



# Stage 2 Light Rail Transit

RTG Long-term Debt Release  
Overview and Approach

Briefing to General Manager and Staff

July 26, 2017



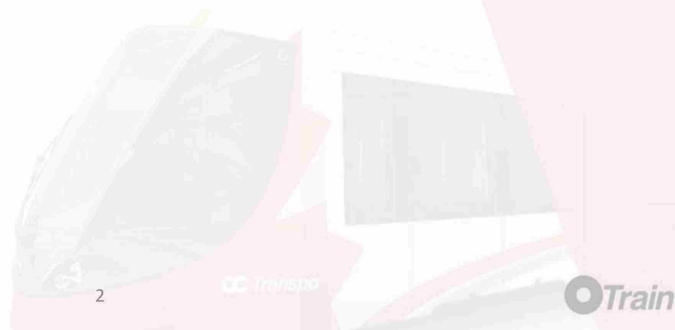
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# Introduction

- As part of the implementation of Stage 2, the City will create a new credit facility with Stage 1 long term lenders
- As a result, City will step into the shoes of the long term lenders with respect to the Stage 1 long term debt provided to RTG
- This arrangement is referred to as the “Long Term Lender Debt Release”





## Purpose

- Provide an overview of Long Term Lender Debt Release, specifically with regards to the following:
  1. Background leading to the implementation of the Long Term Lender Debt Release
  2. Approach and structure to execute the Long Term Lender Debt Release
  3. Benefits to the City of the Long Term Lender Debt Release;
  4. Key messages to guide the Council Report

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- Included appendices:
  - Appendix A - Impact of construction delays on the Stage 1 Project to the Long Term Lender Debt Release



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## Background

- The Procurement options analysis undertaken for Stage 2 concluded that it was in the City's overall best interest to have RTG assume the maintenance responsibilities for Stage 2 via a fixed-price MOU
- This agreement brought the issue of consent rights that Stage 1 Long Term Lenders and Short Term Lenders have under the Stage 1 lending arrangements to the fore.
- In order to take-on the incremental maintenance and lifecycle costs associated with Stage 2, in accordance with the current lender's arrangement, the Long Term Lenders would have required RTG to invest additional equity in the range of \$50M to \$100M (with an internal rate of return as large as 13%) in order to meet debt service resiliency requirements





## Background

- A \$50M to \$100M incremental equity investment to secure the MOU would have created affordability challenges for the City, and, upon further analysis, was deemed to have minimal benefit to the City from a risk transfer perspective
- An alternative path forward was explored whereby the City would “ring-fence” Long Term Lenders from risks associated with Stage 2. Ultimately, this approach was found to have significant complications to implement, would erode risk transfer and require time that extended beyond the MOU target completion date of February 2017
- The Long Term Lender Debt Release was determined to be preferred as it was relatively simple to implement, did not have a cost impact to the City, and would enable the City to meet the target MOU completion date to move forward with Stage 2



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## Approach and Structure

- The City and its advisory team met with the Long Term Lenders in late January 2017 to propose the Long Term Lender Debt Release arrangement
- As part of the proposal, the City requested a reduction in the interest rate associated with the debt given the Lenders' enhanced risk position (i.e. repayment is no longer at-risk for RTG's performance)
- After lengthy deliberations, the Lenders agreed to the Long Term Lender Debt Release arrangement with no change to the interest rate
- A term sheet was drafted by the Lenders and was generally found acceptable by the City



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## Approach and Structure

- The Long Term Lender Debt Release is an arrangement whereby the City enters into a new credit facility with the Long Term Lenders, and therefore, makes payments directly to the Lenders, irrespective of RTG's performance on either the Stage 1 or Stage 2 projects.
- In exchange, the City will step into the shoes of the Long Term Lenders with respect to the Stage 1 long-term debt
- The City then preserves the existing Project Agreement and Credit Agreement structure, which maximizes the City's strategic options during the operational period



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## Benefits to the City

- The immediate benefits of the Long Term Lender Debt Release are:
  - Enabled the City to meet timeline to execute a MOU with RTG by February 2017 to begin the procurement of the Stage 2 Project scope within timelines associated with its funding partners
  - Avoids significant additional costs related to additional equity that does not add value to the City (e.g. enhancing the risk transfer position)
  - Maintains the presence of the Stage 1 long term debt in the Project Agreement which could enhance and form an attractive package for infrastructure investors in the secondary markets once the Stage 2 Project moves into operation
  - Preserves the City's favourable rights in a termination for convenience scenario
  - Has no impact (or changes) to the City's balance sheet and annual cost obligations







## Key Benefits

- **Remedies on Project Co default** - City will have access to all of the events of default under the lending arrangement which are more numerous with tighter cure period timeframes, in addition to those under the Project Agreement
- **Enhanced security package** - City will have direct access to liquid security, parent company guarantees and equity from the RTG consortium
- **Support City's Options / Rights** - Clarity under the Compensation on Termination Schedule concerning the amounts it will be required to pay to Project Co in the event of termination
- **Diligence** – from RTG's perspective, the borrower-lender arrangement still prevails with the City taking over the role as lender while from the City's perspective, it receives additional reports for the Stage 2 Project including: Lenders reports, Lenders Technical Advisor reports, and regular financial reporting





## Belfast MSF Expansion Variation

- Belfast MSF Expansion Variation
  - Target financial close for July 31, 2017
  - Important date as it keeps the ability for RTG to finish MSF expansion in December of 2018 and therefore ensures that the expansion of the MSF does not create maintenance challenges for Stage 1
- Given we need lender consent for Belfast MSF Expansion, staff recommend committing to Long Term Lender Debt Release (subject to Council passing a by-law) concurrent with July 31 financial close to give lenders comfort that City is still committed to path forward



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## Appendix A

### Impacts to Stage 1 Construction

- The Long Term Lender Debt Release arrangement is expected to be formally in place prior to the Stage 1 Project achieving Revenue Service Availability
- Most importantly, RTG's short-term lenders are not impacted by the Long Term Lender Debt Release and are still looking to RTG to achieve the Revenue Service Availability payment in order to be repaid – all of the same short term financing pressures apply

#### **Stage 1 Project Construction Delays**

- In the event of construction delay on the Stage-1 Project, the short-term lenders will exert pressure on RTG
- Having taken the long-term Lender's position, the City will gain access to all Lenders Technical Advisor ("LTA") reports which will help the City understand the nature and extent of the delay and would be valuable in any negotiations with RTG
- The City will also get the benefit of accelerated rights for the City to step-in during Supervening Events, and access to the long-stop date
- Under the current Credit Agreement, RTG does not make any principal repayments on the long-term debt until March 2019. Interest-only payments are made until that date with all debt service payments being made on a quarterly basis (*refer to adjacent table*)

#### *RTG's Long-Term Debt Repayment - Extract*

Date	Principal
March 2019	\$39,343
June 2019	\$60,696
Sept. 2019	\$61,439
Dec. 2019	\$62,191





# Questions?

