Altus Group

2015 Real Property National Workshop




Risk Analysis and Risk Transfer

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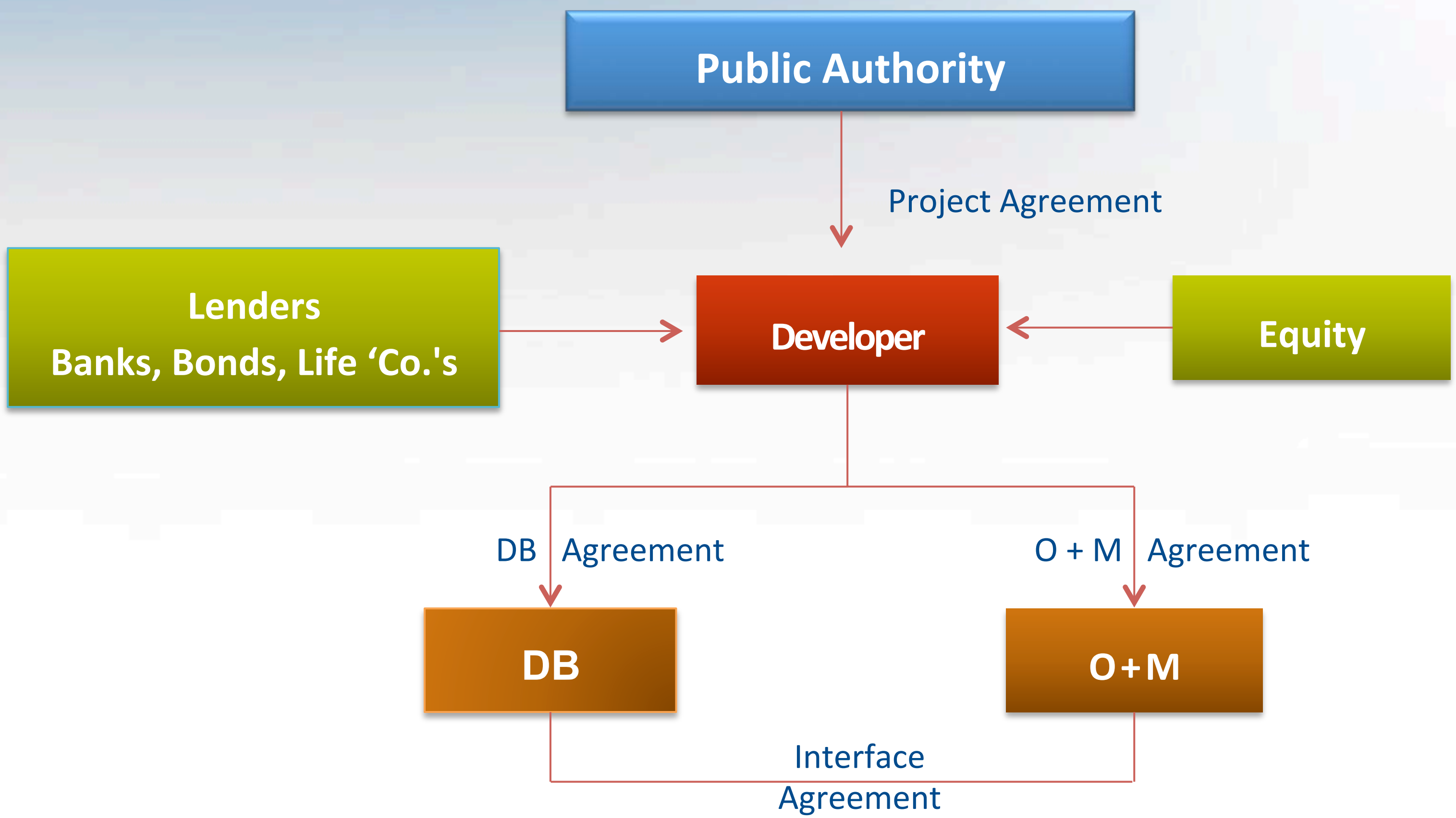
Street Smart. World Wise.

The Premise. The private sector is increasingly taking risk from government for project delivery and government is increasingly looking for innovative ways of procuring built assets.

Question – How does risk transfer impact the value for money equation and execution ?

We are going to use PPP-Public Private Partnerships as a basis for considering this

Contract Structure



What is a PPP → DBFM → Design Build Finance Maintain

- Project Finance.
- Legal and economically defined entity (Special Purpose Company) to provide a "service" , not just about built asset, see M.
- Highly leveraged, 80-90 % debt.
- Non recourse finance and limited guarantees.
- Future cash flows pays interest and capital.
- Security is mainly the contracts, licenses etc.
- Canada now acknowledged as a leader in this procurement approach.

Keys to Success

C2 P3 PPP – “What the world can learn from Canada” - 2015

- Political support and supportive environment
- A stable pipeline
- Efficient and standardized procurement i.e. Risk allocation
- A diverse market for project finance, availability and sophistication of lenders.

Table 3 number and capital values of P3 projects in Canada (To 2014 – CC PPP database).

	Number	**Capital Value (C$ million)**
Transportation	49	31,405
Hospitals and Healthcare	83	22,418
Justice/Correction	19	5,458
Energy	6	4,4458
Education	11	1,746
Recreation & Culture	17	1,380
Environmental	24	1,229
Real Estate	4	944
Defense	1	867
Government Services	4	482
IT Infrastructure	2	1
Total	**220**	**70,388**




MYTHS:

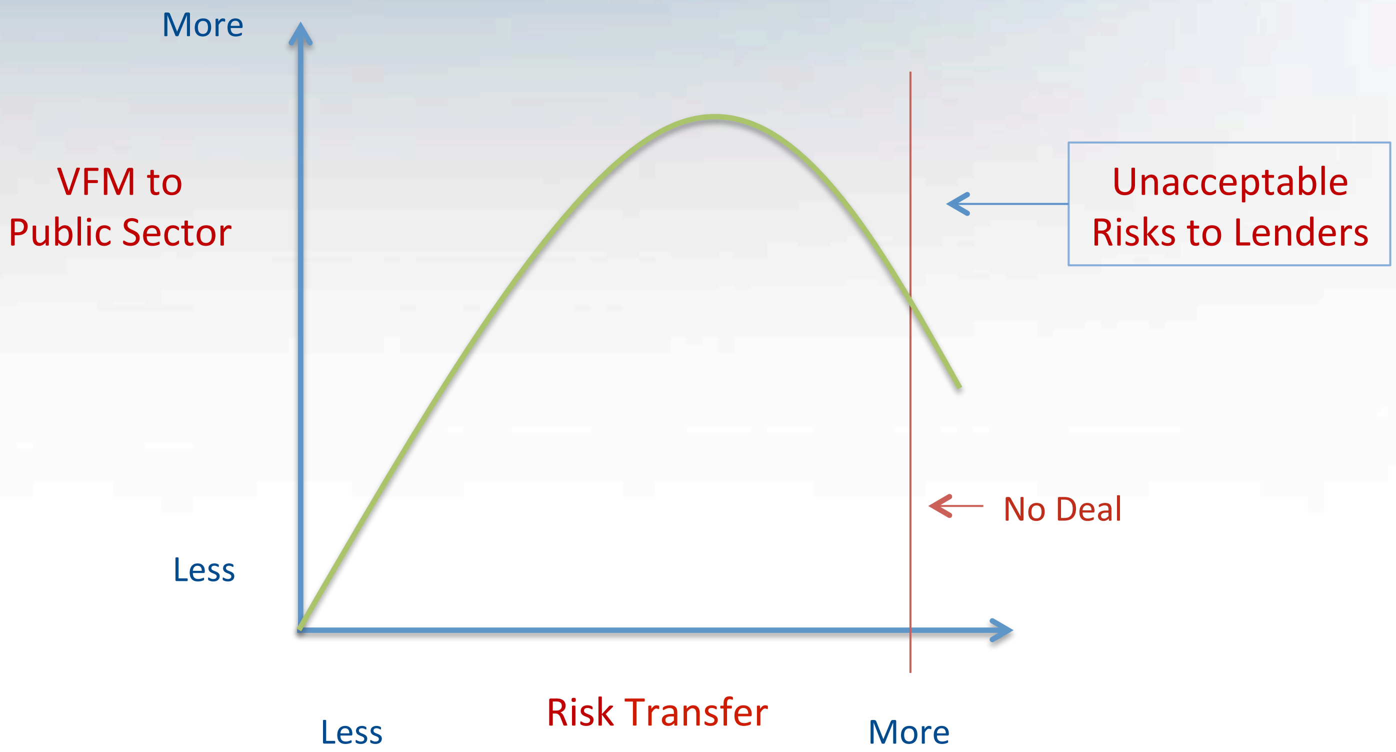
1. The private sector owns the asset – The private sector has a contract or license to operate "Handed back" to public sector after generally 30 years.

2. PPP is similar to real estate deal – wholly different hence "thin" equity and based in contract.

3. As private finance is more expensive how can it be cheaper? – Risk adjusted cost of capital? holistic approach with design and lifecycle and risk transfer efficiencies.

4. It is about cutting jobs – any public sector workers impacted or transferred will be protected by contract

The VFM v Risk Conundrum



PPP's are all about effective Risk Transfer

There are three main categories:

➡ Commercial Risk, Macro Economic and Political Risks

Commercial

- Commercial liability – Does project make sense
- Completion Risks – Project completion on time
- Environmental Risks – Any hazards during construction
- Operating Risks – Performance standards, cost of performance
- Revenue Risks – User fee?, Performance deductions
- Input Supply Risks – Sub contractor and suppliers costs procurement
- Force Majeure Risks – Can the project withstand → Insurance
- Sponsors support – Guarantees, Lc's etc.

Macro Economic Risks

- Inflation
- Interest Rates
- Exchange Rates

Political Risks

- Procurement - Political support/will , election cycles
- Legislative
- Civil unrest
- Quasi risks - Contract disputes, media

Risks you can never pass to the Private Sector

- Project scope and scope creep by the public sector
- Project need – or can you ? see toll or similar
- Contamination – Significant and uncapped liabilities
- Environmental Permitting
- First nations challenges and actions
- Second party contractors actions
- Government decision making and directions on a timely basis
- Others depending upon project asset type, location etc.

Altus Advantage

- Independent Expertise
- Data & Information
- Knowledge Leadership
- Collaborative Approach
- Dependable Advice

Thank You

Question Period