

Sunnybrook Health Sciences Centre project, Ontario

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Financial close of the Sunnybrook Health Sciences Centre redevelopment project in Toronto stands testament to the ongoing success of the *ReNew Ontario* social infrastructure programme

The Can\$30 billion (US\$28bn) *ReNew Ontario* pipeline of projects is steadily increasing and being encouraged to grow as the Sunnybrook project completes financing.

The health project [\[Transactions Database\]](#) is a straight build-finance scheme and is classed as an Alternative Funding and Procurement (AFP) project. This Canadian version of a PPP doesn't involve any operation or maintenance of the completed asset.

After the three-year construction phase, the government will buy back the asset from the private partner - Vanbots Construction Corporation.

The health centre will continue to be publicly owned, publicly controlled and publicly accountable, and at no time does Vanbots have ownership control.

The contract that was signed with Vanbots was for Can\$142 million (US\$136m).

The estimated total cost of the redevelopment project is Can\$188.6 million (US\$180m) and will include the following:

- hospital furniture and equipment
- permits
- architectural and engineering fees
- transactional and project management fees

The Project

The expansion project includes Sunnybrook's M-Wing Shell, and the perinatal and gynaecology project at the Bayview Avenue campus.

The health centre capacity will be expanded with four additional floors above the existing clinical services wing. Two of the new floors will accommodate an expanded pre-natal and gynaecology programme.

The additional space will provide for:

- 68 beds
- 8 more cots for 4,250 births over a year
- neonatal intensive care unit

For the Sunnybrook project the risk was all in the construction. The project will involve a vertical expansion - the construction of additional floors on top of existing ones while operations continue unabated on the existing levels.

This risk is mitigated by Vanbots' experience in completing other vertical expansion projects in recent years, having completed a number of similar in the health sector.

Vanbots was the preferred bidder for the project and already had financing arrangements in place, but this was kicked to touch when Stonebridge put forward a more competitive financing structure.

A value for money (VFM) assessment for the province was carried out by PricewaterhouseCoopers (PwC) which found that the AFP financing of the project was the most efficient and effective method of funding - awarding the financing element to Stonebridge.

The construction phase and repayment period for the loan is scheduled for 38 months.

For the province and hospital Blake Cassels & Graydon was the legal adviser.

For the consortium Goodmans was legal adviser and Stonebridge was financial adviser.

G+G Partnership Architects, Carruthers and Wallace, HH Angus & Associates, Hanscomb and Cost Consulting were the project technical advisers.

Financing

The Can\$142 million (US\$136m) project was financed with 100 per cent senior debt provided by Stonebridge Financial Corporation.

The project financing is essentially construction financing with the construction loan repaid by the hospital upon completion.

Stonebridge made the financial commitment based on three factors.

Firstly, the contractor (single purpose projectco wholly owned by the contractor - with the contractor guaranteeing projectco obligations under the contract) signed a lump sum fixed price contract.

Secondly the majority of contractor profit is held back and only paid when the project is completed. As an incentive to deliver the finished project on time, the contractor suffers liquidated damages in the form of having to pay additional interest if construction goes beyond the schedule. This has proved to be an effective incentive that Infrastructure Ontario builds into their design-build projects.

Finally, the contractor must pay a fine in the case of a sub-contractor default under the contractor default insurance - provided by Zurich.

The loan is on a fixed-rate term. Repayment is interest only during the 38-month term, followed by one lump sum repayment of principal.

The interest rate was established two days prior to financial close at a spread over the term government of Canada bond yield. The spread is confidential; however it resulted in a "very competitive" interest rate.

The syndication financing was marketed to a group of Canadian life insurance companies and pension plans. It was comprehensively oversubscribed.

Stonebridge syndicated to:

- Manufacturers Life Insurance
- London Life Insurance
- Industrial Alliance Insurance & Financial
- BCE Master Trust Fund
- Equitable Life Insurance

Financial close was reached on 17 July 2007.

Ontario Health Market

This is the second Infrastructure Ontario build-finance project that Stonebridge has arranged financing for and the firm has plans to work on further transactions in the province's health sector.

Jim Cahill, vice president of structured and project financing for Stonebridge says: "Infrastructure Ontario's approach to infrastructure renewal in the province is a disciplined and effective approach to building infrastructure on time and on budget.

"You need not look further than the long list of quality contractors and investors lining up to bid on Infrastructure Ontario's projects as evidence of this success."

Stonebridge are presently working with a couple of other contractors to support their bids on other *ReNew Ontario* projects. The firm recently raised committed financing to support a contractor's bids for three build-finance hospital projects. In all three cases the financing was oversubscribed. The winning proponent for these projects is due to be announced soon.

In addition, Stonebridge is in discussions with two other shortlisted contractors for two Infrastructure Ontario hospital projects.

A number of Infrastructure Ontario health projects are at the 'In Tender' stage, these include:

[Runnymede](#) Health Care Centre shortlisted five companies in March 2007, they are:

- Aecon buildings
- Bird Construction Company
- Bondfield Construction Company
- EllisDon Corporation
- Vanbots Construction Corporation

Also in March, [St Joseph's](#) Hospital London phase one scheme shortlisted five companies:

- Carillion
- EllisDon Corporation
- PCL Constructors Canada
- SNC Lavalin Engineers & Constructors/Bondfield Construction Company
- Vanbots Construction Corporation

In March again the [St Joseph's](#) Healthcare (SJHC) phase two and London Health Sciences Centre (LHSC) project shortlisted five consortia:

- Carillion
- EllisDon
- PCL Constructors
- SNC Lavalin and Bondfield
- Vanbots Construction

[Hamilton](#) General Hospital shortlisted four groups in March as well:

- Aecon Buildings
- Carillion
- EllisDon Corporation
- Vanbots Construction Corporation

Finally in March, [Henderson](#) General Hospital shortlisted three consortia, including:

- Bondfield Construction
- Carillion
- EllisDon Corporation

In May 2007 the [Bluewater](#) Health Renovation scheme shortlisted four firms:

- Bondfield Construction
- EllisDon
- PCL Constructors
- SNC Lavalin

At the end of May 2007 final bids were submitted for the [Sault](#) Area Hospital by:

- Hospital Infrastructure Partners
- Plenary Health
- SNC-Lavalin

In June 2007 the [Credit Valley](#) Hospital phase two redevelopment shortlisted five bidders. They are:

- Bondfield Construction
- Carillion Canada
- EllisDon
- PCL Constructors
- Vanbots Construction

[Kingston](#) General Hospital and Cancer Centre shortlisted six bidders, also in June 2007:

- Bondfield Construction
- Carillion Canada
- EllisDon Corp
- M Sullivan & Son
- PCL Constructors
- Vanbots Construction Corp

For the [North Bay](#) Regional Health Centre, financial close was reached on 23 March 2007; [Quinte](#) Healthcare project reached close on 1 July 2006; [Trillium](#) Health Centre reached financial close on 23 May 2007; and on the 8 May [Sudbury](#) Regional Hospital phase two expansion closed.

Other projects in the pipeline that have been approved include [Woodstock](#) General Hospital and [Toronto](#) Rehabilitation Institute Redevelopment. Most recently, a tender was launched in May 2007 for the [Ajax and Pickering](#) Hospital redevelopment phase one scheme.

Conclusion

The health sector, through Infrastructure Ontario's *ReNew Ontario* programme, is vibrant and is expected to remain so for several years ahead with a large portion of the US\$28 billion investment intended for such transactions.

The *ReNew Ontario* pipeline of projects that is coming up - especially in healthcare - provides an indication of the the province's commitment to the sector.

Canada is realising its social infrastructure programme and has so far closed seven deals worth US\$1.2 billion.

The increased volume of health projects that have shortlisted bidders in recent months make the outlook for H2 2007 interesting.

As with all Ontario hospitals, Sunnybrook Health Sciences Centre will continue to be publicly owned, controlled and accountable.

The project at a glance

Project Name	Sunnybrook Health Sciences Centre PPP
Location	Toronto, Ontario, Canada
Description	The redevelopment of Sunnybrook Health Sciences Centre in Toronto, Ontario. The design-build expansion project includes Sunnybrook's M-Wing Shell, and the perinatal and gynaecology project at the Bayview Avenue campus.
Sponsors	Vanbots Construction Corporation
Operator	Infrastructure Ontario
Project Duration (construction)	38 months
Total Project Value	Can\$188.6 million (US\$180m)
Total senior debt	Can\$142 million (US\$136m)
Senior debt breakdown	100 per cent provided by Stonebridge
Mandated lead arrangers	Stonebridge Financial Corporation

Participant banks	Manufacturers Life Insurance London Life Insurance Industrial Alliance Insurance & Financial BCE Master Trust Fund Equitable Life Insurance
Legal Adviser to sponsor	Goodmans
Financial Adviser to sponsor	Stonebridge Financial Corporation
Legal adviser to government	Blake, Cassels & Graydon
Technical and commercial adviser to government	G+G Partnership Architects Carruthers and Wallace HH Angus & Associates Hanscomb Cost Consulting
Date of financial close	17 July 2007

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