's C\$231.5 million in bonds is Tandem Health Partners, the project company for the two North Island Hospitals. The bond issue was oversubscribed, thanks to keen interest from both traditional and new investors.

In a year when Canadian PPP bond spreads hit new lows, the North Island Hospitals deal closed at a spread inside recent comparable PPPs - and the deal's sponsors said that green bond certification was a factor.

The success of the issue should encourage other provinces and sponsors in Canada to look at funding PPP projects using green bonds.

Green bonds in Canada

The green bond market is still at an early stage in its development in Canada, and there are no precedents for green bonds' use, particularly in PPP projects. Export Development Canada was the first Canadian issuer of a US dollar-denominated green bond, in January 2014, and TD Bank was the first ever issuer of a Canadian dollar-denominated green bond, in March 2014.

The World Bank issued the first green bond in 2008. Green bonds' proceeds must be used exclusively for projects with environmental benefits. A group of global banks established the Green Bond Principles, a set of guidelines for issuers, in January 2014. Green bonds can be corporate issues on which the proceeds are designated towards eligible investments, as well as non-recourse or guaranteed issues by eligible projects.

Green bond eligible projects include renewable energy facilities, wastewater treatment plants and energy-efficient buildings. The Province of Ontario is also planning to launch a multi-year green bond programme later this year.

North Island Hospitals' green bond might have been the first such issue for a social infrastructure PPP project, but it will almost certainly not be the last.

Most new public buildings in Canada have to achieve Leadership in Energy and Environmental Design (LEED) status. LEED is a set of rating systems for the design, construction, operation, and maintenance of green buildings, homes and neighborhoods. In the case of the North Island Hospitals project, both hospitals will be built to LEED standards.

Certifying financings for the construction of LEED buildings as green bonds, then, seems like a natural fit.

Tighter spread

The 32.3-year, C\$231.5 million green bond issue for North Island Hospitals priced at around 165bp over the 2037 Government of Canada benchmark bond, for a coupon of 4.39%. Standard & Poor's assigned an A- rating to the issuer. The pricing was lower than recent bond issues for similar PPP assets in the region.

The C\$199 million [Okanagan Correctional Centre](#), another PPP in British Columbia, reached financial close in April this year. Its C\$114.5 million of senior bonds priced at 175bp over their Government of Canada (GoC) benchmark, and carried an A (low) rating with a stable outlook from rating agency DBRS.

A Plenary Health-led consortium brought Ontario's [Peel Memorial Centre PPP](#) to close in June by pricing its C\$112.7 million in senior bonds at around 176bp over the 2037 GoC. Hospital transactions that were bond financed in 2011 (including [Oakville hospital](#) and [CHUM](#)) priced at well over 200bp.

In 2012 two deals closed at spreads of 200bp or below - [Alberta's Capital Citylink](#) (187bp) and the federal [CSEC](#) project (200bp). Both of those projects featured well-rated government counterparties that are closer to British Columbia's rating than Ontario's.

The North Island Hospitals bonds attracted over 20 different investors, including a mix of insurance companies, pension funds and asset managers. While most of these accounts were existing Canadian bond investors, Tandem's sponsors said there were some new entrants that had not bought into PPP deals since 2008 and showed keen interest in this green bond issue.

The province of British Columbia, which will be making annual service payments to Tandem Health Partners, has a triple-A credit rating, which also contributed to healthy demand from investors.

A consortium led by Balfour Beatty started construction in July and is scheduled to complete construction on the two hospitals by late 2017. This is the second PPP financing that Balfour Beatty has closed in British Columbia this year, after the new [Acute Care Centre PPP for women and children](#).

Balfour Beatty Investments provided C\$17.1 million in equity, while the Connor, Connor Clark & Lunn GVest Traditional Infrastructure fund (in which Gracorp Capital Advisors is an investor) provided another C\$17 million in equity, for a total of C\$34 million.

The Province of British Columbia (60%) and the Comox Strathcona Regional Hospital District (40%) are meeting the rest of the project's costs with milestone payments during construction and at substantial completion.

The 30-year design, build, finance and maintain concession covers a 95-bed hospital on the Campbell river and a 153-bed hospital in Comox valley in Vancouver, Canada. The two hospitals will be constructed concurrently but independently and be completed at the same time. Construction started in July.

The Tandem Health consortium also includes; Graham Design Builders, Farmer Construction, Stantec, Blue Cottage Consulting, Honeywell International and Balfour Beatty Communities.

Prospects

Some private-sector renewable energy projects in Ontario and Quebec have been funded with green bonds in the past, but PPP projects are a newer asset class, though activity is expected to pick up.

Cynics call green bonds clever marketing, but if enthusiasm from investors allows deals to close at attractive pricing levels, the product will probably appear on future deals.

Green bonds should help demonstrate a provincial government's commitment to strong environmental policies and long-term sustainability. Even if sponsors do not see the benefit, provinces may push for projects' bonds to be green bond eligible. Demand for green bonds is expected to increase further when investors that have internal mandates to invest in energy efficient projects begin doing so on a larger scale.

Advisers

Ernst & Young was financial adviser to the province, while Bull Housser was legal adviser to the Vancouver Island Health Authority, the project's awarding authority. National Bank Financial was financial adviser, and Mott MacDonald was technical adviser, to the consortium.

Altus Group certified that the North Island Hospitals project conformed to the qualifying criteria in the province's BC Climate Action Plan. National Bank Financial and Bank of Nova Scotia were underwriters on the bond issue.

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