



# Ottawa LRT Stage-2 Trillium Line Extension Project Financial Evaluations

## Consensus Summary Report: Presentation to BESC

November 1, 2018. Draft, private and strictly confidential.



# Introduction

## Presentation Overview



The objectives of the presentation are the following:

- a) Summarize results of the Trillium Line Extension Project (the “**Project**”) Financial Evaluations; and
- b) Identify key parameters of the Financial Submissions and evaluation considerations.

### Presentation Contents

#### General

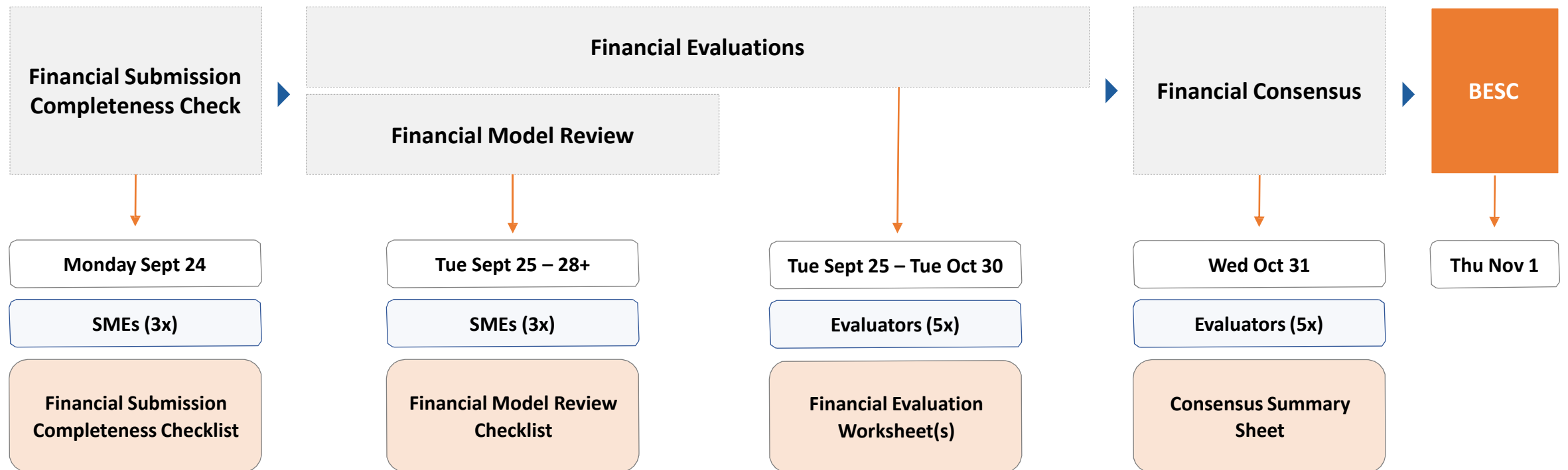
1. Evaluation Process Revisited
2. Evaluation Criteria and Related Provisions Revisited

#### Summary of Financial Submissions

1. Proponents Revisited
2. Scoring Criteria and Results
3. Affordability Determination Revisited
4. Construction Schedules
5. Summary of Costs
6. Quality of Proposed Financing Plan
7. Summary of RFCs

# Trillium Financial Evaluations Evaluation Process Revisited

## Affordability Determination



**Financial Evaluation Team:** Mohammed Mehany (Lead), Isabelle Jasmin, Jeff Sward, Denise Lamoureux, Ash Hashim

**SMEs:** Abhinav Chauhan, Douglas He, Devin O’Brian

# Trillium Financial Evaluations

## Evaluation Criteria Revisited



Below is summary of the RFP evaluation criteria for Financial Submissions:

Criteria	Weighting	Scoring Methodology
<b>Total Submission Price</b>	450.00	The lowest Total Submission Price will be awarded the maximum points available for Total Submission Price (450 points) and the Sponsor will deduct 30 points from the maximum points available for Total Submission Price (450 points) for every percentage point by which the Proponent’s Total Submission Price exceeds the lowest Total Submission Price
<b>Quality of Proposed Financing Plan</b>	50.00	<p>The Proponent will receive a score related to the quality of its proposed financing plan up to 50 points. The Proponent should note that a <u>minimum score of at least seventy percent</u> of available points must be achieved for the Quality of Proposed Financing Plan category of the Financial Submission.</p> <p>Key Highlights:</p> <ul style="list-style-type: none"> <li>• If the Proponent fails to achieve the minimum score for the Quality of Proposed Financing Plan category under the Financial Submission, the Sponsor may, in accordance with RFP Section 6.5.3(5), prevent the Proponent from becoming the Preferred Proponent.</li> <li>• The Sponsor reserves the right to request and/or approve a change in the financing plan or debt strategy (such as fixed or variable rate, the use of synthetics, bank debt or capital market debt) following selection of the Preferred Proponent and prior to Financial Close.</li> </ul>
<b>Total:</b>	<b>500.00</b>	



# Summary of Financial Submissions

# Trillium Financial Evaluations

## Proponents Revisited



Proponent teams include the following team members:

Trillium NEXT	Trillium LINK	Trillium Extension Alliance
<b>Equity Investor</b>	<b>Equity Investor</b>	<b>Equity Investor</b>
SNC Capital	Acciona, Fengate, CAF	Plenary*, Colas, Tomlinson <i>(Note: Plenary's equity funded █% from Plenary Fund and █% from Plenary Canada)</i>
<b>Constructor</b>	<b>Constructor</b>	<b>Constructor</b>
SNC Lavalin Constructors (Pacific) Inc	Acciona Concesiones S.L	Tomlinson, Colas GP
<b>Maintainer</b>	<b>Maintainer</b>	<b>Maintainer</b>
SNC Lavalin Operations and Maintenance Inc	Acciona Concesiones S.L, Caf Investment Projects	Colas Rail SAS (█%), Bouygues Energies & Service Canada Limited (█%)

# Trillium Financial Evaluations

## Key Features of the Financial Submission



Below is summary of the key features of the three submissions:

	T-NEXT	T-LINK	TEA
Short-term Lenders	TD: \$ [REDACTED] NBF: \$ [REDACTED] Total: \$ [REDACTED]  Redundancy: [REDACTED]%	CIBC: \$ [REDACTED] Desjardins: \$ [REDACTED] Mizuho Bank: \$ [REDACTED] Total: \$ [REDACTED]  Redundancy: [REDACTED]%	Mizuho Bank: \$ [REDACTED] ATB Financial: \$ [REDACTED] Total: \$ [REDACTED]  Redundancy: [REDACTED]%
Equity Sources	SNC Capital, Class A: \$ [REDACTED] ([REDACTED]%) NBC, Class B (Hold Co.): \$ [REDACTED] ([REDACTED]%)  Total: \$ [REDACTED]	Acciona: \$ [REDACTED] ([REDACTED]%) Fengate: \$ [REDACTED] ([REDACTED]%) CAF: \$ [REDACTED] ([REDACTED]%)  Total: \$ [REDACTED]	Plenary: \$ [REDACTED] ([REDACTED]%) Colas Canada: \$ [REDACTED] ([REDACTED]%) Colas Projects: \$ [REDACTED] ([REDACTED]%) Tomlinson: \$ [REDACTED] ([REDACTED]%)  Total: \$ [REDACTED]
Equity IRR (pre-tax nominal)	[REDACTED]%	[REDACTED]%	[REDACTED]%
Interest Rates			
Base Rate	[REDACTED]%	[REDACTED]%	[REDACTED]%
Credit Spread	[REDACTED]%	[REDACTED]%	[REDACTED]%
<b>All-in Rate</b>	[REDACTED]%	[REDACTED]%	[REDACTED]%
Construction Security			
PCG (% of Construction Contract Price)	[REDACTED] % max (less in a Interim SC scenario)	[REDACTED] %	[REDACTED] %
LC (% of Construction Contract Price)	[REDACTED] %	[REDACTED] %	[REDACTED] %
Substantial Completion Date	July 31, 2022	July 31, 2022	July 31, 2022

# Trillium Financial Evaluations

## Scoring Criteria and Results



The following is a breakdown of scoring for three Proponents' Financial Submissions:

Criteria	Maximum Score	T-NEXT	T-LINK	TEA
Total Submission Price	450.00	450.00	169.82	53.39
Quality of Proposed Financing Plan ( <i>min 70% / 35pts</i> )	50.00	35.00 (70%)	42.50 (85%)	40.00 (80%)
<b>Financial Submission</b>	<b>500.00</b>	<b>485.00</b>	<b>212.32</b>	<b>93.39</b>

Total Submission Price	T-NEXT	T-LINK	TEA
NPV of Construction Period Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Substantial Completion Payment	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Payments for Early Works	---	\$ [REDACTED]	---
NPV of Revenue Vehicle Contract Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Annual Service Payments - Capital Portion	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Annual Service Payments - Service Portion	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Lifecycle Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Aggregate Target Lane Closure Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
NPV of Utility Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<b>Total NPV Payments / Total Submission Price</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>
<i>Delta to Lowest</i>		[REDACTED] %	[REDACTED] %



# Trillium Financial Evaluations

## Affordability Determination Revisited



The following is a summary of results of the affordability determination process:

Payments Summary		T-NEXT	T-LINK	TEA	
Construction Period	Payments for Early Works	---	\$ [REDACTED]	---	
	Revenue Vehicle Contract Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
	Construction Period Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
	Substantial Completion Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
	<b>Subtotal</b>	<b>\$663,050,000</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	
	<b>Capital Cost Affordability Cap Compliance</b>	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>Capital Cap</b> \$663,100,000
Maintenance Period	Annual Service Payment – Capital Portion	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
	Annual Service Payment – Service Portion	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
	Lifecycle Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
	<b>Subtotal</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	
<b>Total Payments</b>	<b>\$1,615,333,583</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>Aggregate Cap</b> \$1,733,200,000	
<b>Aggregate Cost Affordability Cap</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>		

# Trillium Financial Evaluations

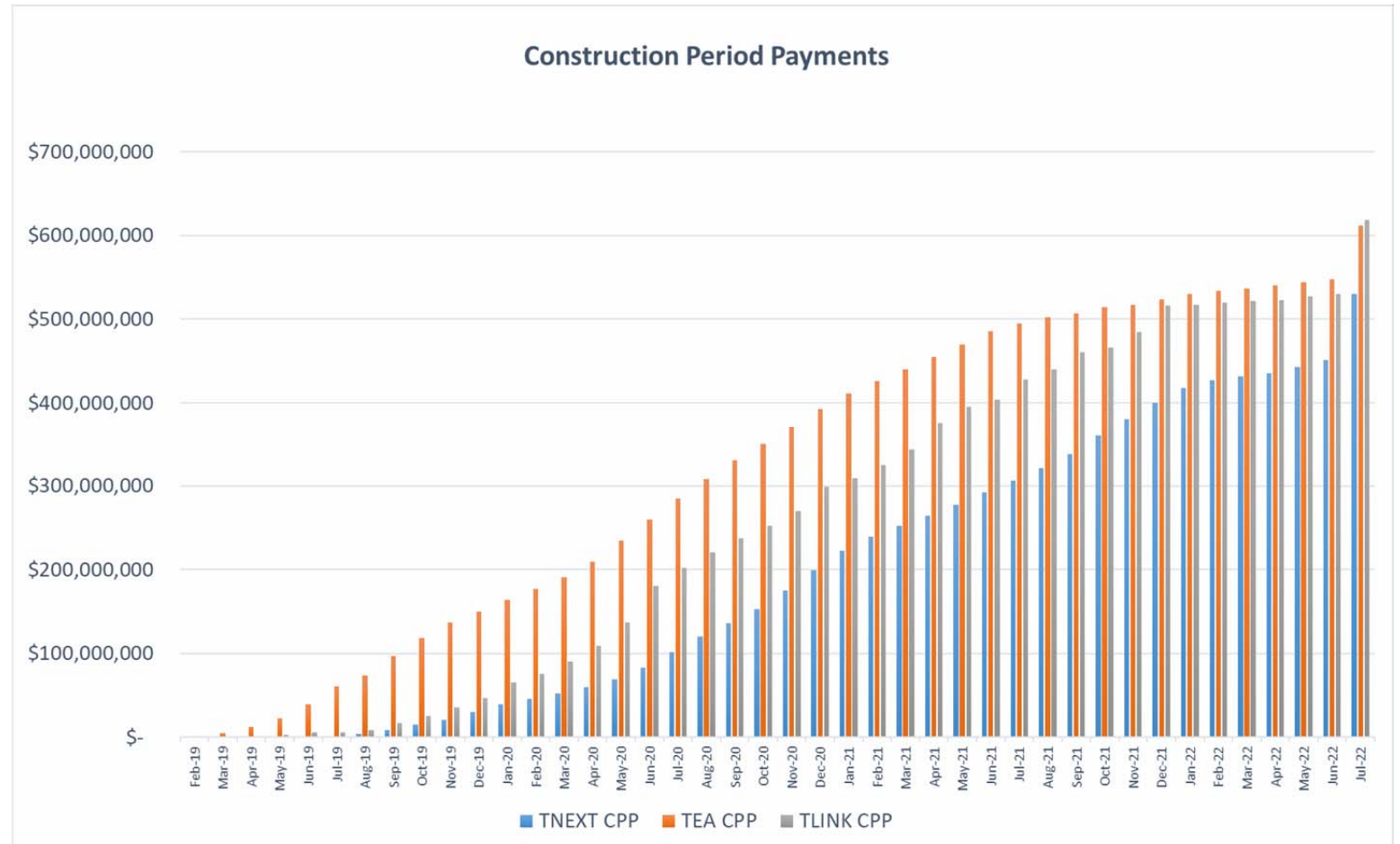
## Construction Period Schedule



- **TEA** achieves the Initial Capital Investment Threshold and received its first Construction Period Payment in **second (2<sup>nd</sup>) month** of the Construction Period followed by **T-Link in the fourth (4<sup>th</sup>) month** and **T-Next in the seventh (7<sup>th</sup>) month**.
- **TEA** achieves the Initial Capital Investment Threshold early due to “early works” in the first month as well as “mobilization credit”; **T-Link’s** early costs relate to Design, Communications, and Structures & Trackwork.

	ICIA*	SC Date	SCP Amount
T-Next	\$ [REDACTED]	July 2022	\$ [REDACTED]
T-Link	\$ [REDACTED]	July 2022	\$ [REDACTED]
TEA	\$ [REDACTED]	July 2022	\$ [REDACTED]

\*Initial Capital Investment Amount



# Trillium Financial Evaluations

## Summary of Costs – Capital Costs, Nominal (1 of 4)



### Sources and Uses of Funds, Construction Period

	T-NEXT	T-LINK	TEA
<b>Uses of Funds</b>			
Early Works	---	\$ [REDACTED]	---
Revenue Vehicle Contract Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Construction and Related Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Soft Costs	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<b>Total Uses of Funds</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>
<b>Sources of Funds</b>			
Payments for Early Works	---	\$ [REDACTED]	---
Revenue Vehicle Contract Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Construction Period Payments	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Substantial Completion Payment	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<i>Equity (deferred capital)</i>	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<b>Total Sources of Funds</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>

# Trillium Financial Evaluations

## Summary of Costs – Maintenance Period Costs, Nominal (2 of 4)



### Service Level 1, Maintenance Period Costs

	T-NEXT	T-LINK	TEA
<b>Maintenance Costs</b>			
Non-vehicle Maintenance Costs – Mainline	██████████	██████████	██████████
Non-vehicle Maintenance Costs – Airport Link	██████████	██████████	██████████
Vehicle Maintenance Costs – Existing Fleet	██████████	██████████	██████████
Vehicle Maintenance Costs – New Fleet	██████████	██████████	██████████
<b>Total Maintenance Cost</b>	██████████	██████████	██████████
<b>Lifecycle Costs</b>			
Non-vehicle Maintenance Costs – Mainline	██████████	██████████	██████████
Non-vehicle Maintenance Costs – Airport Link	██████████	██████████	██████████
Vehicle Maintenance Costs – Existing Fleet	██████████	██████████	██████████
Vehicle Maintenance Costs – New Fleet	██████████	██████████	██████████
<b>Total Lifecycle Cost</b>	██████████	██████████	██████████
Equity Distributions	██████████	██████████	---
Special Purpose Vehicle Costs	██████████	██████████	██████████
Base Relevant Insurance Costs	██████████	██████████	██████████
<b>Total Maintenance Period Costs</b>	██████████	██████████	██████████

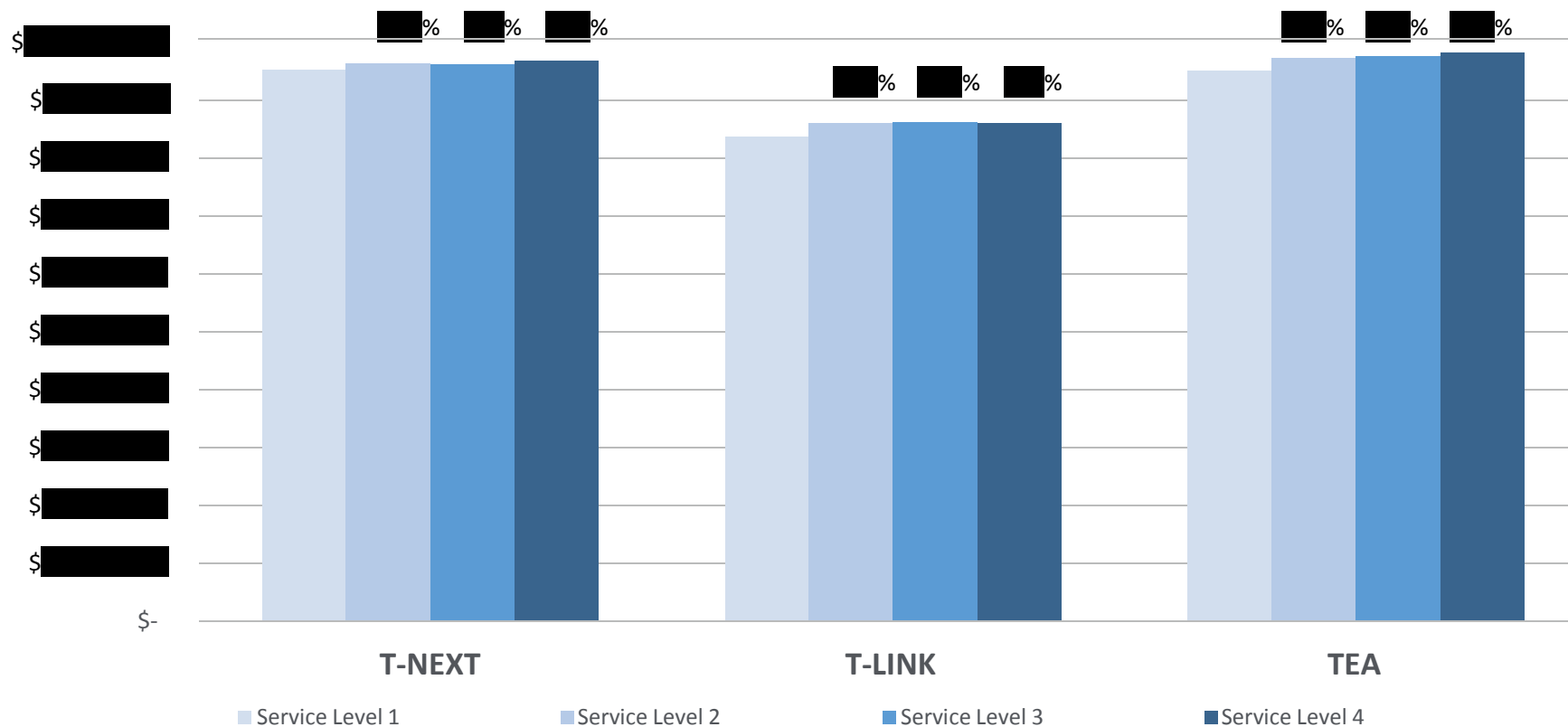
# Trillium Financial Evaluations

## Summary of Costs – Annual Service Payments, Nominal (3 of 4)



### Service Level Comparison, Maintenance Period

Total Maintenance Period Payments: ASP – Service Portion, ASP – Capital, Lifecycle Payments (27 years)

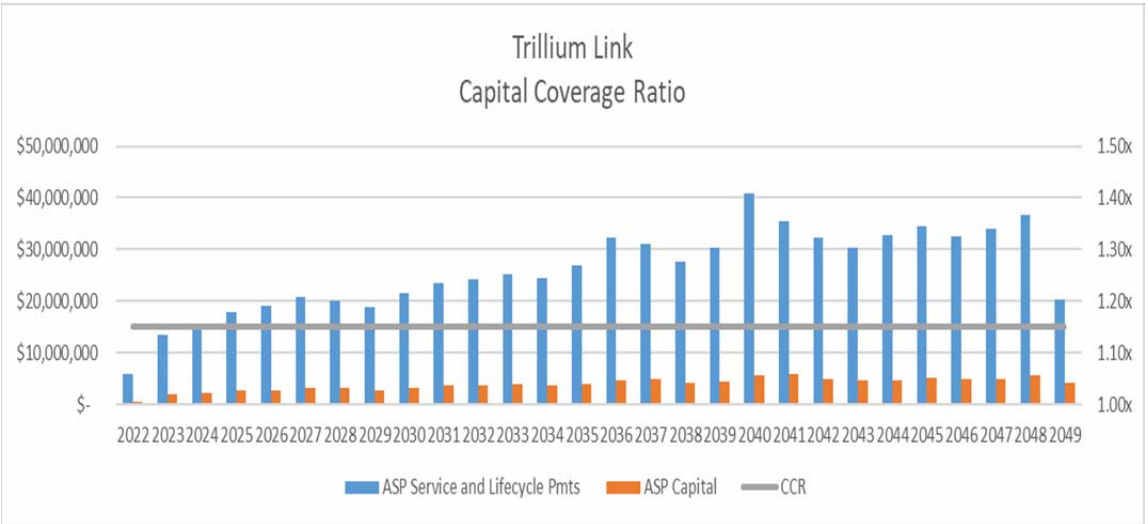
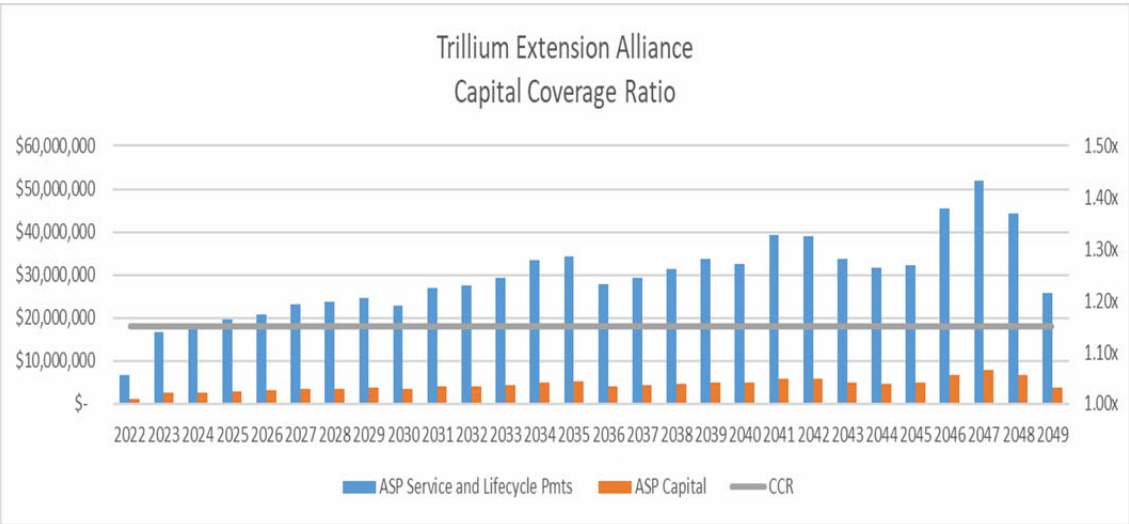
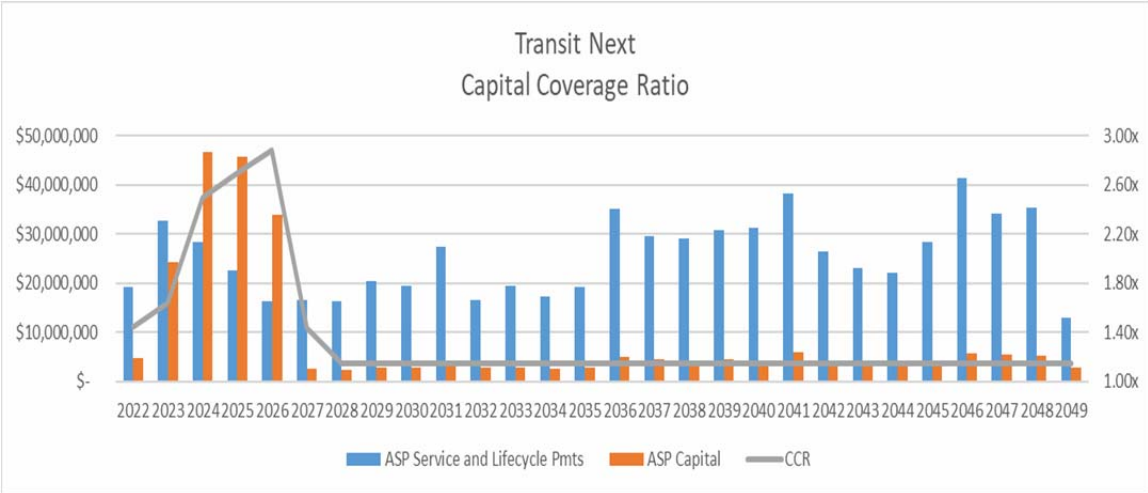


# Trillium Financial Evaluations



## Summary of Costs – Capital Coverage Ratio (4 of 4)

- T-NEXT’s CCR curve has a spike in the first four years of the maintenance period due to the high distributions resulting from the amortization of Class B Equity distributions over those years. The latter component of the maintenance period (year 4 onwards) demonstrates a flat CCR curve.
- TEA and T-Link have equity distributions profiles that are guided by the CCR threshold (1.15x) resulting in a more typically equity distribution profile and a flat CCR curve.



# Trillium Financial Evaluations

## Quality of Proposed Financing Plan: TNEXT



### Summary of Key Issues

- A dual equity structure was utilized to meet the Capital Cost Affordability Cap by maximizing equity injections (and therefore minimizing the amount of the Substantial Completion Payment).
- A significant portion of the equity invested in the project (approx. \$██████ out of \$██████) is sourced through a Hold Co loan that is repaid within the initial four years of the Maintenance Period

Positives	Challenges
<ul style="list-style-type: none"> <li>✓ Short-term debt to be provided through financially strong, established lenders with relevant experience in project finance (National Bank and TD). Financing plan based on Held Pricing Facility.</li> </ul>	<ul style="list-style-type: none"> <li>? Lack of clarity was noted with regards to the funding organization structure, specifically with respect to Class A and Class B equity ownership interest. The FET was unable to ascertain the ownership relationship between SNC Lavalin Capital and the Project Co. Additional information was sought through an SME request (legal) and RFC issued to Proponent however responses received were non-conclusive.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Equity sponsor guarantor (SNC Lavalin Group Inc.) balance sheet demonstrates strong cash position. Equity sponsor demonstrates relevant experience in the Canadian P3 market.</li> </ul>	<ul style="list-style-type: none"> <li>? Hold Co loan structure in the form of Class B equity introduces the following key risks: a) Compensation to lenders in the event of cancellation to be included during preferred proponent stage, b) term sheet includes mandated accounts structure and it remains unclear how those accounts will be managed without contradicting PA Schedule 4 requirements related to Project Co accounts and related reporting, and c) term sheet includes restrictions on change of ownership and termination of maintenance provider that risk interference with City's rights under the PA.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Submission demonstrates strong plan to achieve Financial Close with examples of relevant, recent experience.</li> </ul>	<ul style="list-style-type: none"> <li>? Equity distributions does not align with / are atypical of market standard practices (i.e., front loaded distribution of Class B Equity). Similarly, Lifecycle sculpting is atypical to standard market practices (i.e., front end loaded).</li> </ul>

# Trillium Financial Evaluations

## Quality of Proposed Financing Plan: **TNEXT** cont.



The FET members noted the non-standard approach used to source equity funding for the project which is in response to the novel financing approach utilized by the Sponsor on the project. The FET members have utilized their professional judgement in reviewing and evaluating the proposed financing plan to the best of their ability. However, a number of the issues that pose potential risks resulting from the proposed financing plan are legal in nature and would require further legal review in the event T-Next is selected as the First Ranked Negotiations Proponent or even earlier if the procurement process and timing permit.



# Trillium Financial Evaluations

## Quality of Proposed Financing Plan: TLINK



### Summary of Key Issues

- Although the Proposal structure was not organized favourably, T-LINK put forward a strong submission that provided a high redundancy related to short-term financing facility and Equity distributions during the Maintenance Period that were in-line with standard market precedent.

Positives	Challenges
<ul style="list-style-type: none"> <li>✓ Strong redundancy with regards to construction financing facility in terms of amount (1.7x) and lender (N+1, i.e. commitment amounts from 2 out of the 3 lenders sufficient to meet the funding requirement). Financing plan based on Held Pricing Facility.</li> </ul>	<ul style="list-style-type: none"> <li>? High proportion of “SPV Costs” and “Administrative and Other costs” in relation to overall Maintenance Costs.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Distribution of equity during the concession period follows standard market practices including delayed initial distribution. Equity sponsors demonstrated strong ability to fund equity requirements through strong cash positions in financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>? Maintenance Contract is high-level and lacking in details which may introduce risks related to Sponsor’s ability to undertake a System Extension as outlined in Schedule 36 of the Project Agreement and/or to execute Equity Purchase Agreement.</li> </ul>
<ul style="list-style-type: none"> <li>✓ CCR sensitivity is favourable (1.08x threshold breached at the █% inflation sensitivity scenario but maintained at the █% and █% scenarios).</li> </ul>	<ul style="list-style-type: none"> <li>? Financial submission indicates that equity amount is subject to adjustment at financial close which is in contradiction with RFP requirements (<i>RFC response from the Proponent provided clarity that amount will not be subject to change</i>).</li> </ul>

# Trillium Financial Evaluations

## Quality of Proposed Financing Plan: TEA



### Summary of Key Issues

- The financing plan put forward by TEA illustrated a clear understanding of the Construction Period and Maintenance Period requirements outlined in the RFP however, the submission could have been improved related to the information provided for the vehicle maintainer and its relationship with Project Co, and the financial strength of Colas Equity.

Positives	Challenges
<ul style="list-style-type: none"> <li>✓ Distribution of equity during the concession period follows standard market practices including delayed initial distribution. During the Construction Period, a Held Pricing Facility is provided.</li> </ul>	<ul style="list-style-type: none"> <li>? Financial submission indicates that vehicle maintainer is to be identified at the preferred proponent stage and will have a direct contractual relationship with Project Co and not the Maintenance JV. This creates a risk related to uncertainty of vehicle maintenance interface with maintenance works carried out by the Maintenance JV – creates uncertainty regarding application of deductions and other payment mechanism provisions that could lead to poor performance that ultimately impacts the project and the City.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Portion of equity to be injected at Financial Close (rather than Substantial Completion) which provides for higher level of “skin in the game” earlier in the Construction Period.</li> </ul>	<ul style="list-style-type: none"> <li>? Colas Canada Inc. and Colas Projects SAS (collectively referred to as Colas Equity) submitted financial statements that indicate limited availability of cash and cash equivalents. Amounts in financial statements are sufficient to cover contemplated equity portions but are limited in comparison to project size (i.e. minor sensitivities in project costs pose a liquidity risk, particularly when noting lack of Colas parent equity support letter). Equity Support Letter is absent from Parent Company related to Colas’ equity members.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Due diligence regarding Financial Close activities well planned and articulated (demonstrated by inclusion of Financial Close Protocol and Rate Set Protocol in the financial submission).</li> </ul>	<ul style="list-style-type: none"> <li>? Unclear funding source for “early works” including high Mobilization Credit in the first month of the Construction Period resulting in early receipt of Construction Period Payments (i.e. front-loaded cost structure).</li> </ul>

# Trillium Financial Evaluations RFCs



The following number of RFCs were submitted for each Proponent:

Transit Next – Two (2)

Trillium Link – Five (5)

Trillium Extension Alliance – One (1)

# Questions?