PRESENTATION TO IMFG - BORROWING TODAY FOR THE CITY OF TOMORROW

Mona Monkman
Deputy City Treasurer, Ottawa
March 20, 2013
OVERVIEW

- Confederation Line Project:
  - Project Overview
  - Construction Budget and funding plan
  - Municipal Finance Considerations
- City P3 projects and Draft P3 Policy
THE CHALLENGE
THE CONFEDERATION LINE

Existing BRT (Transitway)

Downtown Tunnel

LRT Conversion

OLRT Maintenance and Storage Facility
Installation d’entretien et de remisage
THE BUSINESS CASE

- Business Case prepared in March 2010 as part of project EA
- Subsequently updated in 2011 to account for design changes
- Studies noted significant economic, environmental and transportation user benefits to the project
- Value for Money was undertaken and showed positive value which led to a recommendation to Council.
BENEFITS

- Train every 3:15 (potential to increase to every 1:45)
- Can meet City’s projected ridership beyond 2031.
- 10 million litre diesel reduction per year
- Opportunity to reshape the downtown streetscape
- 3.2 billion in economic activity and 20,000 person years of employment during construction alone
PROCUREMENT PROCESS

DESIGN  BUILD
FINANCE  MAINTAIN
ACHIEVING RISK TRANSFER

- Thorough geotechnical investigation of project’s tunnel alignment
- Include supporting works to provide consortia with maximum control over schedule:
  - Cash Allowance Projects
  - Highway 417 Widening
- Provide flexibility to the consortia in the design process to allow them to leverage their expertise and innovation
- Secured a fixed price contract as per Council direction
$2 B fixed price construction contract

Construction Period milestone payments are structured so that private capital remains at risk throughout the construction period

$300 M long term debt and equity outstanding at end of construction

maintenance, lifecycle and capital repayment paid through monthly payments over a period of 30 years
## CONSTRUCTION BUDGET FUNDING PLAN

<table>
<thead>
<tr>
<th></th>
<th>Cash $M</th>
<th>Direct Debt Authority $M</th>
<th>P3 Debt $M</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas Taxes</td>
<td>191</td>
<td>33</td>
<td>225</td>
<td>449</td>
</tr>
<tr>
<td>Development Charges</td>
<td>180</td>
<td>36</td>
<td>75</td>
<td>291</td>
</tr>
<tr>
<td>Transit taxes</td>
<td>156</td>
<td>34</td>
<td></td>
<td>190</td>
</tr>
<tr>
<td>Total – net budget</td>
<td>527</td>
<td>103</td>
<td>300</td>
<td>930</td>
</tr>
<tr>
<td>Federal and Provincial Grants</td>
<td>1,200</td>
<td></td>
<td></td>
<td>1,200</td>
</tr>
<tr>
<td>Total</td>
<td>1,727</td>
<td>103</td>
<td>300</td>
<td>2,130</td>
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</table>
Total Debt Servicing as Share of Own Source Revenues
KEY CONSIDERATIONS FOR OTTAWA FINANCE OFFICIALS:

- #1 Budget Cap
  Meeting Council and the Public’s Budget Expectations

- #2 Financing
  Use of Alternative Financing

- #3 Accountability and Transparency
  Disclosure of information to Council and the Public
BUDGET CAP

- **Challenge:**
  - Council firm on $2.1 B construction budget

- **Solution:**
  - “Affordability” (budget) is included as a “gate” during procurement; in addition to lowest NPV
  - Motivates bidders to meet the budget under competitive procurement process
FINANCING (F) IN DBFM - BENEFITS

- DBFM delivers savings in overall planning, design, project management, and construction; and risk transfer
- Private financing adds extra costs but seen as effective tool to ensure contract performance
- External lenders provide oversight during construction and maintenance term
- Ensures performance during maintenance term because private sector at risk of not being repaid private capital if performance standards not met
ACCOUNTABILITY AND TRANSPARENCY – DISCLOSURES TO COUNCIL:

- Cost of capital of debt and equity compared to City borrowing rates
- Impact on City’s Debt and Obligation Limit
- Total construction and concession period contract cost in nominal and pv terms
- Discussion on benefits of this form of financing compared to alternate forms of financing
- Summaries of Legal and Funding Agreements
“Ottawa’s new LRT cost would almost double from maintenance, upkeep

...And the dollar figures are hefty.

According to the report, the effective interest rate on the arrangement works out to 6.32 per cent, even though the city could go out and borrow the initial $300 million at less than four per cent if it cared to, because interest rates are low and the city has excellent credit. That would be $165 million cheaper, according to Jensen, all other things being equal.”
KEY TO ACHIEVING UNANIMOUS VOTE IN OTTAWA FOR THIS PROJECT:

- Prepared a Long Range Financial Plan to show financial impacts
- Achieved Council’s construction budget target
- Achieved risk transfer
- Prepared a sound public communications strategy that included joint communications with the private contractor and all governments
<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Lansdowne Park Redevelopment</strong></td>
<td>Commercial and Residential project which includes the redevelopment of a City sports stadium and urban park (2012)</td>
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<tr>
<td><strong>New arena facility in Shefford Road Park</strong></td>
<td>Multi – pad arena ice facility (2012 in progress)</td>
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<tr>
<td><strong>Bell Sensplex</strong></td>
<td>180,000 sq ft facility with multiple ice surfaces and indoor soccer and sports fields</td>
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<tr>
<td><strong>Shenkman Arts Centre</strong></td>
<td>performing arts centre</td>
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<tr>
<td><strong>Paramedic Services Building</strong></td>
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<tr>
<td><strong>Long Term Care Facility</strong></td>
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</table>
- Formalizes the monitoring and reporting on P3 agreements;
- Identifies the required components for P3 business cases;
- Defines roles, responsibilities and accountability for P3 initiatives through the various stages of the project, including the assessment, implementation, contract management and reporting.
- Establishes a consistent framework that includes a five step process focused on P3 Project Assessment, Project Initiation, Procurement, Implementation, and Contract Management and On-Going Monitoring.
The P3 Project Assessment phase includes a three-step decision making process:

- Initial Screening of a project’s potential for a P3 approach;
- Strategic Assessment of risks and rewards available to the City and private sector partners, and
- Business Case Analysis that compares the cost of implementing a project using a traditional model versus a P3 delivery approach, to determine Value for Money.