NORTH AMERICA

Leader of the pack

Canada, while having suffered some infrastructure fatigue post-Great Recession, is still finding projects to move forward on. Joel Kranc reports

In early autumn 2012, the Federation of Canadian Municipalities (FCM) report card on the state of infrastructure for cities across Canada said the country was at risk, "with more than half of municipal roads requiring significant repairs and one in four wastewater plants needing major upgrades".

And yet, by all accounts, Canada's economy, equity markets and infrastructure spending have shown resilience in the years following one of the greatest credit crises of a generation. Although originally following the models of Australia and the UK, Canada has carved out a unique model of infrastructure investment structures in the public-private partnerships (P3) space.

"There has been a great deal flow happening in Canada over the last four years – probably more than any other country in the world," notes Amardeep Grewal, director at Investec North America, which provides project finance for infrastructure projects. Anecdotally, he adds that there have been about 10 deals or more closing in Canada over the past four years with a peak in 2010 of more than 20 deals.

The information is supported by the Canadian Council for Public Private Partnerships which, in the chart below, shows the number of projects that have achieved financial close over the past decade.

THE CURRENT ENVIRONMENT

"Canada has had a very robust P3 market for a number of years now," says Mark Romoff, chief executive officer of the Canadian Council for Public Private Partnerships (CCPPP). However, he is quick to note that things are slowing somewhat due, in part, to uncertainties in the local and world economies.

Within the CCPPP's own database there are 176 projects either in procurement or underway in a variety of sectors. Romoff says they range from transportation and health to courthouses, detention centres and even some in the sphere of green technology.

Much of the activity occurs in British Columbia, Alberta, Ontario, Quebec and New Brunswick as these provinces have set up their own infrastructure procurement departments within their respective provincial governments. "That landscape is changing, with more interest being shown by Saskatchewan and the Northern Territories now looking at the P3 model," adds Romoff, "with an RFQ (request for qualification) out on the Iqaluit Airport. So there is a shift in the marketplace."

Many of the deals over the past few years have been of significant value. Deals like the Humber River Hospital and the Montreal University Hospital fall within the larger category of P3 investments. In fact, four of the deals that occurred in 2011 were worth C$1 billion (€787 million; $1 billion) or more according to Grewal – something that has never happened previously in Canadian infrastructure financing.

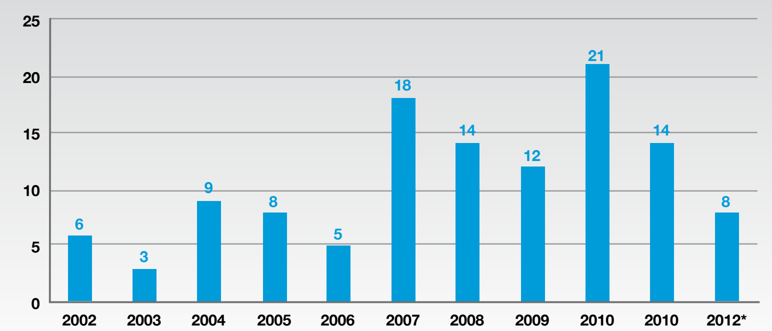
What happened in 2011 and 2012, according to Grewal, is that some of the provinces got into "election mode" and many projects or thoughts about possible projects were put on hold. Elections and a "tightening of the belt on budgetary restrictions" have slowed things down, he says. "When the [financial] crisis happened there was a lot of money going into infrastructure and they didn't know if they could continue that spending just because the deficits were getting so big," he adds.

Ultimately, the ripple effect of such events meant fewer projects emerging or announced projects being delayed.

GOING FORWARD

Grewal says that the numbers of projects coming online now closely resemble the levels seen in 2007 or 2008. At the same time, the deals are smaller in nature

CANADIAN P3 PROJECTS ACHIEVING FINANCIAL CLOSE



** As of Sept 2012*

***Source**: CCPPP Canadian PPP Project Database* and typically reflect values of $150 million or less. And following the FCM's report card on the state of municipal infrastructure, Grewal says there are more projects in the water and renewable energy sectors, which are often linked to municipal infrastructure.

Of the deals done in Canada, "many have been in healthcare and some provinces will continue with that," adds Grewal. "But I think the focus will shift towards transportation." Cities like Ottawa, Edmonton and Waterloo are all looking at light rail transit projects, which will produce large deals for the infrastructure market in Canada going forward.

Romoff agrees and adds that the focus on who is producing those projects is shifting. "The interest on behalf of municipalities is growing quite significantly and, although to a lesser degree, interest is growing within the First Nation [indigenous] community."

"I think we are going to see less and less hospitals built, for instance, but will see an increase in new areas that are already taking on more prominence," he adds. For example, says Romoff, water and wastewater projects, social housing (which is emerging in B.C. and possibly Ontario with a conversion of the Pan Am Athletes Village upon completion of the games) and urban transit projects.

On the energy front, there are projects beginning to surface in the transmission area, which is considered more traditional. But, explains Romoff, there are growing opportunities in the green and renewable energy sector such as wind and solar – although significant growth in that area may be a way off yet.

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An interesting side-note is the way in which government services are provided. Romoff says increasingly governments will look to the P3 model as the vehicle to deliver services. In Ontario, for example, the departments issuing drivers' licenses and land registry documentation have been handed to the private sector through P3 arrangements. "And I think you are going to see more of that," he adds.

FINANCING

Of course with newer and different types of projects coming online, whether at the municipal level or in areas unseen in prior years, financing becomes a major consideration for all parties involved.

"The one challenge you have with smaller projects," says Grewal, "is financing them." After the crisis, Canadian banks got out of long-term financing and now there are more bond financing deals.

As a result, with the smaller deals, it is too expensive to offer rated bonds, explains Grewal. "What you will see is different tenor – you could look at different structures that could go for longer tenors."

The reason you have global interest in investing in these assets in Canada, according to Grewal, is the high likelihood of actually closing a deal. The deals are expensive to bid on and investors will only try so many times. The compressed time period of deals coming to market and closing in Canada gives investors confidence and reduces burn cost.

The Canadian approach, notes Romoff, has been very different than other countries in terms of financing.

Because banks have not had an appetite for long-term financing, many institutional investors and life insurance companies have stepped in to provide project financing. That situation has not changed too much during or since the crisis. "Just by the nature of how we've approached this sector in the past, we are able to get through a little more challenging financial period, maybe a little easier than others."

The future also looks relatively promising in terms of how the public views infrastructure and P3 projects. The Federal government is currently looking at a longer-term plan and is consulting with the provinces to get a sense of what the current needs are and how to best respond to the infrastructure deficit across the country.

Also, adds Romoff, two very large projects coming online – the latest Detroit/Windsor bridge crossing (a first for US/Canada P3 co-operation) and the Champlain Bridge in Montreal will renew interest in infrastructure investment throughout the community.

Canada has certainly had its share of ups and downs throughout the financial crisis and its commitment to infrastructure projects has suffered slightly. However, the commitment has never disappeared completely and seems to be growing with newer and alternative projects as governments look for ways to add value and save money. ■

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