



Made-in-Canada PPP: A Game Changer

The Honourable Arthur T. Porter, P.C. MD

Finance and Health Care, Milan, Italy, June 30, 2011



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McGill University Health Centre**



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Genesis of the MUHC Redevelopment

- **Voluntary merger of 5 hospitals partnered with the Faculty of Medicine of McGill University**
 - The Royal Victoria Hospital
 - The Montreal Chest Institute
 - The Montreal General Hospital
 - The Montreal Children's Hospital
 - The Montreal Neurological Hospital
- **Major catalyst combined with the right conditions for success**
 - Powerful emotional drivers
 - Potential for innovation



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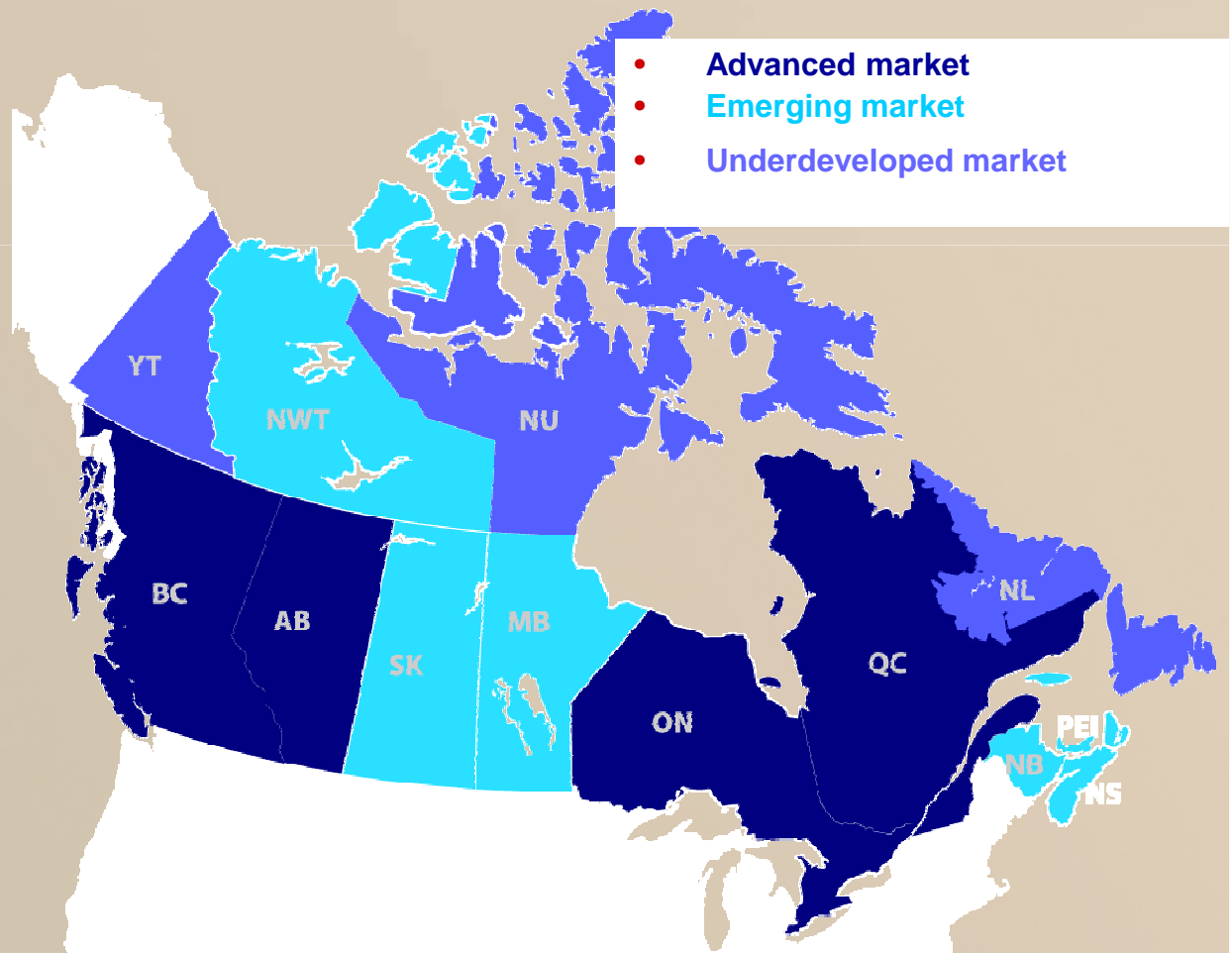
MUHC Redevelopment Project





Overview of the Canadian PPP Market

- Earliest adopters: Ontario, British Columbia, Alberta & Quebec
- Clear policy commitment
- Social & transport sectors, including hospitals, roads & courthouses
- Jurisdictions with PPP units/agencies have experienced more growth



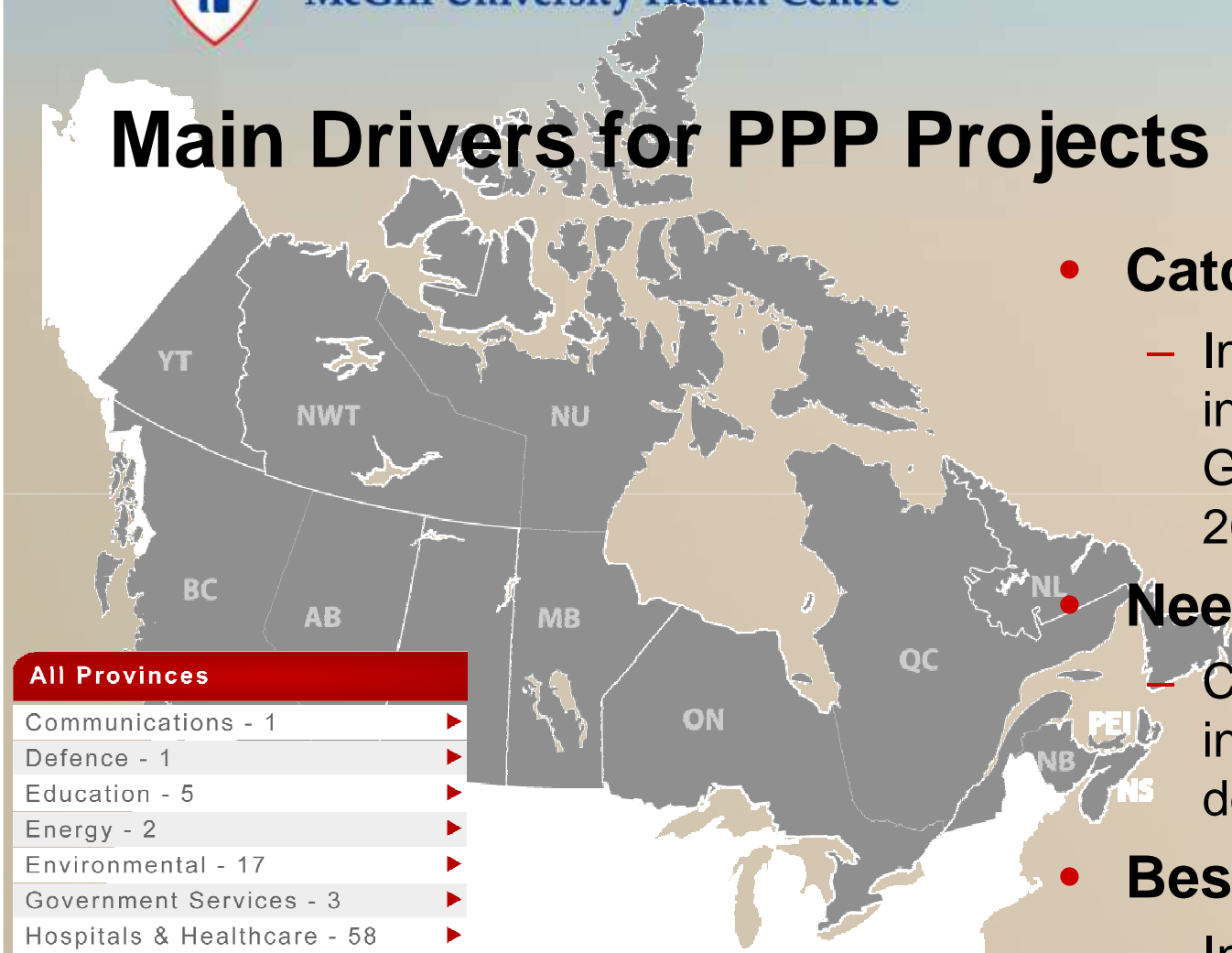


Canadian PPP Trends

- **We are into the third decade of PPPs in Canada**
 - 1st decade, 20 projects; in 2010, 38 operational and 37 under construction in 4 provinces alone.
- **Advanced**
 - Larger provinces with larger capital infrastructure budgets and institutionalized PPP capacity both in terms of analysis & execution
- **Emerging**
 - Typically have a PPP policy framework but limited institutional capacity to support PPP procurement
- **Underdeveloped**
 - Limited understanding of the uses and benefits of PPPs, or weak institutional and financial capacity that limits project development



Main Drivers for PPP Projects in Canada



All Provinces	
Communications - 1	▶
Defence - 1	▶
Education - 5	▶
Energy - 2	▶
Environmental - 17	▶
Government Services - 3	▶
Hospitals & Healthcare - 58	▶
Justice/Corrections - 18	▶
Real Estate - 2	▶
Recreation & Culture - 12	▶
Transportation - 35	▶
Total - 154	▶

- **Catching up**

- In 1960s, investments in infrastructure was 3% of GDP whereas in early 2000 below 1.5%.

- **Needs vs public \$\$**

- Combined challenge of infrastructure and fiscal deficits

- **Best taxpayer value**

- Innovation, timeliness, budget accountability & risk-sharing



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PPP Healthcare Projects in Quebec

- 2004: Quebec Government interested in UK PFI success
- Infrastructure Québec is support unit
- 2 academic health centres
 - MUHC & CHUM, total value: CAD\$3.9 billion
- 2 long-term care centres
 - Total value: \$500 million





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The MUHC's PPP: The Glen Campus

- **34.25-year PPP agreement to design, build, finance and maintain 217,500 m² facility**
 - Children's hospital (154 beds, 6 ORs, etc.)
 - Adult hospital (500 beds, 14 ORs, etc.)
 - Cancer Centre
 - Research Institute
 - Atrium with commercial space
 - Underground and surface parking
 - Green spaces
 - Links to public transportation (Metro, bus, train)
 - LEED[®] certified construction and operations: Silver
 - 51 months of construction
 - 30 years of maintenance



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Procurement Timeline

April 2006	Business case launched
June 27, 2007	RFQ issued
October 16, 2008	RFP issued
September 16, 2009	Technical proposals submitted
November 19, 2009	Financial proposals submitted
January 13, 2010	2nd phase RFP issued
March 15, 2010	Revised financial proposals submitted
April 1, 2010	Selected proponent announced
July 7/ 8 2010	Government approval / Commercial close
July 15, 2010	Financial Close
April 2010 - July 2012	Design phase
June - Sept. 2010	Site mobilization
June 2010- Sept. 2014	Construction
Feb. 2013 - Sept. 2014	Non-clinical commissioning
September 2014	Substantial completion



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Partners, Participants, Advisors & Consultants

- **Partners**

- McGill University Health Centre
- Groupe immobilier santé McGill (SNC-Lavalin/Innisfree McGill, 60%/40%)

- **Participants**

- Government of Quebec (Minister of Health and Social Services)
- Infrastructure Québec (procurement process management support)

- **Advisors**

- Fasken Martineau Dumoulin LLP, McCarthy Tetrault, Ogilvy Renault, McMillan LLP (legal advisors and underwriters)
- SNC-Lavalin Capital, Investec North Am. & PricewaterhouseCoopers LLP (financial advisors)
- Jardine Lloyd Thompson – UK (lenders' insurance advisor)
- Operis Business Engineering Ltd (lenders' model auditor)
- MUHC in-house and external legal counsel (Borden Ladner Gervais)
- Independent Fairness Auditor

- **Other Consultants**

- Architectural, mechanical & electrical engineering, healthcare planning, facilities management, insurance consultants and brokers



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Financing

- **Total contract CAD\$1.343B NPV¹**
- **Equity**
 - \$192M in shares and subordinated debt (SNC-Lavalin, Innisfree; 60%/40%)
- **Debt**
 - \$1.157B in senior secured facilities:
 - \$764.1M bond facility with 3 underwriters (long-term debt)
 - \$392.5M senior construction facility, (short-term bank financing)

1. Net present value (NPV) calculated at Jan. 1, 2008 using 8% discount rate calculated semi-annually



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Financing

- **Payments**

- \$706.5M substantial completion payment
- \$105M milestone payments during construction
- Monthly service payments during Operations & Maintenance period (capital portion non-indexed; O & M portion indexed)

- **Other**

- \$245.3 construction payment from MUHC to Groupe immobilier santé McGill to build parking facility that MUHC will operate to generate revenue



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Private-Sector Responsibilities

- Design, construction & financing of the Glen Campus, including parking areas, commercial retail space, the connection to the Vendôme public transit station & power plant
- Maintenance, including energy management & integration of existing equipment & installation of all new equipment
 - At year 30, the Glen Campus will still be fresh, modern and a vital anchor in the community
- All municipal, school or other taxes assessed in respect to the commercial retail area



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Public-Sector Responsibilities

- The MUHC is the project lead and is responsible for ensuring its vision is carried out.
- The MUHC is also responsible for all municipal, school or other taxes assessed in respect of the ownership or use of the property or the facility, except for those with respect to the commercial retail area.
- The Executive Director of the Quebec Ministry of Health and Social Services is responsible for ensuring that the programs, budget & the project schedule comply with the Government's overall healthcare objectives.



Innovative Elements of the PPP

- **Hybrid Financing Model**

- Team focused on a solution that provided certain & adequate funding for the project, as well as maximum gearing & low cost of funding to assist with minimizing the NPV for the bid
- Public & private funding components
- Opened up Canadian PPP market with 51 participants
- “Club deal” with 7 banks collectively underwriting \$56.07M each
 - **Maximized ability to raise long-term funds & encouraged significant participation by Canadian & international banks**
- The bonds received a credit rating of “A-” from Standard & Poor’s & “A (low)” from Dominion Bond Rating Service (DBRS).
 - **2010 PFI Deal of the Year (Americas) –Thomson Reuters**
 - **2010 Gold Award for PPP Financing – Canadian Council for Public-Private Partnerships**
 - **“Game changer”: Project Finance Magazine**



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Innovative Elements of the PPP

- **Payment Structure**

- Majority of equity will be injected near the end of construction, once the senior bonds, senior construction facility & the MUHC contribution payment are fully utilized
- Indexed monthly service payment for operating & maintaining the new facility will be adjusted based on availability, performance & quality of the maintenance services, & on energy-consumption criteria



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Innovative Elements to the PPP

- **Revenue-Sharing Scheme**

- Private partner will construct the shell of the commercial space & manage & maintain (including lifecycle costs) the space
- Capital, operational & maintenance costs must be fully covered by the projected rental revenues, which in turn must contribute to reduce the monthly service payments through reasonable profit-sharing with the MUHC

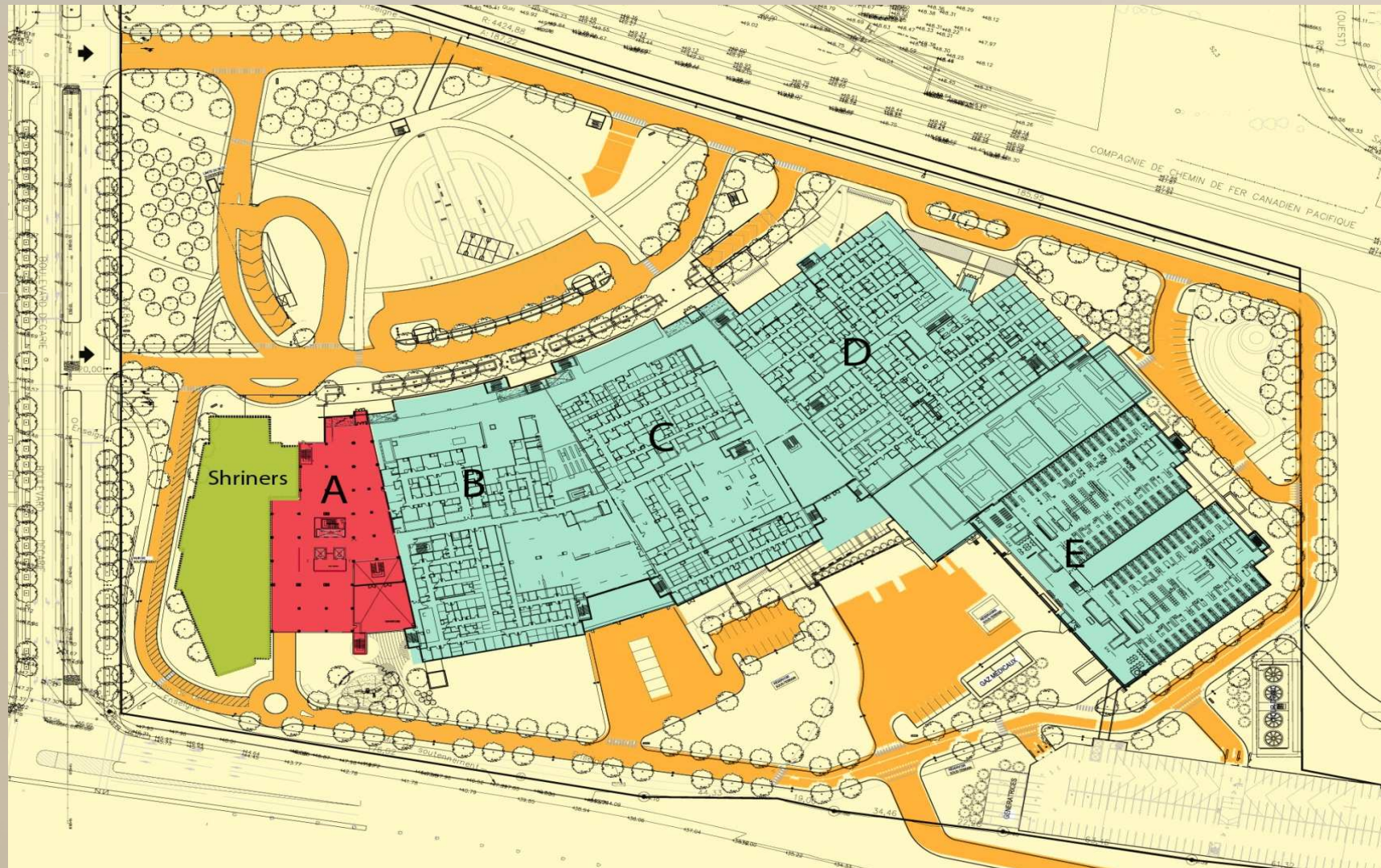
- **Process**

- MUHC User Groups, a Canadian first, informing decision-making process at every step, including during the open bid period
- Design and functionality; engineering and urban planning; biomedical, laboratory and other equipment; and facilities management services.
 - At one point, we had 90 User Groups; now managing 41 User Groups and an equal amount of sub-groups addressing particular complex design
 - By July, 120 working sessions on 2nd phase of design will have occurred



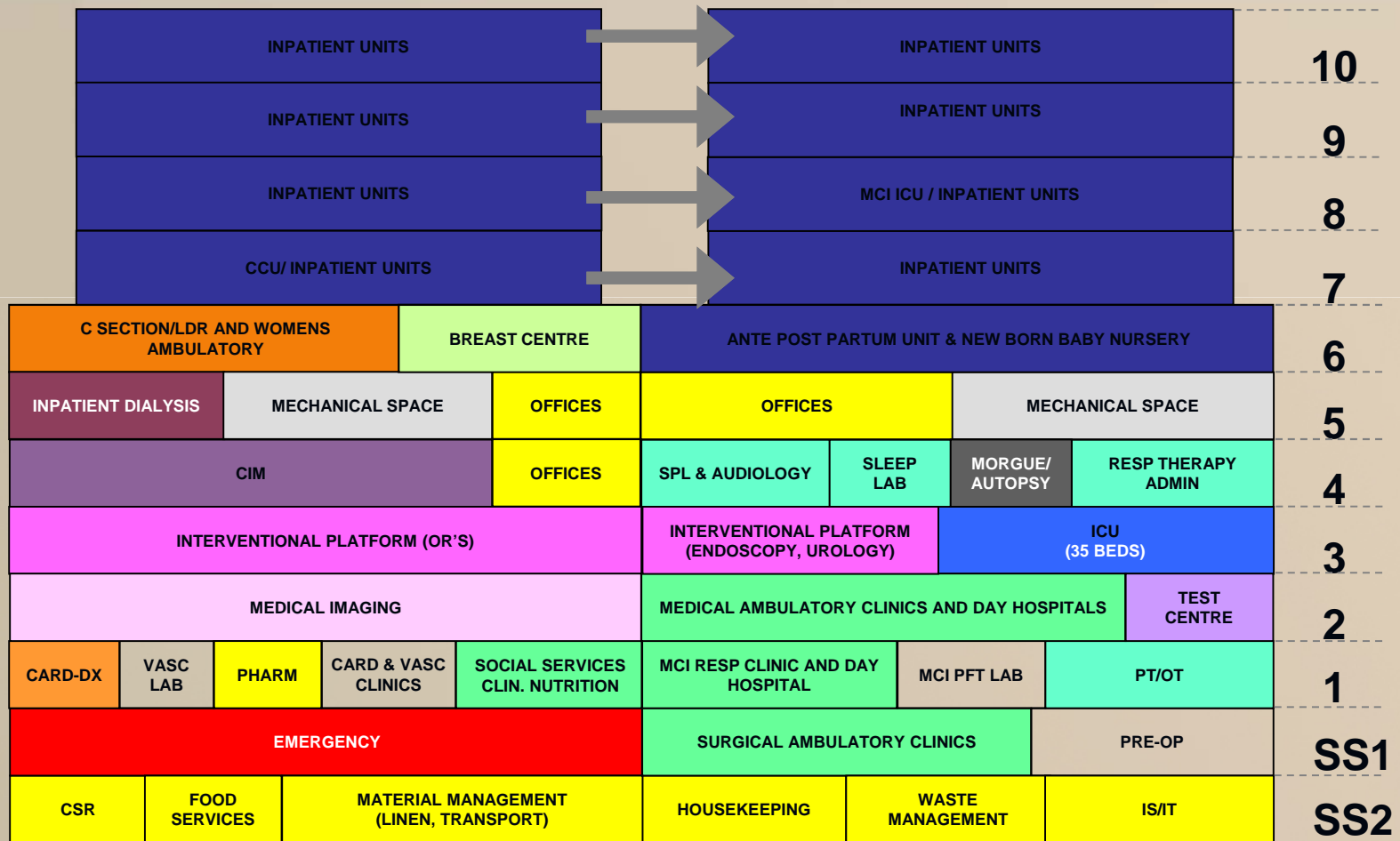
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Glen Campus Site Plan





Adult Hospital: Stacking Diagram



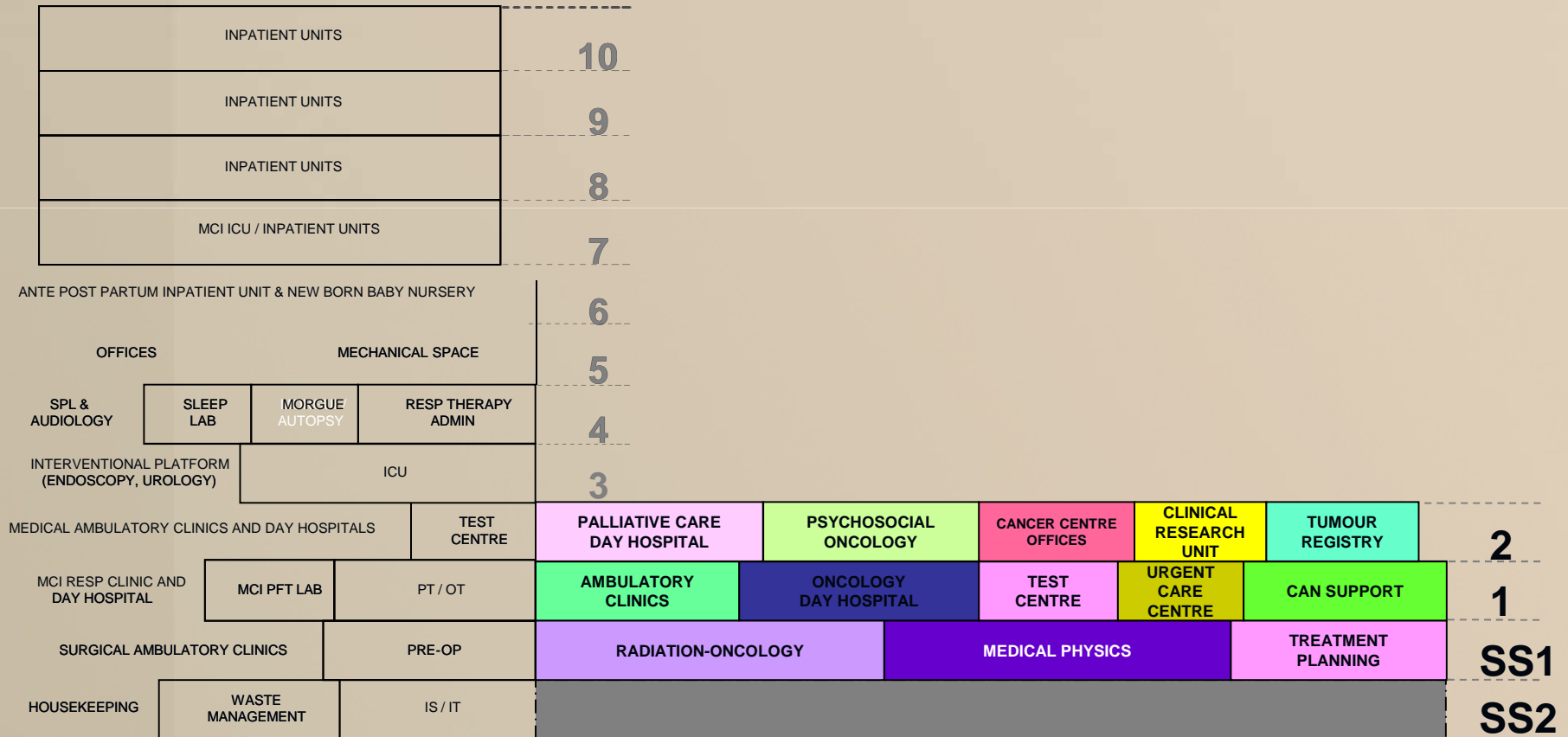
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Cancer Centre: Stacking Diagram

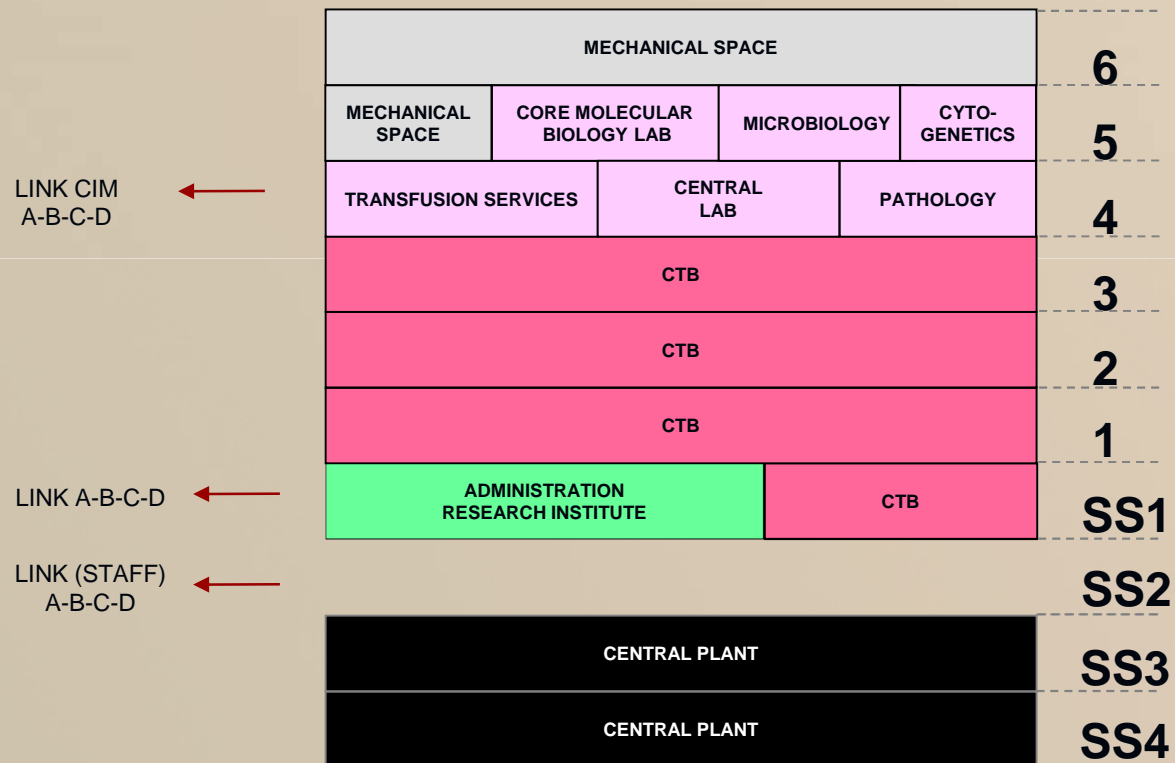
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Research Institute: Stacking Diagram



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Aerial View of the Future Glen Campus





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**Thank you very much; It's been my pleasure
to share the MUHC's experience!**