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# *PPP in the Canadian Roads Sector*

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Richard Deslauriers  
PwC

## *Overview of the Canadian Roads Market*

- Canada is the second largest country in the world
- It has almost 900,000 kilometres of roads
  - 38,000 of national and regional highway (the National Highway System)
- Canada is a federation of 10 provinces and 3 territories
  - Highways and major roads are mostly the responsibility of these 13 provincial/territorial governments
  - There is no common procurement policy

# *Canada's Largest Cities Are Dispersed Across the Country*



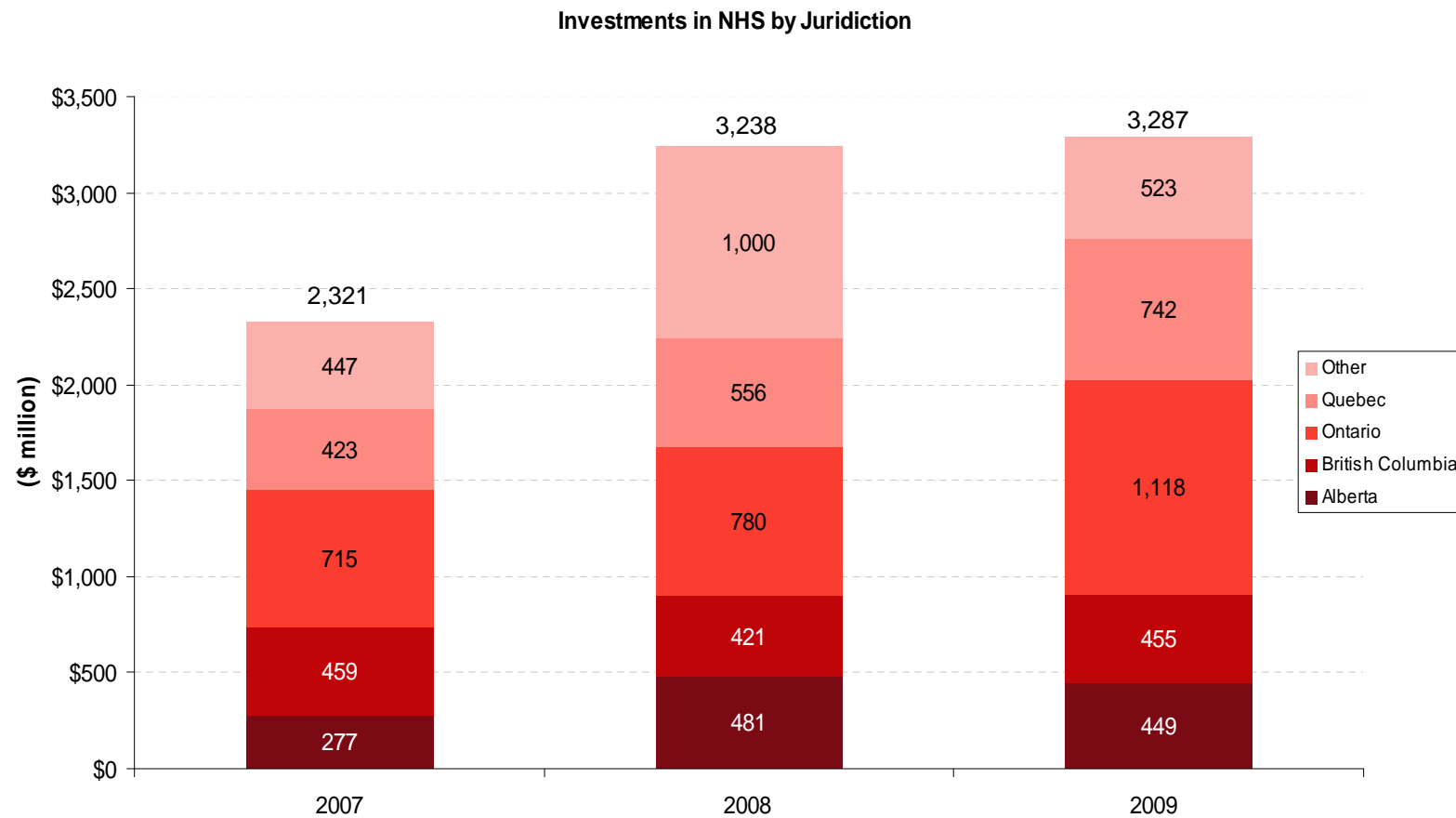
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## ***Road Spending in Canada***

- Spending on roads has been increasing as provincial/territorial governments face a lack of capacity and ageing infrastructure
  - Growing population in certain urban areas
  - Number of light vehicles growing faster than population (11% increase from 2000 to 2006 per Transport Canada)
  - Need for new roads in resource-rich areas
  - Underinvestment in maintaining existing infrastructure built in 1960s/1970s

## Road Spending in Canada (cont'd)

- In 2009, investment in the National Highways System totalled \$3.3B



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## ***Challenges for Roads Investments***

- Growing need for investment
- Budget constraints
  - Most provinces are experiencing budget deficits following the 2009 economic downturn
  - Spending on healthcare is taking an ever larger part of provincial budgets
  - It is more popular and “politically correct” to spend on transit projects than on roads
- Lack of dedicated funding for roads
  - Little tolling
  - Gas/vehicle taxes usually included in general government funds

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## ***Challenges for Roads Investments (cont'd)***

- Road projects face many regulatory hurdles
  - Need for environmental approvals
  - Need for public consultations
  - “Not in my backyard” syndrome
  - In certain cases, even major refurbishments are resisted by the local population
  - Need to get agreement with municipalities
- Pressure to spend more on transit, less on roads
  - Roads often portrayed as being “bad” for the environment while transit is “good”
  - Nevertheless, Canada cannot function without a well maintained, efficient road system

## ***Major Road Projects Recently Undertaken***

<b>Project</b>	<b>Cost (\$ millions)</b>	<b>Status</b>
<b>British Columbia</b>		
Okanagan Lake Bridge	140	Opened 2007
Kicking Horse Canyon Phase 2	130	Opened 2007
Pitt River Bridge	200	Opened 2009
Golden Ears Bridge	1,100	Opened 2009
Port Mann Bridge	2,500	Under construction
Sea-to-Sky Highway	480	Opened 2009
South Fraser Perimeter Road	N/A	In procurement
<b>Alberta</b>		
Southeast Anthony Henday Drive – Edmonton	370	Completed 2007
Northwest Anthony Henday Drive – Edmonton	1,000	Under construction
Southwest Anthony Henday Drive – Edmonton	N/A	Planning
Northeast Calgary Ring Road	340	Under construction
Southeast Calgary Ring Road	100	In procurement



## ***Major Road Projects Are Still Being Undertaken*** *(cont'd)*

<b>Project</b>	<b>Cost (\$ millions)</b>	<b>Status</b>
<b>Ontario</b>		
Detroit River International Crossing	N/A	Planning
Windsor Essex Parkway	1,600	In procurement
407 East Extension	N/A	
<b>Quebec</b>		
A25	450	Under construction
A30	1,800	Under construction
Route 175 extension	750	Under construction
A50	800	Under construction
Route 185	1,300	Opened/construction
Turcot Interchange	1,500	Planning
<b>New Brunswick</b>		
TransCanada Highway (Grand Falls to Woodstock)	440	Opened 2007
Route 1 Gateway	240	Under construction

## *PPPs Are Now a Widely-Used Procurement Approach for Roads*

<b>British Columbia</b>	<b>Alberta</b>	<b>Ontario</b>	<b>Quebec</b>	<b>New Brunswick</b>
Golden Ears Bridge	Southeast Anthony Henday Drive	Detroit River Crossing	A25	TransCanada Highway
Okanagan Lake Bridge	Northwest Anthony Henday Drive	Windsor Essex Parkway	A30	Route 1 Gateway
Kicking Horse Canyon Phase 2	Northeast Calgary Ring Road	407 East extension		
Sea-to-Sky Highway	Southeast Calgary Ring Road			
South Fraser Perimeter Road				
Total Capital Cost: over \$4.5B	Total Capital Cost: \$1.8B	Total Capital Cost: over \$2.0B	Total Capital Cost: \$2.3B	Total Capital Cost: \$0.7B

Over \$11B in road PPPs

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## ***Challenges Facing Future Road PPPs in Canada***

- Higher cost of financing following 2008 credit crisis
  - However, spreads are coming down
- Changing nature of available financing
  - More bonds, less bank financing
- Future needs will be more for brownfield projects than for greenfield
- Resistance by some groups to PPPs

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## *Opportunities for Road PPPs in Canada*

- Public confidence is growing as road PPPs demonstrate their ability to deliver on-time, on-budget
  - BC: Sea-to-sky Highway, Okanagan Lake Bridge
  - Alberta: Southeast Anthony Henday Drive, Northeast Calgary Ring Road
  - Quebec: A25 (in construction but ahead of schedule)
  - NB: TransCanada Highway
- Governments are reconsidering road pricing
  - As a funding mechanism
  - As a means of managing demand
  - Tolling risk not always transferred to concessionaires
- Both governments and the public are showing greater concern for proper long-term maintenance
  - This is a key strength of PPPs

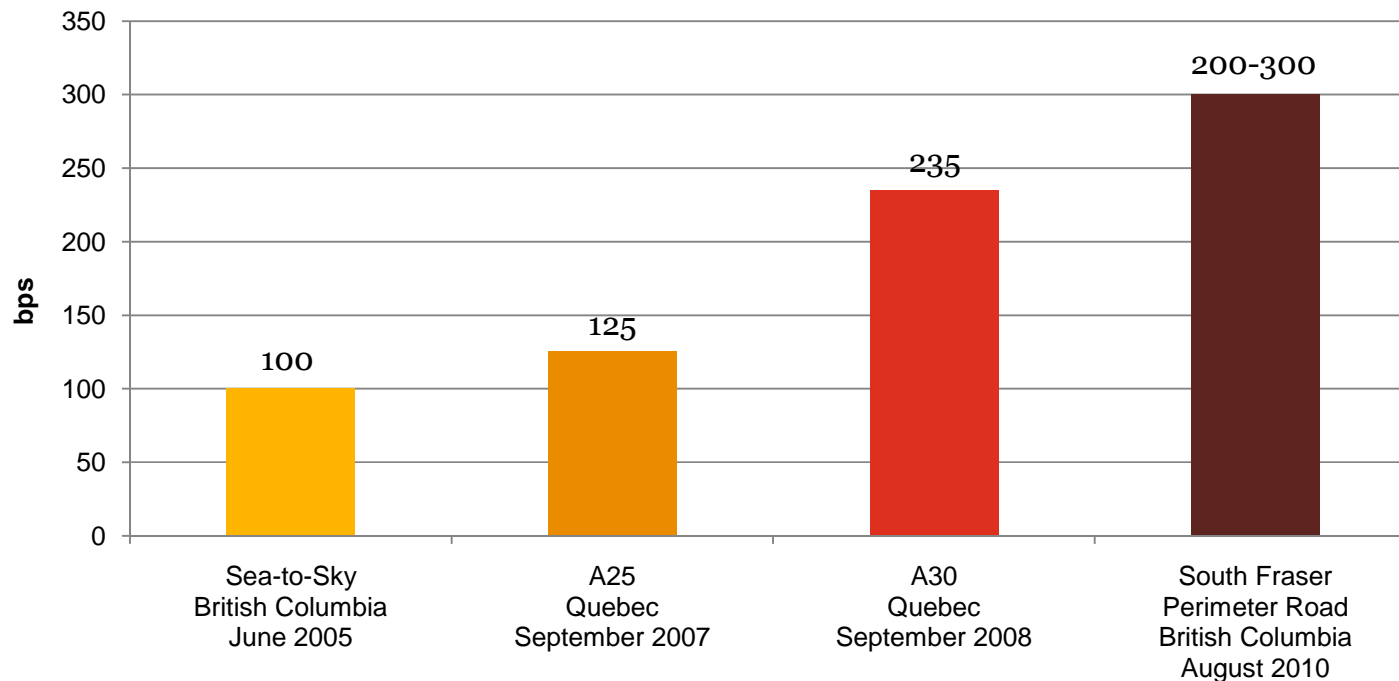
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## ***Impact of the Global Financial Crisis on Canadian Road PPPs***

- Canada has not been immune to the effects of the Global Financial Crisis
- The cost of borrowing is higher caused by significantly higher spreads offset somewhat by lower base rates

## *The Global Financial Crisis has Increased the Pricing of PPP Debt*

- From 100 bps or less in early 2007, spreads have increased to 250-300 bps for availability-based road deals
- Some examples



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## ***The Global Financial Crisis has Increased the Pricing of PPP Debt (cont'd)***

- Although financing markets are no longer in a state of crisis, the lingering effects can still be felt:
  - Less competition from lenders
  - “Club deals” have replaced syndication
  - More onerous covenants
  - Shorter tenors/soft mini-perms
- New approaches are being taken to ensure future road PPPs provide Value-for-Money
  - Milestone payments
  - Substantial completion payments