Ottawa's Light Rail Transit Project

April 19, 2011

Funding Agreement Negotiation – Executive Steering Committee Meeting No 3

Presentation to City Manager

Confidential Draft: Intended for Discussion Purposes Only and Not for Distribution

Agenda

I. Purpose of Meeting

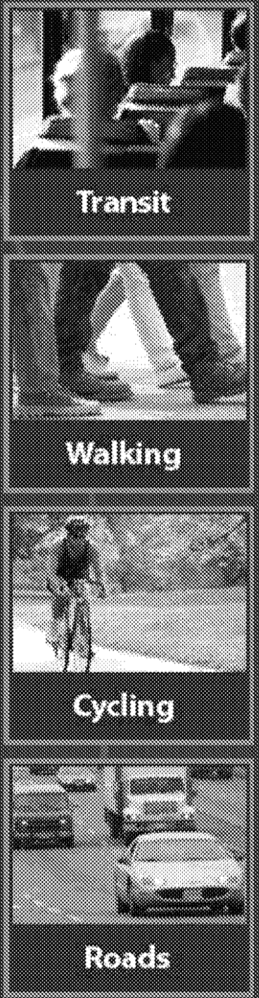
II. Affordability Assessment

III. Overview of the Preferred Shortlisted Option

IV. Tunneling Risk Assessment

V. Project Schedule and Key Reports

VI. Next steps on Funding Agreement



I. Purpose of Meeting

1. Provide an update on progress made since last meeting:
   – Affordability Assessment;
   – Assessment of Shortlisted Options;
   – Tunneling Risk Assessment;
   – Update on Project Schedule and key reports; and
   – Next steps on Funding Agreement Negotiations with Ontario and Canada.
2. Decisions Required:
   – Confirm approach on Affordability;
   – Identify Preferred Delivery Option; and
   – Present City's Position to Ontario and Canada .

II. Update on Affordability Assessment

- Refer to presentation by PwC

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III. Overview of the Preferred Shortlisted Option

- A nominal affordability target of $2.400 Billion to $2.600 Billion was assumed for analysis purposes.
  - A review of the "f" options (DBM(f) or DBOM(f)) was completed to determine a limited level of short-term private financing during the construction period that could be applied to meet this target.
- The scenario assessed (refer to Attachment 1 for assumptions) is as follows:
  - Withhold monthly construction milestone payments on a pro-rata equal basis (approximately 7%) to equal $200 million over the construction period, to be paid-out at achievement of Substantial Completion.
  - It is noted the contactors are required to withhold 10% of any payments for lien purposes (released 45 days after Substantial Completion) – these are usually carrying costs "costed" in a bid.

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III. Overview of the Preferred Shortlisted Option *cont'd*

- Security During Construction (refer to Attachment 1 for assumptions):
  - It is assumed that initial construction estimate did not include costs for contractor performance security.
  - Typical security package applied as a basis of pricing:
    - 50% Labor and Material Payment Bond;
    - 50% Performance Bond; and
    - 5% Letter of Credit.

  [Amounts and components could vary]

  - Pricing precedents were applied from other project data and supplemented with market soundings :
    - The data is limited as securities are priced into construction bids and not broken out separately, which makes pricing highly variable; and
    - Where private financing exists, security requirements will be dependant on lender requirements.

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III. Overview of the Preferred Shortlisted Option *cont'd*

- Results of Revised "f" Scenario:

Item	Estimate		Notes
City funded works	$255M	A	City estimate
Construction cost	$2,281M	B	Based on 2009$ Delcan estimate of $1,850M and 3.25% inflation
Sub-total	**$2,536M**	**C=A+B**	
Honoraria, P3 bid development costs, SPV during construction	$39M	D	Based on preliminary analysis
Private financing costs (fees and interest during construction)	$36M	E	Based on $200M short-term private debt (bank financing drawn pro-rata)
Sub-total with P3 financing and related costs	**$2,611M**	**F=D+E+C**	
Contractor performance security costs	$50M	G	Estimate – to be determined as per contact and lender requirements ($20-60M)
Total Cost	**$2,661M**	**F+G**	

- Some level of duplication exists in these items D and G, due to lack of transparency in pricing data.

III. Overview of the Preferred Shortlisted Option *cont'd*

- Implications to retained risk to City under Revised "f" Scenario:
  - Reduction in liquid security (withheld construction payments / amount of short-term private financing) is being made to ensure nominal affordability threshold can be achieved.
  - City is essentially reducing the amount of "priced-in" risk and self-insuring the balance.
  - The amount of retained risk is demonstrated by the results of the VFM assessment, as follows.

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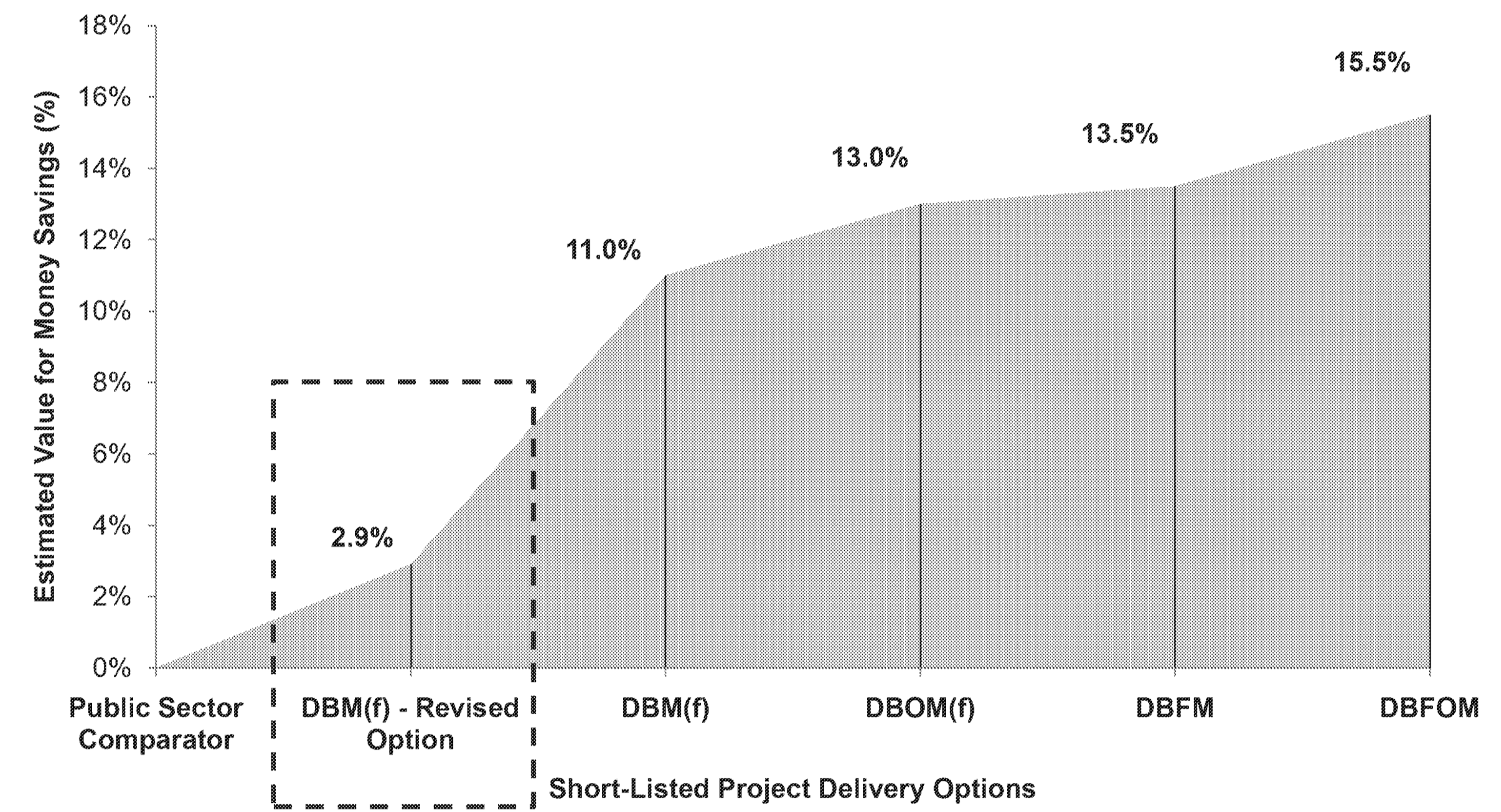
III. Overview of the Preferred Shortlisted Option *cont'd*

The revised DBM(f) option provides more limited Value for Money savings



**Value for Money estimates are preliminary and based on draft risk assessment*

Under the revised DBM(f) option, some but not all drivers of Value for Money are present

	DBM(f) revised option	DBM(f)	DBOM(f)	DBFM	DBFOM
Bundling Design & Construction	●	●	●	●	●
Bundling DB and Long-term Maintenance	●	●	●	●	●
Bundling Operations and Maintenance			●		●
Deferred Payment for Construction	◔	◕	◕	◕	◕
Lender Oversight & Diligence	◑	●	●	●	●
Long Term Maintenance Plan	●	●	●	●	●
Optimal Form of Performance Security during construction and O&M period	◔	◑	◑	●	●

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III. Overview of the Preferred Shortlisted Option cont'd

- Market soundings on Revised "f" Scenario:
  - Not clear what benefits City would get from $200 million of short-term financing, given rights lender would require on traditional securities:

Typical DBM		DBM (f) with $200M	
50% Performance Bond	City would have 100% benefit	50% Performance Bond	Lender would want 1st access
10% LC	City would have 100% benefit	10% LC	Lender would want 1st access
City could use LC as most liquid form to recover up to $230M of cost overruns		Lender could cover loan from LC and be "whole" – City could draw on balance of $30M	

  - $200 million is small enough that Contractors may choose to absorb or self-finance removing any benefits from 3rd party Lender.

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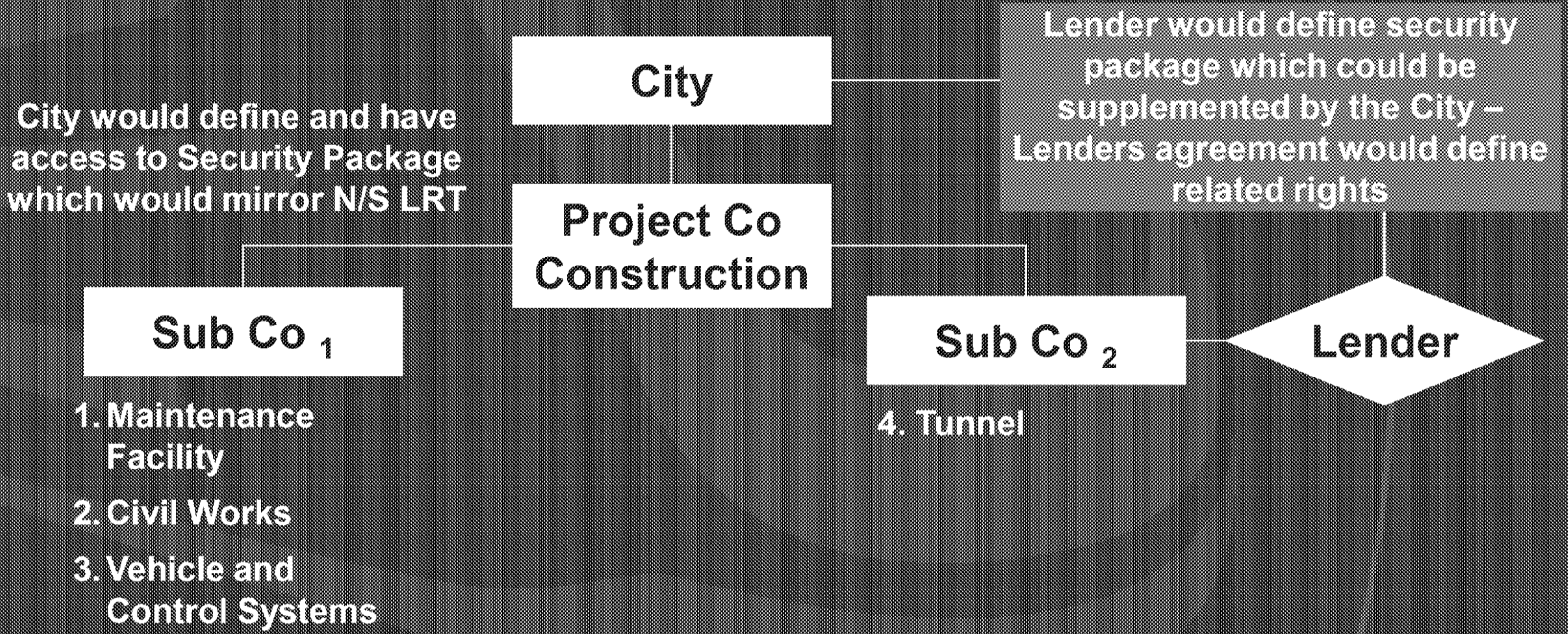
III. Overview of the Preferred Shortlisted Option *cont'd*

- Implications to Legal Structure during Construction:
  - Consideration must be given to the most efficient use of the "f" security:
    - Could be applied on project as a whole; or
    - Could be used to secure higher risk elements of the project.
  - Key elements include:
    1. The Maintenance facility;
    2. Civil works;
    3. Vehicle and control systems; and
    4. Tunnel.
  - Items 1 to 3 are essentially the same as the N/S project;
  - Tunnel is highest construction risk element; and
  - Vehicles and control system are highest operational risk elements.

III. Overview of the Preferred Shortlisted Option *cont'd*

- Implications to Legal Structure During Construction: cont'd
  - The construction component of the DBM/O (f) contract can be sub-divided to "attach" the "f" to the highest risk element - the tunnel - while the other elements will utilize approach taken on N/S LRT:



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III. Overview of the Preferred Shortlisted Option *cont'd*

- Conclusions:
  - Benefits to the City for $200M of Short-term financing are not clear from a risk allocation perspective, given rights that Lender would require on securities, and potential lack pure project finance structure (e.g. lender oversight).
  - Subcontract "carve-out" (slide 11) may focus benefits of "f".
  - A DBM structure (like N/S LRT) with enhanced security would simplify the structure (and reduce bid costs) and ensure that it obtains all benefits from construction securities (and not have to share with a Lender).

III. Overview of the Preferred Shortlisted Option cont'd

- Implications to Legal Structure During Operations:
  - The vehicle control systems component of the DBM/O (f) contract can is the key element which will affect overall performance;
  - Consideration is being made to determine a security package during the operating period, which would likely be based on a combination of:
    - Monthly deductions for poor performance;
    - Annual maintenance performance bonding;
    - Annual letter of credit; and / or
    - Parent Company Guarantee.
  - Work is ongoing by BLG and Deloitte.
  - Would costs of such security be considered as an operating expense or would be included in nominal Affordability cost?

IV. Tunneling Risk Assessment

- Refer to separate presentation by Deloitte

V. Project Schedule and Key Reports

Document	Status	Potential Delivery Date
Report on Contract Strategy and Operational Flexibility	• Being drafted for May Council meeting	April
Deloitte Report – Shortlisted Project Delivery Options	• In final draft form • Linked with VFM and Affordability reports	May
Updated Value for Money Assessment	• 2 Risk Workshops completed and draft results submitted – final workshop to review results • May Draft will be updated in June / July with Costing Update	May
Affordability Assessment (City Plan of Finance)	• To follow Value for Money Assessment • Requires internal approval • May Draft will be updated in June / July with Costing Update	May
Updated Design	• In progress	June
Costing Update	• In progress	June
Updated Business Case	• In Progress	June

VI. Next Steps

1. Confirm approach on Affordability

2. Identify Preferred Delivery Option

3. Present City's Position to Ontario and Canada at Meeting No 4 including:
   - Approved results of Affordability
   - Demonstration of Value for Money to City (why preferred option meets City's objectives)
   - Present need for incremental funding to support "F" PPP

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Attachments
Assumptions on Performance Securities

- Under a DBM(f) model, contractor performance security requirements will be determined by the lender based on its assessment of the project's risk and contractor's creditworthiness.
- The illustrative package below assumes a 50% Performance Bond, 50% Labour and Material Payment Bond and 5% Letter of Credit.

Security	General features	Application to OLRT project
Performance Bond	• Purpose: performance protection including completion of construction work and coverage for certain default related costs • Quantum: 50% of contract price • Pricing: 0.3-1.0% of contract price	• Quantum of Bond: ~$1Bn (capacity may be an issue) • Pricing: $7 to 23M
Labour and Materials Payment Bond	• Purpose: payment protection to sub-trades and suppliers • Quantum: 50% of contract price • Pricing: 0.3-1.0% of contract price [TBD]	• Quantum of Bond: ~$1Bn (capacity may be an issue) • Pricing: $7 to 23M
Letter of Credit	• Purpose: cash-on-demand protection for construction-related issues • Quantum: 5-15% of contract price • Pricing: 1-2% of LC amount	• Quantum of LC: $115M (5%) • Pricing: $7 to 14M

- As an alternative, other solutions may include a Parent Company Guarantee and larger LC.

Performance security costs during the DB period may range from $20M to $60M

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Attachments
Assumptions on $200 million "f"

Variable	Assumption	Comment
Size of short-term private capital	$200M (Debt)	As per current DBM(f) scenario
Short-term debt - Type - Base rate - Credit spread - Upfront fees - Commitment fee	 - Bank facility - Based on fixed CDOR swap rate - 250 bps - 2.00% - 1.00%	Based on current market assessment (capital market survey conducted in January 2011)
City payments during construction	• Monthly milestone payments during construction (City / Ontario / Canada) • Substantial Completion payment at end of construction ($200M)	As per current DBM(f) scenario
P3 Development costs / Transaction costs	$10M	Bid development costs capitalized in P3 capital costs (pursuit costs, advisory fees, transaction costs).
Special Purpose Vehicle costs during construction	$4M per year	SPV administrative and management costs during construction period
Honoraria	$5M	Payment to two unsuccessful proponents paid by Project Co

QUESTIONS?

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