

DEALS OF THE YEAR 2011

North American Social Infrastructure
Deal of the Year 2011

CSE Canada: Federal success

Plenary closed the C\$1.13 billion (\$1.14 billion) Long-Term Accommodations Project (LTAP) concession in Ontario on 29 January 2011. The financing is the Canadian federal government's largest public-private partnership to date and the record low pricing on its debt was one reason for the inclusion of a federal PPP screen in the government's 2011 budget.

LTAP is a 33-year design-build-finance-maintain (DBFM) concession for a new 84,000 square-metre office building and 800-space car park for the Communication Security Establishment of Canada (CSEC) in Ottawa. It also includes construction oversight and facilities management for the next-door medium-term accommodation project (MTAP), which was tendered separately and is being built by EllisDon. LTAP followed the federal government's first PPP, the C\$195 million Royal Canadian Mounted Police E Division headquarters deal, which HSBC Infrastructure III and Bouygues closed in April 2010. Defense Construction Canada is the grantor and government counterparty.

Royal Bank of Canada underwrote the C\$1 billion bond issue for the project, which was split into a C\$839.6 million 33-year tranche and a C\$167.4 million five-year tranche. Amortisation of the long bond will not start until six months after operations begin, which is currently scheduled for July 2014. The short bond will be repaid with the proceeds of a C\$300 million substantial completion payment from the grantor. The bonds priced at 200bp over the equivalent government of Canada bonds for the long tranche and 113bp for the short. Plenary is contributing C\$124 million in equity.

The debt was well received by Canadian bond investors. It was significantly oversubscribed and RBC built an investor book of more than 30, which was second only to SNC-Lavalin's McGill University Health Centre (MUHC), which closed in June 2010. The pricing also remains the market low for private infrastructure debt in Canada.

The grantor's security requirements were one of the most significant challenges facing the project. Investors and lenders had to be from so called "Five Eyes" nations – Australia, Canada, New Zealand, the US or UK. This was one reason for the choice of bonds, because only European and Japanese lenders were willing to make long-dated infrastructure loans at the time. Still, the grantor estimates that it saved C\$176 million on the project by using a PPP.

LTAP prompted the Canadian government to implement a PPP screen for all federal projects with capital costs over C\$100 million. An expanding federal pipeline of concessions with long-term operations and maintenance components could positively counteract the thinning pipeline from provincial grantors. Transport Canada has already indicated its preference for a long-term DBFOM concession for both the \$1.8 billion Detroit River International Crossing bridge between Ontario and Michigan, and the C\$5 billion new bridge across the St. Lawrence River in Quebec. PPP Canada is implementing the screen.

Olivia MacAngus, vice-president of corporate development at Plenary, said the sponsor closed three additional large concessions in 2011 – the A\$1 billion (\$1.06 billion) Gold Coast Rapid Transit project in Australia, C\$1 billion Humber River

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Regional Hospital in Ontario and A\$1 billion Victorian Comprehensive Cancer Centre in Australia – and is focused on moving a number of its projects from construction into operations in 2012. It is also looking at new health, municipal and transportation projects in Australia, Asia and North America.

Defense Canada began making partial monthly availability payments to the concessionaire for oversight and

management of MTAP from November 2011. Full payments will begin once construction is complete on LTAP, currently slated for December 2013. The financing has a minimum debt service coverage ratio (DSCR) of 1.15x and a lifetime DSCR of 1.23x according to DBRS. Standard & Poor's estimates the minimum DSCR at 1.22x. Both agencies rated the bonds A.

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CSEC started the bid process for the LTAP and MTAP projects in May 2008. EllisDon won the C\$72.9 million design-build (DB) contract for the latter in August of that year. Defense Canada issued a request for qualifications for the 30-year plus construction LTAP PPP in September 2009. It shortlisted consortiums led by Carillion, Plenary/Innisfree and SNC-Lavalin for the concession in December 2009, released the request for proposals the following January and selected Plenary/Innisfree in October 2010. Innisfree dropped out of the consortium before close because of project-specific deal structuring requirements.

PCL Constructors holds a C\$833 million fixed-price date-certain DB contract with the concessionaire. Honeywell is the facilities management service provider and Hewlett-Packard is the IT service provider. Throughout construction and during operations, all employees working at or in the facility will require security clearance from the government of Canada. PF

Plenary Properties LTAP

STATUS	SPONSOR
Closed 29 January 2011	Plenary
SIZE	EQUITY
C\$1.13 billion (\$1.14 billion)	C\$125 million
LOCATION	BOND DEBT
Ottawa, Ontario	C\$839.6 million long tranche and C\$167.4 million short tranche
DESCRIPTION	UNDERWRITER
Construction plus 30-year DBFM concession for a new 84,000 square metre Communications Security Establishment of Canada office building	Royal Bank of Canada
GRANTOR	SPONSOR LEGAL COUNSEL Davies
Defense Construction Canada	UNDERWRITER LEGAL COUNSEL Torys
	FINANCIAL ADVISER
	Deloitte (grantor)
	DESIGN-BUILD CONTRACTOR PCL
	O&M PROVIDER Honeywell
	IT SERVICE PROVIDER
	Hewlett-Packard