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AHV: Timely but no template

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ABN Amro will shortly issue bonds for its Access Health Vancouver, the first PPP in Canada from outside of the transport sector. As such, it will play a big role in shaping how the private sector will operate in the provision of previously public services. But the deal ? at C$110 million ($88 million) ? is small, and the concession much simpler than larger forthcoming deals.

The financing is an attempt by ABN Amro to replicate the experience of its Australian infrastructure finance unit. Indeed, several of its personnel in London and Vancouver have cut their teeth on Australian projects. And the government of British Columbia wants to both demonstrate the benefits of PPP, and develop a useful benchmark for future projects.

Access Health Vancouver (AHV) is the second PPP project to close in the province ? the last deal, Sierra Yoyo Desan (SYD), closed in June (see Project Finance, July/August 2004, p.16). SYD, a nominally public road which largely served the interests of oil and gas producers in the north-west of British Columbia, was relatively uncontroversial. Moreover, the road essentially relied upon fees from corporate users to make availability payments to the sponsors, led by Ledcor.

The PPP funds the new Vancouver Academic Ambulatory Care Centre (VAACC) which is designed to offer outpatient and teaching facilities at the Vancouver General Hospital site. It replaces and consolidates the functions of a number of older buildings, of which six will be demolished. The 11-storey, 365,000-square-foot project is for the use of several hundred medical students, roughly 580 medical professionals and an estimated 600,000 patient visits per year.

The concession awarder, Vancouver Coastal Health (VCH) issued a request for expressions of interest in October 2002 and gained responses from nine teams. It issued a request for proposals (RFP) to two of these teams in June 2003, with four months to respond. The winning consortium was named preferred bidder in January 2004, and signed a concession agreement on 30 September.

The winning consortium includes PCL, Brookfield Lepage Johnson Controls, and ABN Amro, but the other two consortium members do not provide any of the project's equity. As with ABN's Australian ventures, the other members are locked into tightly-structured contracts, while ABN is the 100% sponsor.

This approach has become the norm in countries where the construction industry is wary of providing equity to projects and of venturing outside its core competency. Put broadly, constructors in Anglo-Saxon countries, such as Canada, Australia, and likely the US, prefer to make their returns from construction contracts. In the UK, now that PFI has become more established, many constructors are attempting to exit their stakes.

Thus, PCL has the construction contract, and BLJC has the maintenance contract, and neither can cross-subsidise these operations using equity returns. The model has caused some heartbreak in Australia ? the Spencer Street station PPP left its contractor nursing a sizeable loss ? but generally satisfies sponsor and lender appetites for risk.

And the concession, which calls for the design and operation of the building over 30 years, does not have the detailed performance schedule that an acute hospital would require. VAACC in this respect largely resembles a real estate or accommodation deal, since it does not have to provide food and the other non-clinical services that an acute hospital requires.

Nevertheless, the contractual obligations of the partners receive enhancements. These consist not only of parental guarantees and performance bonds, but also letter of credit support from ABN Amro. All of this adds up to a structure that the sponsor believes will be highly-rated enough to sell into the Canadian institutional market.

At present, ABN Amro, as per its typical financing model, will underwrite long-dated bonds and fund the project company. The bonds have a 32-year maturity, and that will amortize fully, with a repayment profile skewed towards the back of the concession ? principal payments will increase by 2.5% per year.

The underwriter now waits for the best conditions in the capital markets for a bond issue. According to sources close to the financing, the concession will likely get a rating in the A range. The sponsor is currently talking to Moody's Investors Service, and will involve the other agencies before any formal issue.

The deal is likely to come in with a higher rating than the William Osler deal, which is believed to have come in at the BBB range. Osler is more complex, and larger, at around $465 million, but is still pursuing a private placement. While AHV, a C$110 million deal, could be an easy sell to two or three accounts, ABN's larger and more complex Abbotsford Acute financing, which will be nearer C$300 million, will need some serious support.

The deal has a strong commercial element, since the health authority is not obligated to pay full price rent for unoccupied space ? the project company can alternately find a market tenant. The project is also dependent upon parking revenues, which will be derived from all visitors to the hospital, and form a large part of the project's economics.

The province believes that on an NPV basis, the work, with an upfront value of C$95 million, would cost C$65 million as against C$80 million if it used conventional procurement methods. But its adviser, Partnerships British Columbia, is set to issue a value for money report shortly. If it provides a credible and informed endorsement, opponents of the P3 structure will have much less ammunition.

Access Health Vancouver
Status: closed 30 September 2004, set to fund shortly
Size: C$110 million
Location: Vancouver, British Columbia, Canada
Description: 11-storey ambulatory care centre
Sponsor: ABN Amro
EPC contractor: PCL
FM provider: BLJC
Province's advisers: Bull Housser and Tupper (legal), Simpson Yuen Architects, KPMG Corporate Finance, Partnerships British Columbia.
Sponsor's advisers: Davies Ward Phillips Vineberg (legal). and IBI Group/ Henriquez Architects