Strategies for Financing Capital Projects
The Federal Transportation Story

Overview

• Past Successes
  – Confederation Bridge
• Current Projects
  – Canada Line
• Off Budget Financing
  – Airports
  – Ports
• Conclusion
Past Success

• Past success with transportation P3 projects includes:
  ▪ Confederation Bridge, PEI
  ▪ Highway 104 (Cobequid Pass), NS

• Transport Canada continues to manage surface transportation related P3 projects.

Confederation Bridge

• In 1987, Canada issued a proposal call challenging the private sector to devise an environmentally, technically and financially sound proposal.
• The 12.9 km 2 lane structure, was started in 1993, and completed in May 1997
• Capital Cost approximately $1B
• Annual adjusted government subsidy of 41.9 million ($1992) and tolls generate revenue.
• The Federal Government will take over administration of the bridge in 2032.
Confederation Bridge Financing

<table>
<thead>
<tr>
<th>Partner</th>
<th>Contribution</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strait Crossing Development Inc. (consortium of 4 companies)</td>
<td>Strait Crossing Development Inc. finance, manage, design, plan, engineer, procure, construct, commission, operate. Created subsidy bonds. Debt fully serviced through the bond trustee, by Canada’s commitment to irrevocable payment.</td>
<td></td>
</tr>
<tr>
<td>Federal Government</td>
<td>Government funding had to be irrevocable. Annual CPI adjusted government subsidy of $41.9M (1992$) for 35 years (Approx. $1.5B (1992) went into the subsidy trust account. other direct costs of the federal government include: $46.0 million for project management; $41 million (1992 dollars) for highway upgrading in PEI and NB $15 million (1992 dollars) for regional redevelopment</td>
<td></td>
</tr>
<tr>
<td>New Brunswick</td>
<td>Straight Crossing Financing Incorporated est. by NB to facilitate the financing.</td>
<td></td>
</tr>
<tr>
<td>Total Construction Cost</td>
<td>App. $1B</td>
<td></td>
</tr>
</tbody>
</table>

Current Projects

Currently, Transport Canada is managing four P3 projects under the Canada Strategic Infrastructure Fund (CSIF):

- Canada Line – former Richmond-Airport-Vancouver (RAV), Vancouver, BC
- Anthony Henday Drive ring road, Edmonton, AB
- Kicking Horse Canyon, BC
- New Brunswick Twinning of the Trans-Canada Highway

Other projects in development include:
- Highway 30 (Autoroute 30), Montreal, QC
- Ottawa Light Rail Transit (LRT), ON
RICHMOND-AIRPORT-VANCOUVER RAPID TRANSIT

- Canada Line is a 18.5 km Light Rail Transit line, linking central Richmond, Vancouver International Airport and downtown Vancouver.
- Construction of the project began in November 2005 and completion by November 2009
- The project is a Public-Private Partnership (P3).
- The total cost, including financing costs, is approximately $1.9 billion
- The Canada Line project is proceeding on a fast track (2010 Olympics and Paralympics Games).
- Canada’s funding contribution of $450 million was approved by Treasury Board on April 11, 2005. Contribution is governed by the Canada Strategic Infrastructure Fund (CSIF).
- The concessionaire is responsible for the majority of the construction risk, while the public sector (GVTA) retains the majority of the rider ship and revenue risk.

<table>
<thead>
<tr>
<th>Partner</th>
<th>Contribution $ millions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessionaire - Canada Line Rapid Transit Inc. (CLCO)</td>
<td>$650</td>
<td>Financed through bank debt and equity, including deferred provincial share</td>
</tr>
<tr>
<td>Federal Government</td>
<td>$450</td>
<td>CSIF - $240 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MRIF - $60 million</td>
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<tr>
<td></td>
<td></td>
<td>**additional $150 million</td>
</tr>
<tr>
<td>Province*</td>
<td>$435</td>
<td>$152 million will be deferred and paid during the 30 year operating period</td>
</tr>
<tr>
<td>GVTA (a.k.a Translink)*</td>
<td>$321</td>
<td></td>
</tr>
<tr>
<td>Vancouver International Airport*</td>
<td>$245</td>
<td></td>
</tr>
<tr>
<td>City of Vancouver*</td>
<td>$27</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,900</td>
<td></td>
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</tbody>
</table>

*other funding agencies’ contributions are shown in $ 2003
**part of Canada’s contribution to the 2010 Olympics and Paralympics Games
Off Budget Financing

- Although not traditionally thought of as P3s, TC has used alternative governance financing arrangements to shift the burden of infrastructure funding from the public to the private sector and user.
- Off Budget financing does not require additional utilisation of government revenue.
- Airports and ports are managed by not-for-profit corporations that raise capital through user fees and invest in infrastructure.

Alternative governance has generated significant investment from the capital market.

Airports

- Pre National Airports Policy (NAP) government roles included:
  - Operator, financier, landlord, regulator, and advisor.
- 1994 National Airports Policy:
  - Clearly-defined a policy for airports.
  - Established a national airport system.
  - The cost of running Canada's airports shifted from taxpayers to users.
  - Market discipline imposed on the development and operation of airports.
- Pre NAP, national and regional imbalances developed with respect to facilities and funding.
- NAP enabled access to private investment and innovative financing.
Ports

- Pre-National Marine Policy (NMP):
  - System overcapacity and inefficiency were recognized.
  - Ports operated under different legislative regimes, each with its own mandate, and financial rules and regulations.
  - Transport Canada was direct operator of app. 570 ports.
- The 1995 NMP in responding to this overbuilt subsidy-dependent system, established:
  - Objectives to ensure affordable, effective, and safe marine transportation services and to ensure fair competition
  - NMP shifted financial burden from taxpayers to users
- Pre-NMP, effective decision making was stifled. Commercialization facilitated more efficient operations.
Port Capital Expenditures From Transfer to 2004
8 Canada Port Authorities

Concluding Remarks

- The projects we looked at today represent a total of approximately $25 Billion in capital.
- The federal contribution approximates $2.5 Billion.
"There Ain't No Such Thing As A Free Lunch"

Robert A. Heinlein