

PUBLIC PRIVATE PARTNERSHIP AND INFRASTRUCTURE UPDATE



PPP ANNOUNCED FOR THE COQUIHALLA



The BC Transportation Minister Judith Reid announced a new maintenance and operations arrangement to manage the Coquihalla Highway. Under the new arrangement, the Coquihalla roadbed and right-of-way will remain publicly owned, while a private-sector investor will be sought to assume responsibility for the operation, maintenance and rehabilitation of the highway between Hope and Merritt. Legally binding service and safety standards will be set under a 55-year contract, ensuring long-term reliability and predictability in operations.

“The Coquihalla Highway is a major trade route for the southern Interior and has the potential to be an even stronger economic engine in the future,” said Reid. “As the 17-year-old highway ages, maintenance and rehabilitation costs will grow. These improvements must be made in a way that ensures the 81 per cent of users from outside the southern Interior pay the largest share, and benefits frequent travellers – especially local residents.”

The new maintenance and operations arrangement will expand on the successful private-sector model already in place for highway maintenance contracts across B.C. Last November, the government endorsed new, extended 10-year highway maintenance contracts that reduce labour costs by 16 per cent in return for longer-

term security. The result is more long-term, reliable service arrangements and better value for taxpayers.

Services, tolls and safety will be regulated by contract, and new frequent-traveller rates will be implemented for non-commercial vehicles. Frequent travellers will pay \$50 for a 90-day pass.

However, no tolling changes will be introduced until a new operator is selected – a process that will be concluded by December – and until the frequent-traveller pass is implemented thereafter. Future toll increases will be capped under the contract, in line with the rate of inflation, to ensure fairness and predictability for motorists.

Reid also announced that a mayors’ council will be formed to provide advice and input to the development of the request for proposals. Funds generated through the arrangement will be used for new infrastructure improvements.

In particular, the government announced that it will invest \$14 million to complete the four-laning of 8.2 kilometres of the Okanagan Connector between Garcia Lake and Courtney Lake, providing a continuous four-lane highway from Merritt to Westbank.

CALGARY LAW COURTS PPP ADVANCING

The Government of Alberta has issued a Request for Proposals to invite qualified respondents to submit proposals for building a new consolidated justice facility, including the Law Courts, in Calgary as a public-private partnership.

In June 2002, the Government initiated a three-stage process with an Expression of Interest to gather new ideas and options on the development of a new consolidated law court facility. A Request for Qualifications was issued in December 2002 to shortlist potential private sector partners for the final stage, the Request for Proposals.

The qualified respondents invited to participate in the Request for Proposals are Brookfield Properties Ltd., GWL Realty Advisers Inc. and RMPA Courthouse Consortium. The top three were identified through an evaluation and interview process. Macquarie is financial advisor to the GWL consortium. A final decision on the successful qualified respondent is expected in the fall of 2003.

"The RFP final process will give us final costs and three design concepts" said Infrastructure Minister Ty Lund. The building of a new consolidated justice facility has been under study since 1981. Currently, Calgary's Court of Appeal, the Court of Queen's Bench and the four divisions of the Provincial Court are located in six facilities, which are facing ever-increasing challenges to provide adequate space for courtroom services.

BC ANNOUNCES MAJOR TRANSPORTATION INITIATIVES

Premier Gordon Campbell announced the BC government will invest a total of \$609 million over three years to help revitalize the economy by improving roads connecting B.C.'s heartlands communities, including:

- \$362 million on rehabilitating existing highways and rural and remote roads
- \$210 million on strengthening rural and resource road infrastructure
- \$37 million to be invested in roads for the B.C. oil and gas industry
- \$670 million upgrade to the Trans-Canada Highway through the Kicking Horse Canyon, cost-shared by the provincial and federal governments
- Improvements to Highway 97 in the Okanagan, Highway 95 in the Kootenays, and Highway 3 connecting Hope to the Okanagan and the Kootenays
- Improvements to the Sea to Sky Highway to Whistler
- A new bridge across Lake Okanagan at Kelowna
- Planning for a new bridge at Needles that will connect the Okanagan with Nakusp and the Arrow Lakes
- Work with the city of Cranbrook to complete its airport expansion

To help finance these improvements, the provincial fuel tax increased by 3.5 cents per litre on March 1, 2003 with all the increased revenue going directly to transportation infrastructure improvements.

FEDS AND NEW BRUNSWICK PROVIDE \$400 MILLION TRANS-CANADA HIGHWAY UPGRADES

Industry Minister and Minister responsible for Infrastructure, Allan Rock, together with Transport Minister David Collenette and Labour Minister and Minister responsible for New Brunswick, Claudette Bradshaw, Premier Bernard Lord, and New Brunswick Transportation Minister Percy Mockler announced that their respective governments agreed on a joint \$400 million commitment to complete the twinning of the Trans-Canada Highway in the province. This follows the announcement made last August by Prime Minister Chrétien and Premier Lord towards this project.

The Trans-Canada Highway is a vital transportation link for New Brunswick and Atlantic Canada. It is the major highway carrying commercial and passenger traffic from New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador, to the rest of Canada and to key markets in the United States. The agreement signed will allow for the twinning of 130 km of Route 2 between Longs Creek and Pokiok; between Woodstock and Perth-Andover; and between Aroostook and Grand Falls.

ALBERTA TO SPEND \$5.5 BILLION ON INFRASTRUCTURE

The Alberta government will modernize, preserve and build new health facilities, schools, roads and proceed with other major infrastructure projects as part of the Centennial Capital Plan, the new three-year, \$5.5 billion capital plan. The announced funding, an average of \$1.85 billion a year, is almost double the \$941 million in capital spending in 2002.

"The province's population is growing by more than 50,000 people a year - that's a community the size of Fort McMurray - and they are not bringing their schools, roads and hospitals with them. This is putting enormous pressure on our infrastructure," said Infrastructure Minister Ty Lund. "This major capital investment will help address our infrastructure needs and make Alberta even better for future generations."

Capital plan funding will be allocated over the next three years as follows:

- \$1.5 billion for the provincial highway network
- \$893 million for municipal transportation grants
- \$970 million for health facilities and equipment
- \$511 million for preservation, expansion and construction of school facilities and equipment
- \$373 million for post-secondary infrastructure
- \$262 million for water management facilities and water/wastewater infrastructure

- \$129 million for housing programs, and
- \$878 million for other infrastructure initiatives

Beginning in Budget 2003, the government will publish a three-year capital plan each year as required by Alberta's new fiscal framework, setting out the government's commitment to spending on capital projects. A portion of the funding for the second and third years of the Centennial Capital Plan will come from alternative funding methods that will allow government to pay for capital projects over a number of years, or involve the private sector in public-private partnerships. "Our plan calls for us to explore alternative funding options to help address infrastructure needs," said Lund. "There will be an array of options evaluated, and an expert advisory committee is being put together to offer the government advice on whether particular projects are suited for alternative financing, and what kind of option would be appropriate. However, the bottom line remains the same: the government will not run budgetary deficits."

The plan includes capital investment in government-owned projects, capital grants to support projects being built by local authorities and other capital spending. Funding has been included to replace some facilities that are beyond their useful lifespan and to continue the process of preserving and maintaining existing infrastructure.

ABBOTSFORD HOSPITAL PPP MOVING AHEAD

"The private sector has shown a very strong level of interest in this project and we anticipate receiving a number of excellent proposals for this facility," said Gary Collins, Minister responsible for Partnerships BC. "We've had inquiries from around the world about this project. It is another example of the renewed investor confidence in our province's economy." At the bidders' meeting in Abbotsford, the Minister confirmed his government's strong support for the project and commitment to pursuing public-private partnerships as a means of improving the delivery of publicly funded and publicly accessible healthcare services in the province of British Columbia.

The BC government issued an Expression of Interest in January, asking for private sector proposals to finance, design, build, maintain and operate the facility's services. Clinical services will continue to be provided by the health authorities.

Expressions of Interest were submitted in April and are currently being evaluated. The RFP is scheduled to be

released in June and the final proponent is expected to be selected by December 2003.

VANCOUVER GENERAL HOSPITAL PPP PROCEEDING



The Vancouver Coastal Health Authority (VCHA) is moving forward with the proposed public-private partnership to develop a new 365,000 square foot facility to be built at an estimated capital cost of \$90 million.

After receiving nine responses, the VCHA has distilled the respondent list down to three qualified parties who will be asked to respond to the RFP to be issued shortly. Macquarie is among the short-listed respondents.

It is anticipated that the successful private sector partner will assume responsibility for the financing, design, construction and operation of the building, while the VCHA and the UBC Faculty of Medicine will ensure that services within the centre provide appropriate teaching and clinical services.

FRASER RIVER CROSSING PROJECT TO BEGIN

TransLink, the Greater Vancouver Transportation Authority ("GVTA"), is developing a new crossing of the Fraser River and is inviting potential proponents to register their interest in assuming the role and responsibilities of a private sector partner in the new Fraser River Crossing ("FRC") Project.

The FRC Project is but one of a suite of projects collectively known as the Fraser Gateway Program. GVTA and the Province are working together to develop the Fraser Gateway Program, which will be financed through tolls. A range of engineering, planning, and financial analyses is being undertaken to develop a detailed plan to implement the various elements of the Fraser Gateway Program. This includes examining its financial and technical feasibility, financing and delivery models, corporate structure, and tolling strategy. An RFP has been issued to engage a consultant to complete a traffic and revenue study for the FRC Project and other projects within the Fraser Gateway Program.

The Fraser Gateway Program is an integrated regional road network that would significantly improve the movement of goods and people in the Fraser River corridor. In addition to the FRC Project, priority projects in the Fraser Gateway Program include:

- Trans Canada Highway and Port Mann Bridge
- South Fraser Perimeter Road
- North Fraser Perimeter Road

A new crossing of the Fraser River has long been part of the transportation plans of the GVRD and the Province of BC. The crossing will connect the municipalities of Langley and Surrey to Maple Ridge and Pitt Meadows, providing badly needed north-south capacity to meet travel demand. The FRC Project will provide users with estimated travel-time savings of at least 20 to 30 minutes for river crossing trips, and will serve as an alternative to the Pitt River or Port Mann bridges.

US PPP DEVELOPMENTS

OREGON

Oregon is struggling to find adequate transportation funding to build and fix roads and bridges and needs to find a new funding solution. A recent report from Oregon's Innovative Finance Committee has recommended that state legislators create a new program to allow the Oregon Department of Transportation (ODOT) to step outside traditional funding and contracting methods. The committee says that if the ODOT would use more design-build and allow private companies more input, both in design and finances, it would enable many pending projects to reach completion. This report is expected to result in a bill requesting the creation of an Oregon Innovative Partnerships Program and a new unit within the ODOT to develop the program.

WEST VIRGINIA

A bill (HB2873) that would establish a process for private investors to use their money to help build highways and bridges in West Virginia is receiving renewed emphasis this year in the Legislature. The bill was introduced by Committee in late February and is now pending. The bill died in a different house committee last year after various objections were voiced by the Contractors Association, and by the Transportation Secretary / Highways Commissioner.

ABOUT MACQUARIE

Macquarie North America Ltd. is a member of the Macquarie Group, a specialist provider of investment, advisory and financial services in select markets around the world. Macquarie's approach is driven by a deliberate focus on areas where we have specialist expertise, such as in the infrastructure sector. The

Macquarie Group has 4,700 people in 18 countries. The Group is headquartered in Australia, where our parent company, Macquarie Bank, is recognized as the leading investment bank and is one of Australia's top 40 companies by market capitalization.

The Macquarie Group has been actively involved in the Canadian market since the early 1990's. Over the last four years, we have established what is now the largest financial advisory team dedicated to the Canadian infrastructure sector with over 45 staff and offices in Toronto and Vancouver. Macquarie provides advisory services to both government and corporate clients across Canada. These advisory services include project evaluation and financing, PPP structuring and evaluation, structured financing, cross-border leasing, capital restructuring, mergers and acquisitions, strategic options evaluation and other corporate, strategic and financial advice in the transportation, utility, government and resources sectors.

The Macquarie Group has leveraged its infrastructure expertise through the establishment of specialized infrastructure funds. Macquarie currently manages over C\$9 billion in publicly listed and private infrastructure funds investing internationally in assets such as toll roads, airports, pipelines, transmission assets and other infrastructure. In Canada, Macquarie infrastructure funds have major investments in Canadian assets, including Highway 407, the world's largest privatized tollroad (43%), and the Detroit-Windsor Tunnel (100%).

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