

Healthy Savings; Costs Trimmed By More Than \$56-Million For North Bay Pilot Project

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As the number of public-private partnerships grows across the country, hospitals are leading the way, both in terms of numbers and in terms of setting the standard for **P3** contracts, particularly in Ontario. The new North Bay Regional Health Centre served as a pilot project for a made-in-Ontario model that is currently being rolled out to other similar projects.

The project was announced in fall 2005 as part of the provincial government's ReNew Ontario program, which earmarked more than \$30-billion for infrastructure investments. It will see the construction of a new, 388-bed, 720,000-square-foot facility that will house both the existing North Bay Regional Health Centre and the Northeast Mental Health Centre. The \$551-million redevelopment contract signed with Plenary Health Project Co., a subsidiary of Vancouver's Plenary Group Canada, closed this past March and the new facility is expected to be completed by 2010. PricewaterhouseCoopers estimates savings of \$56.7-million under this alternative financing approach compared to traditional modes of delivery.

As a design, build, finance and maintain model, the hospital remains publicly owned and publicly controlled, but Plenary Health will be responsible for the construction as well as the maintenance of the facility for 30 years. "The **P3** advantage is shifting the life cycle performance of an asset over to the private sector," explains Mark Bain, a partner who leads the public infrastructure projects practice group at Bennett Jones LLP, in Toronto. The law firm acted for the government and the hospital in the North Bay deal. "This does away with what is historically the government approach to try to finance initial capital at a minimum cost, leaving the burden of maintenance and renewal to future years."

Mary Lowe, vice-president of communications and corporate relations at **Infrastructure Ontario**, the Crown agency that project manages the bulk of the province's infrastructure investments, says the other big advantage of this type of project is that it features a fixed price that is not paid out to the private sector consortium until construction is completed. After that, scheduled repayments are made annually on a performance basis.

"The installments are based on their performance to keep the facility up to the specifications agreed to," explains Lowe.

"If the lights aren't working in an operating room for five days out of a month, they get paid less." With that kind of incentive, the result is that the private sector operator is encouraged to keep the facilities in good repair right up until the end of the 30-year contract.

Paul Dunstan, president of Plenary Group Canada, says this type of model is effectively a 30-year warranty on the facilities, which is good value for the public investment. "We have hundreds of pages of detailed specifications we need to live to, but we believe in ourselves and our partners that we can meet those standards," he says.

Putting together the kind of contract that can address all possible contingencies for such high-tech buildings over long a time period is no small feat, especially the first time out, says Bain. "It shouldn't come as a surprise that it's a complicated undertaking because it's 30 years worth of decision-making compressed into a short time frame," he says. Bain says asking people to think in new ways, particularly in taking such a long-term view of a project, can be challenging in the early days.

Rick Byers, managing director of government investment banking at BMO Capital Markets, in Toronto, worked with **Infrastructure Ontario** on its first few public-private partnerships, including the North Bay Regional Health Centre, agrees. "It's not until you've gone from start to finish from the conception of a project to financial close and construction that you really understand fully the issues you have to deal with and the risks that are out there," he says.

Because the North Bay project was conceived as a pilot project, Bain says parties on both sides worked hard to devise a model that could be used as a template for other hospital developments. "There was a lot of weight put on the transaction to get it right, so there was a lot of emphasis, a lot of concern, a lot of attention paid to making it a financeable, balanced kind of approach that can be replicated." Bain says the North Bay model has since been used as the starting point for other hospital projects in the province, and has helped encourage public-private partnerships in general. "Now that there's construction under way and completed projects that are open and operational, it's helped a little bit to demystify the process and encouraged people to think that it works out well."

After years of speculation and planning, Calgary's ring road project finally got underway this past March, thanks to a **public-private partnership** that will see drivers travelling the northeast section of the roadway by fall 2009.

In February, the Alberta government closed a 30-year contract with the Stoney Trail Group - a consortium of private sector companies led by Bilfinger Berger BOT Inc., a wholly owned subsidiary of Germany's Bilfinger Berger Group - to design, build, operate and partly finance a section of the ring road now known as Northeast Stoney Trail. The project will extend Stoney Trail eastward from Deerfoot Trail to 17 Avenue Southeast and involves the construction of four- and six-lane roadways, 23 bridge structures and six interchanges. The new roadway will ease congestion downtown and on Deerfoot Trail, one of the busiest roads in Alberta, and become a key piece of infrastructure for the city.

Northeast Stoney Trail is the second project to take advantage of Alberta's **public-private partnership** model for highways. The first was the construction of the southeast leg of Edmonton's ring road, which is slated to open to drivers this October.

"It's a very strong growth area right now," says Peter Willis, partner and section leader, debt products group, at McMillan Binch Mendelsohn LLP in Toronto, which acted for the lenders in the Calgary deal. "You're seeing more provinces getting on board and starting to do these types of projects. Infrastructure is getting fairly tired across the country, so there is a need for renewal. From our perspective, the **P3** model is proving itself to be a very efficient way to allocate risk between the public sector and the private sector in these deals, getting them completed on time and on budget."

The Alberta government will advance the Stoney Trail Group \$300-million during construction and then start payments of \$21-million a year over the next 30 years once the road opens to traffic. That works out to \$650-million in today's dollars, which is the deal's net present value. According to government estimates, doing the same work through traditional delivery methods would cost between \$1-billion and \$1.1-billion in today's dollars and take years longer to complete.

"One of the things that's unique about P3s is because the consortia are bidding on the deals on a fixed-price basis, they need to know at time they bid what their financing costs are going to be. They can't take risks on that," says Willis. "That means lenders have to do a lot more upfront diligence and be involved in the process early."

A key part of that due diligence is assessing the allocation of risk between all parties, says Chris Bennett, a partner at McMillan Binch Mendelsohn in Toronto. "Lenders typically fund construction and then get repaid over a long-term period, so they are very concerned about the project's risk profile, so if there is a delay, it isn't going to be an event that results in them not being paid," he says. "They'll look at construction, they'll look at operations, they'll look at performance supports - they're really going to have an overall view."

Due diligence is an important consideration for all parties in a **public-private partnership**. On the government side, for example, UMA Engineering Ltd. prepared preliminary cost estimates to use as a comparator in the bidding process to make sure the submissions were reasonable. The company will also audit the construction process for compliance with technical requirements and designs.

On the private sector side, assessing risk is also key, says Massimo Polveraccio, vice-president of project finance and asset management at Bilfinger Berger BOT, which is leading the Northeast Stoney Trail project and is involved in public-private infrastructure deals around the world. The Calgary project is based on an availability payment, which means the private sector partners assume the risks from design, construction and maintenance while the government assumes the risks from traffic volume.

Polveraccio says he was impressed with the province's procurement process and says it is among the best in the country. "It started with good documentation, which is very important as it means the risk allocation is appropriate and bidders like ourselves don't have to spend lots of money to adjust it and makes the playing field level so everyone

bids to the same standard," he says. "The documentation was good, the process was timely and the investment profile was good, so we liked the project."

Illustration:

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