



# Infrastructure Ontario

*Borrowing Today for the City of Tomorrow – Session #1*

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# Infrastructure Ontario (IO)

- Crown agency of the Ontario government
  - Focused on modernizing and financing the renewal of public infrastructure, maximizing the value of public real estate and managing government facilities
- Five lines of business:
  - **Major Projects** - manages delivery of public infrastructure projects through the Alternative Financing and Procurement (AFP) model
  - **Realty Planning and Development** - manages the Province's property portfolio
  - **Real Estate Management** - oversees service providers delivering property services to IO clients/tenants
  - **Commercial Projects and Lending** - administers IO's Loan Program; manages non-infrastructure and non-realty projects
  - **Transaction Structuring and Corporate Development** - optimizes Provincial assets and supports IO business units and transactions
- Driven to provide value and exceptional service to our customers

# Experts in Negotiation, Procurement & Delivery

- 79 AFP projects to market since 2005, valued at over \$30 billion
  - Ottawa LRT and Waterloo LRT projects
- Collectively, IO's professionals have several hundred years of construction, project management and negotiation expertise across various sectors
  - Hospitals, courthouses, detention centres, highways, transit, municipal, transactions, etc – both public and private
- A centralized and credible procurement agency
  - Increases competition by proactively engaging bidding community on an on-going basis (i.e. IO has a project pipeline)
  - Greater negotiation leverage with contractors, given provincial backing and prospect of future work
- Use of best practices, lessons learned and innovations
  - Improve and refine the procurement and implementation of projects

# Alternative Financing and Procurement

- The AFP model is an alternative to the Traditional project delivery model (Design-Bid-Build)
- Utilizes private expertise and financing to strategically rebuild vital infrastructure, on time and on budget, while ensuring appropriate public control and ownership
- Integrates key project components using output specifications, encouraging design excellence and minimizing scope changes
- Provides appropriate risk sharing through the Project Agreement
- Model incents on time and on budget project delivery
  - Payment only occurs only after construction is completed



# Value of AFP Model to the Public Sector

- Transfer design, build, operation and maintenance risk to the private sector – no change orders
- Require no payment until substantial completion
  - Delay risk is transferred to the private sector financier
- SPV structure ensures there is capital at-risk that incents compliant operations
- Incent consortia to save through innovation
- Require consortia to include the entire concession lifecycle costs upfront (under a DBFOM)
  - No annual capital budget requests of the municipality
  - Helps provide financially sustainable asset
- Include provision in the project agreement that allows for sharing of future innovations and costs
- Allow deductions for poor performance against key performance indicators in monthly payment mechanism (under a DBFOM)







# **AFP/P3 Municipal Challenges and Questions**

# What Makes a Good Municipal AFP Project

- Capital cost of >\$20M but closer to \$50M is typical
- Project has a robust operations and/or maintenance component
- Project that is complex and includes risks that the public sector might not be best to assume
- Project which the private sector has a proven AFP delivery track record
- Examples:
  - Water or wastewater treatment-plant and pipes
  - Arena – Recreation centres
  - Solid waste management
  - Energy from Waste
  - Organic disposal and recycling
  - Transit



# Adapt the Provincial Model to a Municipality?

- Yes with changes to reflect the project and municipality
- All aspects of IO's AFP model for provincial projects can be adapted for municipal use
- IO has developed a very strong AFP market in Ontario that will directly benefit municipalities interested in an AFP delivery
- IO has owner friendly AFP documentation that protects the public sector's interests but is marketable and bankable to the private sector





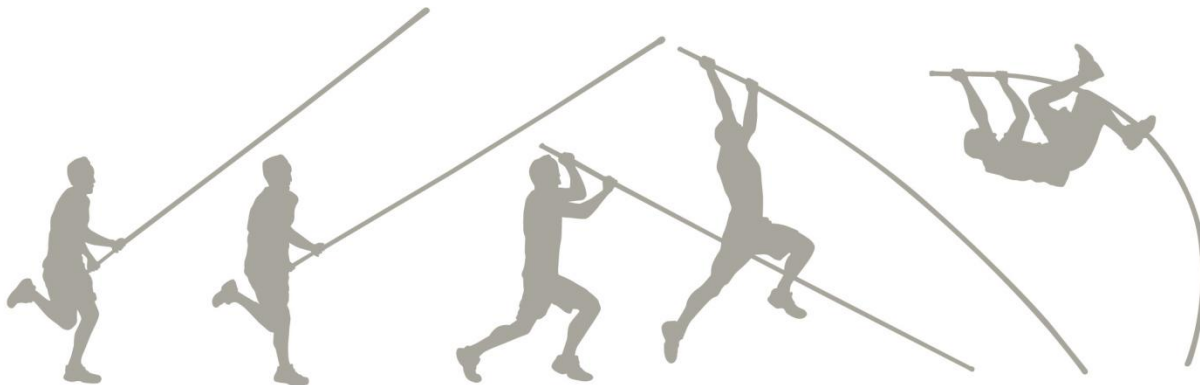
# Can a SPV fail and what happens?

- Yes, but the probability is very low
- SPV structure includes debt and equity– capital at risk in the event of a default
- AFP projects attracted consortia with strong balance sheets
- If the debt and equity providers independent from the operating company, they would have step-in rights within the Project Agreement to cure a default and/or replace the operator
- If all remedies fail to cure a default, the SPV forfeits all remaining debt and equity and the owner steps-in and assumes control



# Challenges

- Aligning the municipal approval process with the RFQ and RFP schedule
- Educating municipal staff on the AFP procurement process
  - Confirming roles and responsibilities
- Project budget – Capex plus concession
- Obligating the municipality to a 20-30 year project agreement
- Perception that municipal staff will lose control of the project and procurement





# Project Funding and Financing

# The Loan Program

- Financing available to municipalities for capital expenses including AFP project substantial completion payment
- Affordable and efficient access to the Capital markets
- Short-term construction loans and long-term take-out financing
  - Long-term rates: Bullet (on a request basis), Serial and Amortizer
  - Amortization/Term up to 30 years
- Rates are all-in: No additional fees



# P3 Canada Fund – Round 5 April-June 2013

## \$1.2 Billion Fund

- To stimulate the adoption of P3 procurement by Provinces, Territories, Municipalities and First Nations
- Support useful public infrastructure in 15 categories
- Projects that build the P3 market

## Merit Based Program

- P3 viability
- Readiness
- P3 Models
- Applicant Capacity

## Available Support

- Maximum 25% of eligible costs
- Range of potential instruments including contributions, repayable contributions, loans and loan guarantees

# How Can IO Help Support Your AFP Project?

- AFP education and training
- Organization framework and governance
- Pre-transaction assessment, advice and analysis
  - Value for Money, Market Sounding
- Templates and documentation
  - Project Agreement, Performance Output Specs and Generic Output Specs, process documentation
- Evaluation of project cost estimates
- Capital Financing through the Loan Program
- Manage the procurement process
  - RFQ and RFP, Bidder evaluation, Proponent meetings, Commercial and Financial Close
- Communications and community engagement advice
- Construction oversight





# Contact IO

