Canada's Anthony Henday Drive SE road PPP

10/03/2005

At the end of January the Government of the Canadian state of Alberta reached financial close on the Can$493m (US$397m) Anthony Henday Drive (AHD) SE road scheme PPP with the Access Roads Edmonton (AREL) consortium, writes Alex Black.

The scheme is part of the province's Can$2bn (US$1.5bn), three-year highway construction and improvement programme and was the first DBFO scheme to reach financial close in Alberta.

The other Anthony Henday Drive project - the south west or SW project - is currently under construction. Entirely funded by the Alberta government, it is scheduled to be completed and open to traffic in the autumn of 2006 and will cost around Can$245m (US$204m).

Alberta has one of the fastest growing economies of all the Canadian provinces and the city of Edmonton is the fifth largest in Canada with a population approaching 1m people.

The rationale

The province of Alberta is the richest province in Canada due to its vast oil and gas reserves. However, raising tax-supported debt is a difficult process and the provincial government has a strong mandate for driving down debt and not incurring deficits.

Premier Ralph Klein is not keen on the idea of the province raising debt to do all the necessary infrastructure projects, which means he has a debt-free province with deteriorating infrastructure. Klein is also interested in innovation, and so finds PPP an attractive option.

Shariq Alvi from PwC's Toronto office was on the team advising Alberta Transportation on the deal. He says that PPP also allowed the government to get a more senior level of investment on board and enabled it to transfer construction risk.

'It's not so much a balance sheet issue as a real need to get private sector investment into public sector infrastructure,' says Alvi. 'The provincial government strategists were asking what the most efficient way of doing that was. They needed to know if it was for the government to issue bonds, take the money and invest it - or PPP?'

In the case of AHD, a value-for-money study was conducted into the scheme and the provincial government accepted the financial management commission's recommendations that the project should proceed as a PPP.

The project

Alberta Transportation is hoping that the new road will mean traffic congestion in south Edmonton will be significantly reduced by the autumn of 2007.

The section of the road covered by the new highway will connect Highway 2 to Highway 14/216 and forms the south east section of the Edmonton Ring Road.

As well as 11km of highway with six lanes between Highway 2 and 50th Street and four lanes between 50th Street and Highway 14/216, designers had to draw up plans for 24 separate bridge structures and five interchanges.

The original spec for the project estimated construction costs at Can$300m (US$250m), but this was updated in 2003. The increase in the budget came from the addition of:

two bridges more signs and overhead lighting six additional lane kilometres maintenance and rehabilitation of the road for 30 years maintenance of Anthony Henday Drive South West for 30 years

The procurement

Local consortium Access Roads Edmonton beat two other bidders – one led by Macquarie and the other by Bilfinger Berger and CKI – to secure the 32-year DBFO contract.

The financing was provided by ABN AMRO Canada, PCL Construction Management is leading the construction and Marshall Macklin Monaghan led the design team.

Alberta Transportation did not want to enter into a protracted negotiation phase that a traditional PFI deal would experience, so it cut out the BAFO stage and got some commitment from the bidders early on.

As a result, it had simultaneous discussions with three bidders, incorporated their comments into the first and second drafts and before producing a final draft for the three to bid on.

Instead of a hard negotiations with each bidder, there was a standard contract that bidders had to commit to. There was also a very short window between commercial and financial close. The preferred bidder was notified in late December 2004 and the deal reached financial close in late January.

‘Everything was handled on a - do your homework and come to us with a committed deal so we can close quickly - basis,’ says a source close to the deal. ‘The speed of the deal was down to the public sector’s agenda.’

Important dates:

September 22, 2003 - Request for Qualifications issued March 3, 2004 - three teams selected to submit proposals November 26, 2004 - final proposal submission December 17 2004 - identification of lowest bidder January 25, 2005 - contract signed

The contract

AREL consists of ABN AMRO (financing), PCL Construction Management and LaFarge Canada.

The design and construction requirements of the project are being handled by PCL Construction Management (PCL), a wholly-owned subsidiary of PCL Construction Group, under a fixed price, fixed time design-build agreement.

The operations and maintenance services of the project to Transportation Systems Management (TSMI) – a wholly-owned subsidiary of Lafarge Canada.

The construction phase is expected to be 33 months and the operating period is 30 years.

The financing

Paul Dunstan, managing director of ABN AMRO Canada’s infrastructure capital division says ABN AMRO acted as arranger and sole underwriter of all debt and equity for the project.

‘The total debt provided is around Can$290m (US$240m) issued in two tranches of long-term fully amortising nominal annuity bonds,’ says Dunstan.

This breaks down as one tranche of Can$150m (US$124m) and another of Can$140m (US$116m) (see table below). The first was issued on financial close and the second will be issued later in 2005.

The term of the bonds is approximately 32 years and the pricing of the bonds is not being disclosed at this time. The project funding includes Can$75m (US$62m) of federal government funding and the debt:equity ratio is approximately 9:1.

During the period from financial close until construction completion, the bonds will be serviced from a portion of the proceeds of the bonds. Until construction completion a substantial ABN AMRO construction letter of credit will support scheduled bond payments.

During the operations term, the cashflow for servicing of the bonds will be generated from the provincial payment obligations under the project agreement.

The federal government’s Can$75m contribution will come through the Canada Strategic Infrastructure Fund – a fund that contributes to large-scale projects of major national and regional significance. The money will be paid in installments as the project progresses.

When the road is open to traffic, the province will make pre-determined monthly payments to AREL over 30 years to cover these construction costs, as well as the ongoing maintenance and operational costs.

The province of Alberta is rated AAA by Moodys.

Lessons learned

‘The AHD deal was the first DBFO to reach financial close in Alberta and therefore is a milestone for the province,’ says PwC's Shariq Alvi.

‘Alberta previously tried to use PPP for the Calgary courts scheme, but that ended up being DBO with the financing component taken away. The AHD project was more of a ‘true’ PPP greenfield project with construction risk and project finance.

'In the past it would be unusual to see a bond come in and take construction risk. Instead, you would see a short-term solution based around short-term bank debt which would then be refinanced with a ‘mini-perm’ bond. The market here for long-term funds is very much capital-markets driven and domestic banks don’t provide long-term funds.

'Although a deal has yet to close with European bank debt, we’ve seen a lot of European banks coming in and looking to lend project finance bank debt on a long-term basis.’

Alvi adds: 'Alberta will certainly look to do more PPP projects off the back of this deal and the provincial government is already looking at a roads programme containing up to 10 different projects.’

This group of 10 projects includes a ring road around Edmonton and Calgary, the two major cities in the province.

‘We still have some learning to do in Canada and the AHD project is important in terms of the evolution of PPP here,' says Alvi. 'Some public sector bodies here like to think PPP projects are not that different from traditional procurement and the PPP contracts are unnecessarily complex. But the market is evolving and people are learning more about the PPP process as more deals close.’

Project at a Glance

Project	The Anthony Henday Drive SE PPP road scheme
Market	Transport/PPP
Sector	Road
Country	Canada
Province	Alberta
Date of financial close	25 January 2005
Sponsors	PCL Construction Management, ABN AMRO and LaFarge Canada
Project company	Access Roads Edmonton Ltd (AREL)
Total project value	Can$493m (US$397m)
Construction value	Can$365m (US$302m)
Total bond issue	Can$290m (US$240m) in two tranches (see bond table)

Equity invested by federal government	Can$75m (US$62m)
Financial adviser to the project	PwC

Bonds table

Series ‘A’ bonds	
Bank	ABN AMRO
Bond issue date	January, 2005
Term	32.66 years
Maturity date	September 30, 2037
Repayment	The bonds fully amortise over the term through monthly payments of principal and interest (following an interest only period during the construction period)
Estimated face value	Can$150m (US$124m)
Series ‘B’ bonds	
Bank	ABN AMRO
Bond issue date	Late 2005
Term	31+ years
Maturity date	September 30, 2037
Repayment	The bonds fully amortise over the term through monthly payments of principal and interest (following an interest only period during the construction period)
Estimated face value	Can$140m (US$116m)