St. Lawrence bridge PPP, Canada

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The new C$4.24 billion ($3.3 billion) bridge over the St. Lawrence river in Montréal is the largest bridge PPP to close in Canada.

The St. Lawrence bridge, which closed on 19 June 2015, easily dwarfs the C$1.046 billion Golden Ears bridge PPP in British Columbia, which closed in 2006, and the C$195 million Disraeli bridges rehabilitation in Manitoba, which closed in 2010.

The availability-based St. Lawrence was the largest Canadian PPP to close in H1 2015. It will fall to second in the calendar year upon the close of the C$5.5 billion Eglington light-rail transit (LRT) project in Toronto. Eglington is due to close later this month (July 2015).

The 35-year St. Lawrence design-build-finance-operate-maintain concession was a rare federally procured PPP in Canada. Provinces and municipalities are grantors for most Canadian PPPs.

Groups led by ACS and SNC-Lavalin are the concessionaires for St. Lawrence and Eglington.

Financing

On St. Lawrence, the ACS-SNC consortium will contribute C$85 million in project equity. The debt package features a C$1.1 billion short-term facility from eight commercial banks and C$688.6 million in long-term bonds.

The short-term bank facility will be taken out by C$1.7 billion in milestone and progress payments from the federal Canadian government. The government is expected to make three payments, in instalments of C$500 million, C$700 million and C$500 million.

The St. Lawrence bank tranche is the largest such facility to close in Canada in 2015. It will be more than double the size of the bank tranche backing Eglinton LRT (C$506.4 million). The C$646.5 million in bank debt backing the C$2 billion Regina Bypass PPP in Saskatchewan is the second largest such facility in Canada this year.

The St. Lawrence sponsors had initially planned on an up to C$1.5 billion bank facility. “As they drew nearer to financial close, they found better cost optimisation by increasing the bond issuance and reducing the bank portion slightly,” said a source involved in the financing.

Up to 15 institutional investors – including pension funds and Canadian life insurance companies – bought the St. Lawrence bonds. HSBC (lead left) and National Bank Financial underwrote the bonds package.

The bonds were issued in two tranches. A C$577.14 million senior secured amortising tranche priced at a spread of 187.7bp over the corresponding Government of Canada benchmark. It has a coupon of 4.099%, and is due in October 2045. The C$111.46 million senior secured bullet bond tranche priced at a spread of 183bp, and has a coupon of 4.176%. Those bonds are due in April 2049.

The pricing mirrors the Pointe-Saint-Charles rail maintenance facility PPP in Montréal, which closed in June 2015. The 32-year C$144.24 million bonds on that deal priced at a spread of 186.99bp and carried a coupon of 4.14%.

Moody’s Investors Service rates the bonds A3 with a stable outlook. Moody’s projects a minimum 1.20x debt service coverage ratio and an average of 1.25x.

Construction

St. Lawrence will replace one of Canada’s busiest bridges, the outmoded Champlain Bridge. Between 40 and 50 million vehicles, and 11 million transit users, cross Champlain each year.

Champlain, which was built in 1962, links downtown Montréal over the St. Lawrence river to the south shore and is a key link for Québec-area trade with the US. More than $20 billion worth of goods cross the bridge annually.

Construction on the St. Lawrence Bridge began in mid-June 2015. The new bridge is scheduled to begin operations in 2018.

The bridge will be tolled, but the concessionaire is not exposed to revenue risk. Availability payments from the federal Canadian government will cover all concession revenues during the operation phase of the St. Lawrence PPP.

The bridge project also includes the reconstruction of Autoroute 15 and the new Île des Sœurs Bridge. Construction on the road and Île des Sœurs Bridge is expected to be completed by October 2019.

The concessionaire for the project is Signature on the Saint-Lawrence Group. SNC-Lavalin owns the largest stake in the concession – 50%. ACS and Hochtief each own 25% shares. The consortium also includes Flatiron Construction, MMM Group, TY Lin International and International Bridge Technologies.

A joint venture (JV) of SNC and ACS affiliates Dragados and Flatiron is handling design and construction. The JV will pay liquidated damages if target construction dates are missed. The construction package is supported by a 50% performance bond.

Eight insurance companies jointly issued the performance bond: AIG, Liberty Mutual, Zurich Insurance, Travelers, CHUBB Insurance Company of Canada, XL Insurance, Continental Casualty Company and Guarantee Company of North America.

Advisers

Arup Canada was technical adviser to the government.

Scotiabank and National Bank Financial were financial advisers to the consortium. DLA Piper was legal adviser, and BDO Canada tax adviser, to the consortium. McMillan was legal adviser, and Infrata technical adviser, to the lenders.

BDO conducted the model audit.