Deloitte.

City of Winnipeg

Stage 2 – Southwest Rapid Transit Corridor Project P3

Business Case Summary



April 4, 2014

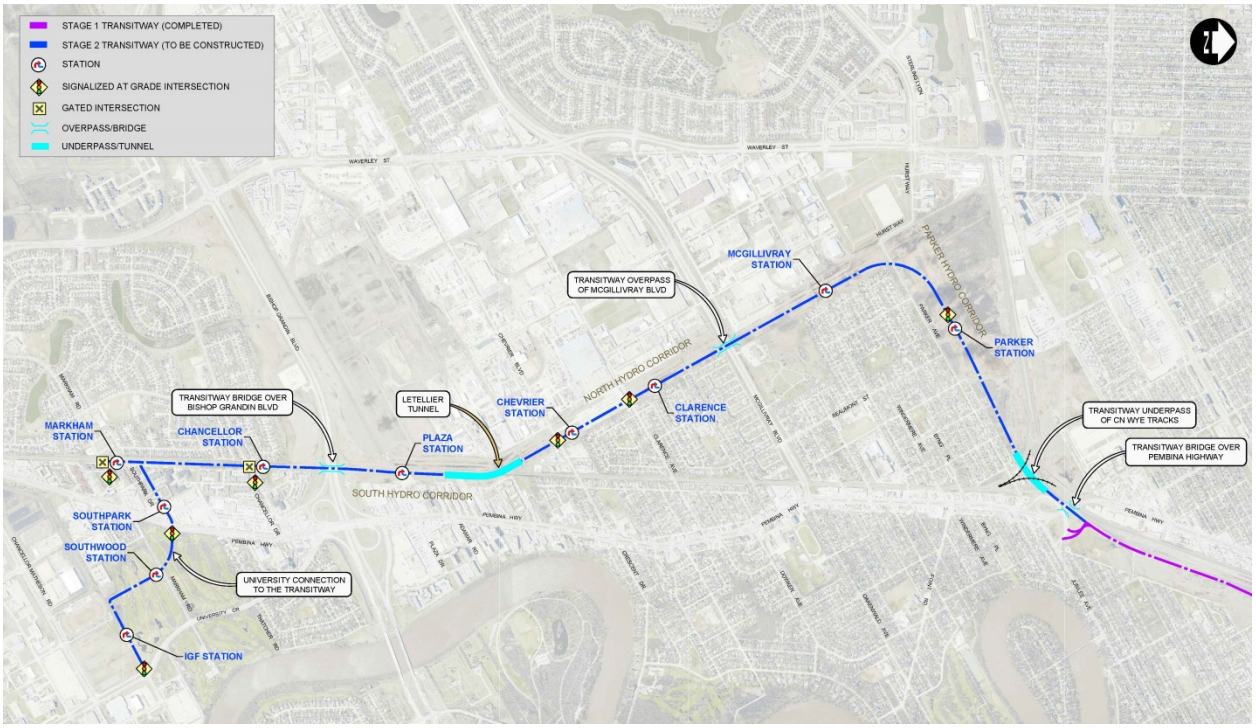
Project Need and Benefits

Since the 1970's, the City of Winnipeg (the "**City**") has identified the need for a rapid transit infrastructure to support the City's long-term growth objectives. This need has been articulated most recently in *OurWinnipeg,* the City's strategic plan, and its Transportation Master Plan ("**TMP**"). The benefits delivered by the rapid transit system are becoming increasingly important as the City plans for the growth of its population to approximately one million residents by 2031. Based on this expected growth in population and corresponding congestion levels, the City's highest priority rapid transit project is the Southwest Corridor that connects the downtown with the rapidly growing southwest sector and the University of Manitoba.

Stage 1 of the Southwest Rapid Transit Corridor ("**Southwest Transitway**" or **"Transitway"**), the initial phase of Winnipeg's rapid transit network (3.6 kilometres in length, located between downtown and Pembina Highway and Jubilee Avenue) opened for service in April 2012 and is being used by a Bus Rapid Transit ("**BRT**") network of 13 routes, providing fast, frequent, reliable service throughout the day on all days of the week. Rapid transit routes access the Stage 1 transitway at four locations to provide trips without transfer for passengers travelling between the southwest part of the City and downtown.

The City is now progressing with its plans to develop Stage 2 of the Southwest Transitway ("**Stage 2**" or the "**Project**"), which is the subject of this business case summary ("**Business Case Summary**")[1]. The Project includes a 7.6 kilometre southerly extension of the existing infrastructure of Stage 1 from Pembina Highway and Jubilee Avenue to the University of Manitoba on an exclusive transitway constructed within existing Manitoba Hydro and CN Rail rights-of-way. Figure 1 below illustrates the preferred alignment as determined by Dillon Consulting Limited ("**Dillon**") in the Alignment Study approved by Council.

Figure 1: Proposed Transitway Alignment and Approximate Station Locations for the Project



Source: Dillon Consulting Limited (2014)

[1] The City is in the process of preparing and submitting the Business Case to support its funding application to PPP Canada. This funding process is expected to culminate with a review of the Business Case by PPP Canada's Board of Directors in June 2014. This Business Case Summary report provides a summary of the key components of the Business Case. The Business Case is currently in draft form, the results of which may change depending on PPP Canada's input.

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The implementation of the $590 million[2] capital investment associated with Stage 2 is expected to give rise to numerous benefits which meet the key strategic goals outlined within the City's Sustainable Transportation Strategy, as well as specific rapid transit-oriented strategic goals and objectives in the Transportation Master Plan. These benefits include the following:

- **Increased transit ridership** – the improvements in speed, reliability and convenience which can be achieved by a rapid transit system provide an attractive alternative to the private automobile. Due to these factors, combined with population growth, ridership for the existing rapid transit routes is expected to grow an additional 12% to 15% in the initial years following construction.

- **Reduction in traffic congestion and travel times** – the high levels of growth within the City are expected to contribute to an increase of 50% in vehicle-kilometres traveled in the morning peak hour, resulting in "choke points" where travel demand will significantly exceed capacity[3]. By increasing ridership by "discretionary riders" who would otherwise use an automobile[4], as well as providing park-and-ride facilities, the number of vehicles along the route can be significantly reduced and travel times will improve. The Stage 1 section of the Southwest Transitway yielded travel time savings of 4-8 minutes on trips between the centre of Downtown and the University of Manitoba, with greater time savings being realized during peak periods. Given the greater length of Stage 2, it is expected that 5-8 minutes of time savings will result from the construction of Stage 2, depending on the time of day.

- **Improved transit service and schedule reliability** – despite speed, reliability, and frequency of service being identified as the most important transit service attributes to users[5], high levels of congestion along Pembina Highway have impacted the ability of the City to maintain a reliable Transit service. A dedicated transitway would provide the greatest opportunity for transit vehicles to achieve faster travel times and meet posted schedules, resulting from the limitation/removal of interference by other traffic. This results in the highest degree of service reliability within these corridors, especially when coupled with automatic vehicle location and real-time passenger information at stations. Further, due to the high operating speeds on a fully built-out transitway, increased frequencies can be operated with only a modest increase in fleet size to carry the additional ridership that is expected after Stage 2 is completed.

- **Transit-oriented development** ("**TOD**") – development along the rapid transit corridor presents an opportunity for moderate to higher density compact mixed-use and pedestrian-oriented development located within proximity of major transit stops and in the adjacent designated TOD sites (Fort Rouge Yards, Southwood Golf Course lands, former Sugar Beet lands and Parker lands). By increasing transportation choice to and from these areas, the City would be able to accommodate a greater proportion of its future population growth within the existing built boundary[6]. Dillon's 2012 Alignment Study identified a land area of 2.2 million m^2 for potential TOD within a 400 metre radius of the proposed stations[7], which was estimated to provide opportunity for the potential development of more than 16,000 residential units which could accommodate close to 30,000 new residents, as well as approximately 73,000 m^2 of commercial development.

  Recent development announcements since the opening of the Stage 1 corridor, and in anticipation of the Stage 2 development, have indicated a strong interest by developers in TOD projects along the Southwest Transitway:

  - October 2012 - GEM Equities announced The Yards at Fort Rouge project, a 900-unit infill housing project, the first TOD in the City.

[2] Based on the current draft Business Case, the results of which may vary once approved by PPP Canada.
[3] "Winnipeg Transportation Master Plan." City of Winnipeg, 1 Nov. 2011. Web.
[4] Baker, Christopher. "Testing the Benefits of On-street and Off-street Rapid Transit Alignments: Implications for Winnipeg's Southwest Rapid Transit Corridor." University of Manitoba, 2010. Web. 6 Dec. 2013.
[5] "Made in Winnipeg: Rapid Transit Solution." Rapid Transit Task Force, Sept. 2005. Web. 3 Dec. 2013.
[6] "Winnipeg Transportation Master Plan." City of Winnipeg, 1 Nov. 2011. Web.
[7] Krahn, Dave, P.Eng. "Southwest Rapid Transit Corridor Stage 2 Alignment Study." Dillon Consulting Limited, 3 Jan. 2013. Web.

- December 2013 – the planned development of a 19-storey high rise with an expected cost between $35 and $40 million adjacent to the Stage 1 Harkness station on Stradbrook Avenue was announced.
- Spring 2013 – the City granted approvals for a five story mixed-use commercial and office building at the southwest corner of Osborne Street & Corydon, adjacent to the Osborne Station on the Southwest Transitway.
- Streetside Development Corporation is planning a multi-family development (apartment building and townhouses) immediately adjacent to the Fort Rouge Station on the Southwest Transitway.

- **Local economic impacts –** numerous favourable effects to the Winnipeg economy would result from local materials and equipment purchases, construction/contractor involvement, and other spin-off activity associated with the development of the Project. In addition, the Project presents a significant opportunity for job creation, both during construction and throughout the Maintenance Period:

    - A high-level approximation of the job creation provided by the Project, suggests that the construction phase would create approximately 3,692 person years of employment and the maintenance phase of the Project would create approximately 923 person years of employment[8].

- **Revitalization of downtown area** - Winnipeg's downtown area has seen significant revitalization in recent years through developments including the Graham Transit Mall, MTS Centre, Manitoba Hydro Place, and Centrepoint, as well as the SHED district. These developments result in a reduction to the availability of parking spaces in the area. A reliable rapid transit service operating via the Graham Transit Mall into the heart of Winnipeg's downtown area will provide a viable and less expensive alternative to commuters while enhancing citizens' access to the revitalised downtown area.

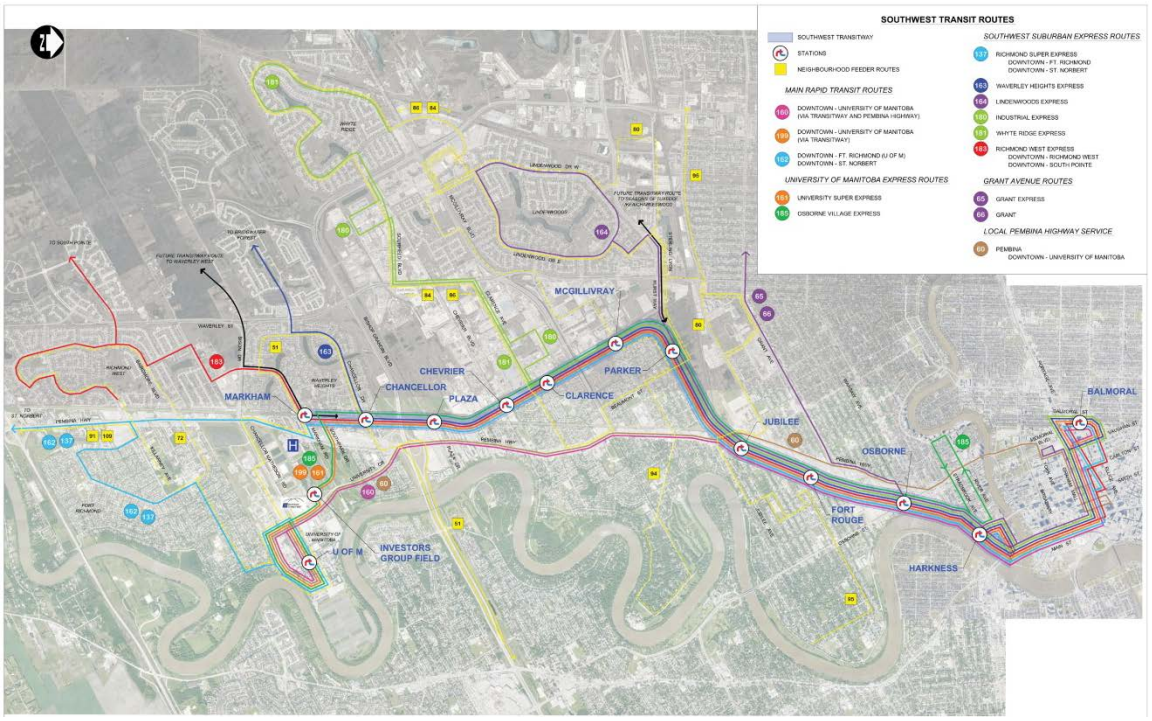
- **Environmental sustainability** – an improvement in modal split presents an opportunity for significant environmental benefits as users shift from high-fuel consumption private automobiles to public transit and active transportation travel modes. Through improved modal split, as well as operating efficiencies resulting from an ability to service more customers with fewer buses[9], a rapid transit system provides the opportunity for a significant reduction in fossil fuel consumption and greenhouse gas emissions from the City's urban transportation system.

Project Scope

As determined by the alignment study completed by Dillon, the preferred alignment for the transitway runs through the Parker/Manitoba Hydro Lands paralleling Parker Avenue and then shifts to locate within the Manitoba Hydro right-of way until it intersects the existing CN track, north of Bishop Grandin and then continues south along the east side of the CN rail line to Markham Road.[10] This route allows buses direct access to various neighbourhoods at intermediate points along the Transitway, thereby providing the ability to more effectively and efficiently serve the travel needs of those who live, work, and study in the southwest quadrant of the City.

[8] The estimate of jobs created from construction is based on the approximate capital value of the Project ($600 million), a high-level assumption of labour being 40% of total construction costs. The estimate of jobs created from O&M is based on the estimate of maintenance costs (approximately $100 million in nominal dollars over 30 years) and a high-level assumption of labour representing 60% of such costs. Average salaries of $65,000 per year are assumed for both construction and O&M, approximated from average weekly construction earnings of $1,036.77 taken from Statistics Canada (December 2013), plus 15% overhead costs.
[9] "Made in Winnipeg: Rapid Transit Solution." Rapid Transit Task Force, Sept. 2005. Web. 3 Dec. 2013.
[10] Krahn, Dave, P.Eng. "Southwest Rapid Transit Corridor Stage 2 Alignment Study." Dillon Consulting Limited, 3 Jan. 2013. Web.

Figure 2: Conceptual Route Network for the Southwest Transitway



Source: Dillon Consulting Limited (2014)

Based on previous studies conducted[11], and with consideration to important service and productivity advantages, a BRT system is considered to provide the optimal transit technology solution for this Project.

The Project involves the construction of the following infrastructure elements[12]:

- Approximately 7.6 km of runningway to extend the Transitway from Pembina Highway & Jubilee Avenue to Markham Road and to the University of Manitoba, including roadway connections between the Transitway and the street system;
- Nine modern transit stations:
- Two new stops on the connection to the University of Manitoba;
- A new, special-purpose event day transit station at Investors Group Field to accommodate buses serving major events at the stadium;
- Widening of Pembina Highway by one lane through the Jubilee Underpass;
- Construction of a new Transitway bridge and CN rail bridge over Pembina Highway, and demolition of the existing CN rail bridge structure;
- Construction of a new Transitway underpass of CN wye tracks at the CN Portage Junction;
- Construction of a Transitway overpass of McGillivray Boulevard;
- Construction of a Transitway tunnel beneath the CN Letellier rail line (Letellier Tunnel);
- Construction of a new Transitway bridge and CN Letellier rail bridge over Bishop Grandin Boulevard;
- Construction of new park-and-ride facilities in close proximity to the Clarence and McGillivray stations;
- Upgrades to existing stops on the Fort Garry campus of the University of Manitoba;
- Transit signal priority technology, which will enable buses to communicate with the traffic signal controllers to provide priority to rapid transit service; and

[11] "Made in Winnipeg: Rapid Transit Solution." Rapid Transit Task Force, Sept. 2005. Web. 3 Dec. 2013.
[12] Information provided by Dillon Consulting Limited, Feb. 2014.

- A new Active Transportation path along the Transitway with full integration of cycling facilities at the stations.

Figure 3: Illustrative Photo of Station Design (existing Fort Rouge Station)



Source: Dillon Consulting Limited (2014)

Public-Private Partnership Approach

The City is planning to undertake a public-private partnership ("**P3**") approach for the delivery of the Project given the alignment of its objectives with the expected benefits that a P3 model brings. The City is a municipal leader in Canada in using the P3 model for procuring major capital infrastructure and has previously procured three transportation projects using P3 models, including the Disraeli Bridges and Chief Peguis Trail Extension projects in recent years.

Based on the City's assessment of the range of project delivery models relative to its objectives, a Design Build Finance Maintain ("**DBFM**") is recommended as the preferred P3 procurement and contract approach for the Project. The key characteristics of the DBFM contract structure are:

- **Bundled Design, Construction and Maintenance (including Lifecycle):** One private sector entity (**"Private Partner"**) is responsible for design, construction, maintenance and long-term rehabilitation (lifecycle) of the Project. This provides strong incentives for design and construction work which is cost efficient, integrated (reduces design coordination issues), and results in an infrastructure which is economical to maintain over the long term as measured against performance standards that will not change.

- **Risk Transfer:** Design, construction, and maintenance risks are transferred to the Private Partner which would have the right experience and expertise to carry out these roles. The market consultations conducted for this Project indicate strong interest among private sector entities to participate in this Project under a DBFM model.

- **Cost and Schedule Certainty:** Given the City's future strategic direction for transit and transportation in the City, a P3 approach would provide the City with more certainty on completion of the Project within their timelines. In addition, annual and long-term maintenance costs will be fixed (subject to annual inflation adjustments) which will enable the City to plan for program costs over the long-term.

- **Payment on Performance:** The DBFM model involves the withholding of payment to the Private Partner until construction is completed to the specifications and requirements of the City (commissioning is achieved) as well as if the maintenance performance is not up to the requirements and/or standards of the City. The Private Partner would be penalized for failure of performance over the course of the long-term Maintenance Period.

- **Private Capital at Risk:** The DBFM model involves investment of private capital, which adds a high degree of Project due diligence, third-party oversight, and strong incentives for timely completion during the construction period. The DBFM model also includes long-term private capital, required to fund the portion of construction payments which have been withheld and are paid out over the maintenance term, providing the same discipline, oversight, and strong incentives for performance throughout the maintenance term. In addition, this private capital is at risk if the performance standards are not met.

The assignment of roles and responsibilities under a DBFM structure for the Project can be summarized as follows:

Table 1: Roles & Responsibilities under DBFM structure

Role	City of Winnipeg	Private Partner
Approvals		
• Environmental Assessment (EA) approvals	✓	
• Manitoba Hydro approvals	✓	✓
• CN approvals	✓	✓
• Other approvals	✓	
Design		
• Develop Functional Design	**Technical Advisor**	
• Develop Detailed Design		✓
Design and Construction Co-ordination		✓
Construction		✓
Maintenance		
• Maintain the Project over the long-term, including routine maintenance of civil infrastructure and summer/winter operations (Stage 1 and Stage 2)		✓
• Comply with performance specifications / requirements		✓
• Meet and exceed all environmental and health & safety requirements		✓
• Comply with hand-back requirements		✓
Long-term lifecycle maintenance – Stage 1 (major capital refurbishment of civil infrastructure, including pavement and structures)	✓	
Long-term lifecycle maintenance – Stage 2 (major capital refurbishment of civil infrastructure, including pavement and structures)		✓
Short-Term Private Financing (During Construction)		✓
Long-Term Private Financing (During Maintenance Period)		✓
Long-Term Public Financing (for Substantial Completion Payment)	✓	
Annual Payments for Maintenance and Lifecycle	✓	
Ownership of the Project (Maintenance Period and End of Term)	✓	

The Project's significant capital size, complex construction coordination and related risks make it well suited to a P3 model under an appropriate risk allocation structure. Some potential challenges of the Project include construction staging area limitations; traffic management requirements; railway infrastructure and utility realignment; and related third party interface along the Project corridor. Therefore, there is potentially significant benefit in combining the design and construction for the Project with a single entity responsible for the coordination and interface of all such Project activities. For example, any construction delays or increased costs caused by schedule acceleration, lack of resources (equipment, materials, labour), inefficient coordination with subcontractors, or final design not conforming to the City's performance and service specifications, will be accounted by the Private Partner under the DBFM model.

A series of consultations (**"Market Consultations"**) were conducted by Deloitte on behalf of the City to gain further insight from a range of P3 industry participants into the various components of the Project. The participants consisted of various developers, contractors, engineering firms, lenders, and debt arrangers that would be expected to bid on the Project to ensure that feedback on all key aspects of the Project was obtained. Each of the 23 firms which agreed to participate has strong expertise as well as experience on past projects with similar size and scope. The Market Consultations indicated that there is a significant level of interest from potential market participants, with specific reference to the Project's size and scope as a P3. The feedback obtained during the Market Consultations with respect to design and construction, maintenance, and financing issues were used to support the P3 financing assumptions utilized in the Business Case.

In order to achieve additional efficiencies on certain annual maintenance items (summer and winter maintenance), the Private Partner will assume the annual maintenance of the Stage 1 section. The City will however, continue to retain the obligations for periodic major lifecycle maintenance.

Value for Money Assessment

Overview

A Value for Money ("**VFM**") assessment is a comparison of the costs of delivering an infrastructure project using a P3 approach (in this case as a DBFM), as opposed to a "traditional" procurement method such as Design-Bid-Build ("**DBB**"). The objective of VFM analysis is to ensure that the City is using the procurement and project delivery method which provides taxpayers with the best overall value solution.

The VFM assessment[13] compares the estimated total costs to the City of two potential methods of executing the Project:

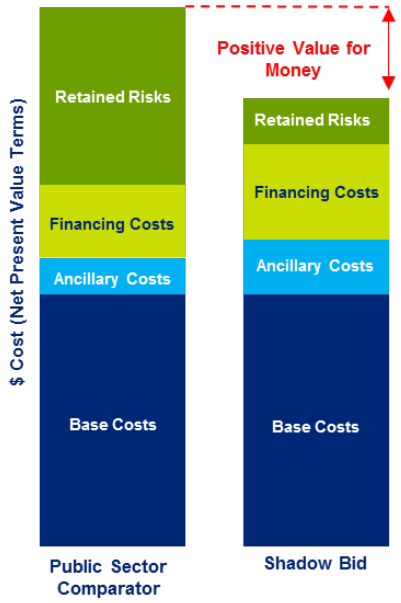
1. **Public-Private Partnership (DBFM) / Shadow Bid**: These are the total costs to the City of delivering the Project based on the DBFM model. These costs are based on the City's future payments to the Private Partner, and also include an adjustment for risks retained by the City under this model.
2. **A Public Sector Comparator ("PSC"):** The PSC is an estimate of the total costs to the City of delivering the Project, based on the City's traditional DBB method of delivering public infrastructure projects and also includes an adjustment for risks retained by the City under this model. Under this approach, the City is assumed to finance the Project's capital costs.

The VFM analysis is conducted by comparing the Net Present Value ("**NPV**") of the risk-adjusted costs of the DBFM against that of the PSC. The premise is that by including the cost of all risks to the City, a fulsome risk-adjusted cost comparison of the DBFM and the PSC can be completed. It should be noted that a VFM is a comparative assessment and, as such, any quantification of risk should only be viewed within this context and not interpreted on an absolute basis. The impact to the City of an actual risk event occurring may or may not be similar to the results generated through the VFM risk quantification assessment.

The purpose of the VFM analysis is therefore to quantify the estimated amount, if any, by which the NPV of the risk-adjusted costs of the Project when delivered as a P3 (DBFM) are lower than delivery under the PSC (DBB).

[13] The VFM methodology applied by Deloitte within the Business Case uses a risk assessment tool that is proprietary to Deloitte, but follows industry best practices as defined by Infrastructure Ontario and other procurement agencies in Canada and worldwide.

Figure 4: VFM - Comparison between PSC and Shadow Bid



Retained Risks are the risks that are managed by the public sector.

Ancillary Costs are costs associated with planning and delivery of a project that could vary depending on the project delivery method, e.g. project management costs, transaction costs, and procurement costs. These costs are typically higher under a P3 but may vary depending upon each project.

Financing Costs are typically greater under a P3 than the PSC since the private sector will borrow at private financing rates to pay for the project costs until repaid by the public sector.

Base Costs are comprised of the design and construction costs. The base costs under the PSC and P3 are assumed to be the same.

Risk Assessment

The VFM assessment involves a comprehensive risk assessment process that quantifies the City's risk based on a methodology which is considered as best practice in Canadian P3 transactions. This methodology estimates the probability and cost impact of a range of risks associated with the Project. To estimate the probabilities and impacts of the various risks, the City's Project team (consisting of representatives from various City departments) and advisors convened two risk workshops facilitated by Deloitte, which involved the examination of a total of 67 discrete risks across all Project phases. Each risk was quantified under both a DBB and DBFM model in terms of the applicable cost base, probability of occurrence, expected impact, and risk allocation between the Private Partner and the City.

The transfer of construction risks as well as long-term maintenance and lifecycle risks to the Private Partner through the DBFM model is recognized as a significant advantage to the City for this Project while also providing the City with sufficient security against construction or Maintenance Period performance. Based on risk assessment findings for the Project, the DBFM model is expected to provide robust value for money to the City described below.

Preliminary VFM Assessment[14]

The base cost inputs and financial assumptions developed for the Project are used as the basis for the financial model for the Project. Results from the financial model and the risk assessment are integrated to produce the VFM assessment of the Project.

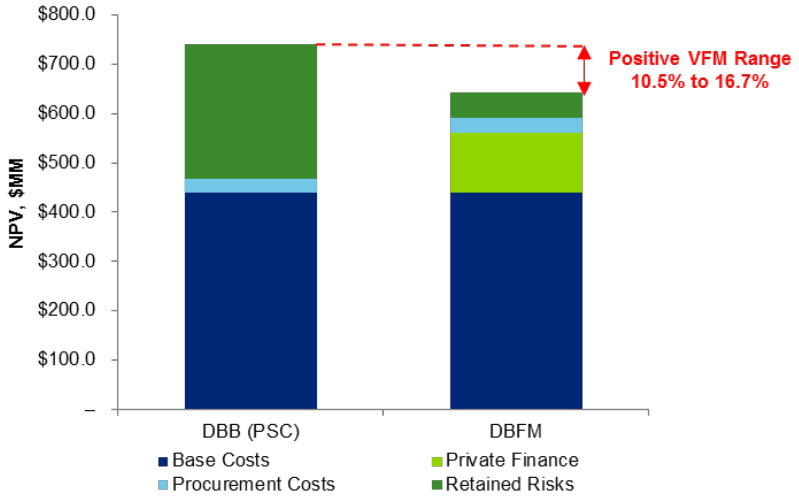
The DBFM model provides robust VFM due to risk transfer primarily during the construction and maintenance phases of the Project. Although the design and development of the Southwest Transitway is technically complex, the key risks associated with the Project are generally risks that can be controlled and mitigated by the private sector. Therefore, the transfer of these risks to a Private Partner that has experience and expertise in construction and maintenance of roadways is expected to result in VFM savings. A range of VFM results has been generated through conducting sensitivity and scenario analyses (using a combination of sensitivity parameters) to determine impact on VFM from a potential change in future market conditions based on the following parameters:

[14] Based on the current draft Business Case, the results of which may vary once approved by PPP Canada.

1. **City Discount Rate:** + / - 25 bps;
2. **Construction Costs Inflation Rate:** 2.5% to 4.5%; and
3. **Private Financing Long-Term Credit Spread:** 170 bps to 230 bps.

Conducting various sensitivity and scenario analyses illustrates that the DBFM with a 30 year term generates expected VFM savings within a range of 10.5% to 16.7% relative to the City's PSC, as illustrated in Figure 5**.**

Figure 5: VFM Comparison Between DBB (PSC) and DBFM (P3)



Discount Rate and Borrowing Rate Sensitivity[15]

The VFM assessment has assumed the following interest rates for the analysis:

- **Long-Term Private Debt All-in Rate:** A long-term private debt all-in rate of 5.50% based on the Government of Canada ("**GOC**") long-term borrowing rate as at February 18, 2014 (3.05%) ("**Base Rate**") plus an additional 45 bps to reflect possible future increase in interest rates up to Financial Close (Q4 2015), and an assumed spread of 200 bps based on recent market observations and Market Consultations.
- **Discount Rate and City Borrowing Rate:** An all-in cost of borrowing for the City of 4.35%. This represents a best estimate of the City's current long-term borrowing rate based on the Base Rate and a City financing credit spread of 130 bps. This estimate was developed in consultation with the City's finance department. The VFM assessment assumes a Discount Rate equal to the City's borrowing rate.

Although assumptions regarding the City's long-term borrowing rate do affect the VFM, as Table 2 below demonstrates, the Project provides robust value to taxpayers under a range of City financing assumptions.

[15] Based on the current draft Business Case, the results of which may vary once approved by PPP Canada.

Table 2: VFM Sensitivity to Changes in Interest Rates

Assumed All-In City Borrowing Rate	VFM Savings through P3 transaction
4.10%	12.0%
4.35% (Base Case)	13.3%
4.65%	14.6%
5.00%	16.5%

Project Funding

Historically, the biggest barrier to the Project's development is the inability for capital funding to be secured from all three levels of government. At this time, the City and Province of Manitoba have committed significant funding to the Project as summarized below, with the balance of funds requested from the federal government through PPP Canada, as supported by the Business Case. The Province has outlined a capital funding commitment of $225 million which will be matched by the City, and PPP Canada's commitment would be 25% of the Project's eligible capital costs and will be subject to the approval of the Business Case. Specific terms, conditions and timing of the contributions from the Province and PPP Canada are expected to be finalized in the spring / early summer of 2014.

The proposed project funding plan will require City funding of approximately $19.7 million annually beginning in 2020. There are several funding options that could be applied, including the allocation of cash-to-capital funding, a property tax increase, a transit fare increase, or a combination of these options. The specific source of funding for the $19.7 million annually will need to be addressed and identified during the City's 2015 budget process.

The DBFM funding structure considered for the Project assumes that the Private Partner will issue a bond for its long-term debt requirements and also commit the necessary amount of equity at the beginning of the construction term. After the funds raised through a bond are fully drawn, the consortium will shift to draw against a short term bank loan facility and subsequently its committed equity to fund the construction period costs. The short term bank loan will be paid off by the funds from the Substantial Completion Payment (**"SCP"**) at the end of construction. Both the long-term bond and equity will be serviced by the consortium during the Maintenance Period through the capital payments due from the City.

Key assumptions underpinning the funding plan during the construction phase under the DBFM structure are noted below:

- **Private Partner:** As per the proposed funding structure, the Private Partner raises long-term financing in respect of 40% of the Project's estimated capital costs that shall constitute the scope of work under the DBFM Project Agreement (i.e., total contract capital costs).

- **PPP Canada:** Assuming appropriate approvals are received, PPP Canada will provide funding that shall cover up to 25% of Eligible Project Capital Costs.

- **Province of Manitoba:** The Province's capital funding share will be made during the construction period. As a result, the Province will provide funding for the Substantial Completion Payment that will be due to the Private Partner at the end of the construction phase (less the PPP Canada funding share of this amount). For **all** other costs incurred by the City during the procurement and construction periods (which is equal to the City's construction costs (Land and Utilities) and the City ancillary costs during construction), the Province will provide funding such that its total amount will be equal to the City and not exceed $225 million.

- **City of Winnipeg:** The City will cost-share capital costs during the procurement and construction phase with the Province such that its share and that of the Province will be equal and will not exceed $225 million. The proposed project funding plan will require City funding of approximately $19.7 million annually beginning in 2020. There are several funding options that could be applied,

including the allocation of cash-to-capital funding, a property tax increase, a transit fare increase, or a combination of these options. The specific source of funding for the $19.7 million annually will need to be addressed and identified during the City's 2015 budget process.

Project Status

Given the City's past experience with P3 procurements, it has in place a proven governance model that will be deployed for this Project. The City has developed a clear organization and governance structure to manage the Project, undertake appropriate due diligence and execute decisions. The City has established its internal project team, the Technical Advisory Committee ("**TAC**") led by Project Manager Bjorn Radstrom (Manager of Service Development – Winnipeg Transit) during the design and Business Case phase of the Project. The Project team is centered around a Project Champion and Project Manager, supported by internal procurement, financial, technical/operations, legal, and communications resources. To support the delivery of the Project, the City will be leveraging a set of external advisors (transaction / financial, legal, and technical) with expertise in P3 projects.

In parallel with the Business Case, the City is also engaged in several other tasks to move the Project forward. These include:

- **Completing the functional design work for the Project**;
  - Design work, including confirmation of the alignment of the Project, is being undertaken by Dillon and is expected to be completed by August 2014. Cost estimates developed to date as part of the scope of the Functional Design Study provide a level of cost accuracy of +/- 15%.

- **Concluding negotiations with the Province and PPP Canada on funding contributions**;
  - The Province has confirmed its capital commitment to the Project in an amount up to $225 million; specific terms and conditions of this contribution are currently being negotiated, with an agreement anticipated to be reached by April 2014.
  - PPP Canada is expected to review the Business Case at its June 2014 Board meeting, subsequent to which the City will await a funding decision.

- **Progressing with land acquisitions processes**;
  - The City of Winnipeg's Real Estate Division will need to acquire land or land interests from eight different property owners to facilitate the development of the Project. Three of the property owners (Manitoba Hydro, CN and University of Manitoba) are considered Crown/Provincial Corporations, while the remaining five properties are all privately owned. All affected property owners have been made aware of the City's land and land interest requirements, and based on preliminary discussions the City anticipates that it is likely it will be able to acquire needed lands and land interests through the negotiation process, and that expropriation will likely not be required. However, if it is determined that negotiations cannot be finalized in time to meet the Project's scheduled Fall 2015 construction start date, the City is prepared to initiate expropriation proceedings.

- **Progressing with environmental assessment processes**;
  - An Environmental Assessment Proposal ("**EAP**") is being prepared for submission to Manitoba Conservation and Water Stewardship. From the activities completed at this time, no significant issues of concern have been identified.

- **Reviewing information requirements contained in the Province's P3 legislation**;
  - Based on the City's review of the requirements contained in The Public-Private Partnerships Transparency and Accountability Act, it is anticipated that the contents of the Business Case are in compliance with the applicable requirements. It is also understood that as part of these regulations, the City is required to conduct a public meeting with respect to the P3 procurement approach. The City will conduct the public consultation prior to the release of the RFQ, as required by the Province.

- **Preparing a stakeholder engagement and communications strategy**;

- The City has prepared a Public Engagement and Communications Strategy to guide key communication protocols and messaging in relation to the development of the Project. The Strategy covers the various distinct phases of public engagement during the Project, from Functional Design (October to February 2014) through to Pre-opening (November 2019 to April 2020).
- During the development of the functional design for the Project, two rounds of public engagement were undertaken to communicate the general alignment of the transitway; outline the scope of the Project; understand expectations of stakeholders and the public; gather feedback for consideration by the design team; as well as refine the functional design and respond to stakeholder questions following the preparation of a draft functional design for the Project.

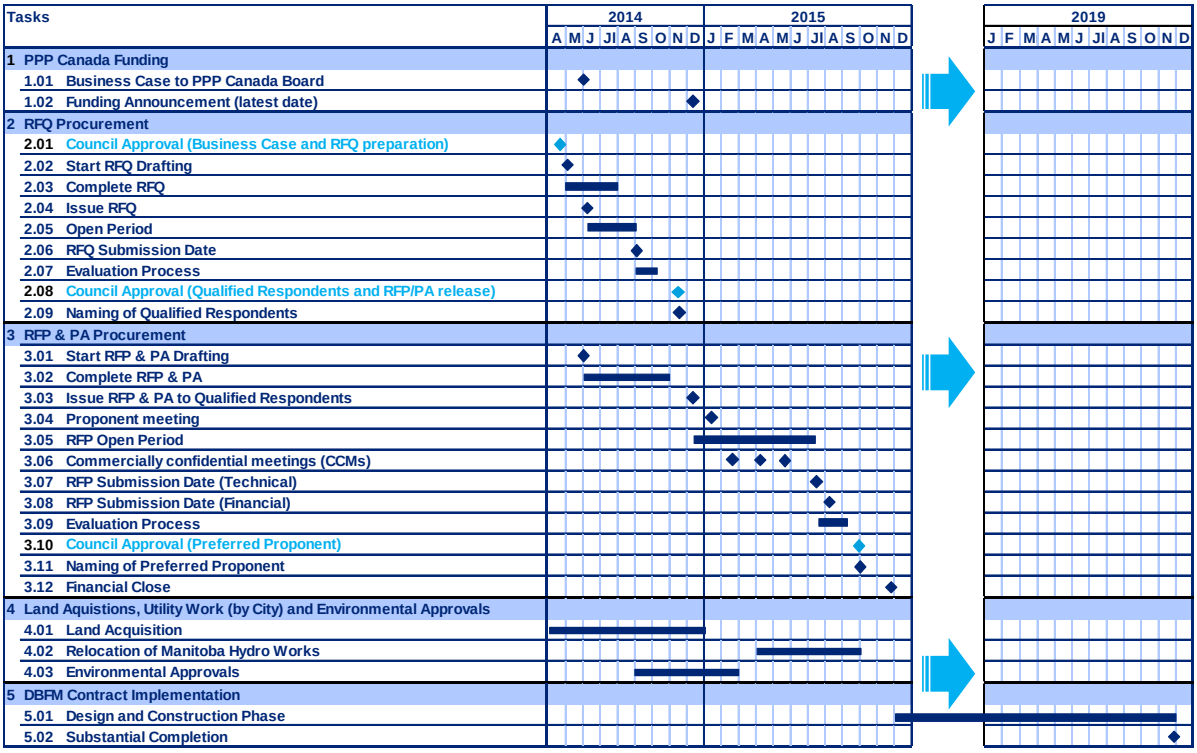
- **Confirming operating protocols with third-parties (Manitoba Hydro and CN)**.
  - The City and Manitoba Hydro have identified a mutually acceptable route for the Transitway through the hydro corridor and further discussions concerning the acquisition of land for the Transitway and a cost sharing schedule for the relocation of hydro transmission towers are on-going.
  - Discussions between the City and CN are currently on-going to assess further details of the Project and confirm roles and responsibilities; a letter has been provided to CN to outline a proposed approach and the next step shall be to receive feedback and acknowledgement from CN.

Next Steps

As a next step for Council, the City will consider the submission of the Business Case, scheduled to be presented for approval at an upcoming meeting. Approval of the Business Case will allow City staff to proceed with formal preparations for the launch of the P3 procurement process that shall commence with release of the Request for Qualifications ("**RFQ**") to the market in the second quarter of 2014. The RFQ process shall conclude with the City short-listing up to three (3) qualified consortia followed by a Request for Proposal ("**RFP**") to select the preferred proponent that offers best value to the City.

The high level procurement timeline for the Project is provided in Figure 6 below:

Figure 6: High Level Project Timeline



The main drivers of the proposed procurement schedule are: 1) the City's target construction completion date by end of 2019; and 2) providing the Private Partner with a 4-year construction schedule. In order to facilitate this construction window, Financial Close is required by the end of 2015, which will in turn drive the balance of the RFQ/RFP schedule.

On this basis, the City expects to commence the procurement process with the issuance of the RFQ to the market in July 2014, with applicant team submissions due in October 2014. Assuming a funding announcement from PPP Canada with respect to its participation in the Project is made by late-2014, the City would then proceed with the release of the RFP to the qualified respondents in December 2014, and allow for an open period of eight (8) months with bid submissions due in July 2015.

Appendix A: Glossary

Term	Definition
Base Rate	Based on the Government of Canada long-term bond rate plus additional spread to reflect possible future increase in interest rates up to Financial Close.
Business Case	Refers to the Stage 2 – Southwest Rapid Transit Corridor Project P3 Business Case, which assesses a range of infrastructure Project Delivery Models and recommends an optimal model that provides demonstrable public benefits and Value for Money, and will support the City's funding application to PPP Canada. The Business Case is in draft form, the results of which may change depending on PPP Canada's input.
Business Case Summary	Refers to a summary of the Stage 2 – Southwest Transitway Business Case document.
BRT	Refers to Bus Rapid Transit.
Market Consultations	Refers to market sounding consultations - confidential interactive sessions conducted with potential P3 partners to gain further insight from a range of P3 industry participants into the various components of the Project.
Contract Term	The duration of the PA from Commercial Close to end of contract encompassing both the Construction Phase and Maintenance Period.
City / Winnipeg	Refers to the City of Winnipeg.
Design-Bid-Build or DBB	Means a Project Delivery Model where the public sector procures a design through consulting engineers, and tenders that design for construction via general contractor. The contractor is paid via progress payments and no private financing is needed for construction of the infrastructure. Following completion the public sector assumes responsibility for operations and maintenance of the infrastructure, either through its own staff or via short-term O&M / maintenance only contracts with private firms.
Design-Build-Finance-Maintain or DBFM	Means a Project Delivery Model where a Private Partner is selected to take responsibility for the design, construction, and maintenance of infrastructure, typically for a set term. During construction, a significant portion of payment is held back, requiring the Private Partner to obtain financing for construction costs. Following completion, the held back funds are then paid to the private sector over the Maintenance Period as part of an annual service fee.
Dillon	Refers to Dillon Consulting Limited, the City's technical advisor on the Project.
Discount Rate	A discount rate is the rate at which cash flows are discounted back to a common date.
EAP	Refers to Environmental Assessment Proposal.
Eligible Project Capital Costs	Refers to the capital costs of the Project that are eligible for funding from PPP Canada. The eligible capital costs are comprised of: direct construction costs; interest during construction and financing fees; SPV costs; technical / financial / P3 advisory fees.
Financial Close	The moment in the procurement process when all approvals have been obtained, financing is secured and capital is ready to flow, and the Project receives the Notice to Proceed.
Market Consultations	Refers to a series of consultations conducted by Deloitte on behalf of the City to gain further insight from a range of P3 industry participants into the various components of the Project.
Maintenance Period	Refers to the portion of the Contract Term from substantial completion to end of contract (the 30 year maintenance term of the asset).
Notice to Proceed	Letter received by the Project Co to begin work on the Project.
NPV	The difference between the present value (the current worth of a future sum of money or stream of cash flows given a specified rate of return) of cash inflows and the present value of cash outflows. NPV provides an indication of the profitability of an investment.
PA	Refers to the Project Agreement.
PPP Canada	The federal agency that provides funding to eligible PPP projects.

Term	Definition
Private Partner	The private sector counterparty to a PA. Also referred to as Project Co.
Project or Stage 2	Means the Stage 2 of the Southwest Rapid Transit Corridor (also referred to as "Southwest Transitway").
Project Co	Generic term used to refer to the City's Private Partner under any type of PPP structure. Also referred to as the Project Co.
Project Delivery Model	Means a particular allocation of roles, responsibilities, and risks between the public sector and the private sector, in relation to an infrastructure Project. Examples of Project Delivery Models include Design-Bid-Build (DBB), Design-Build-Finance (DBf), Design-Build-finance-Maintain (DBfM), Design-Build-Operate-Maintain (DBfOM), Design-Build-Finance-Maintain (DBFM), and Design-Build-Finance-Operate-Maintain (DBFOM).
Project Team	Refers to the City staff assisted by its advisors retained for the purpose of developing the Business Case, including Deloitte and Dillon.
Public Private Partnership or PPP or P3	Refers generally to an approach for procurement of public infrastructure where the private sector assumes a significant share of the responsibility for the delivery and the performance of the infrastructure, typically characterized by performance based payment, a long concession term, and a requirement for private financing of at least a portion of the capital costs. The DBf, DBfM, DBfOM, DBFM, and DBFOM Project Delivery Models are commonly considered as types of PPP.
Public Sector Comparator or PSC	The traditional Project Delivery Model used as the basis to compare the costs and benefits of a PPP in a VFM analysis.
Reserve	The funds that the City will generate from the annual tax increase that will be placed into the Southwest Rapid Transit – Stage 2 Reserve.
RFP	Refers to the Request for Proposals typically issued to solicit binding proposals under a PPP procurement approach.
RFQ	Refers to the Request for Qualifications typically issued to pre-qualify a short-list of bidders under a PPP procurement approach.
Southwest Transitway / Transitway	Refers to the existing Stage 1 (opened in April 2012) and Stage 2 of the Southwest Rapid Transit Corridor in Winnipeg.
SPV	Refers to a Special Purpose Vehicle, a company set up by the Private Partner for purposes of submitting a proposal to undertake and manage the Project.
Substantial Completion	Means the date at which the Project is sufficiently complete to go into operations.
Substantial Completion Payment or SCP	Means a specified lump sum payment defined in the Project Agreement provided to the Project Co upon certification of substantial completion.
TAC	Means the Technical Advisory Committee comprised of individuals from the City's Project Team.
TMP	Refers to the City's Transportation Master Plan.
TOD	Refers to Transit-Oriented Development.
Value for Money or VFM	Refers to the risk-adjusted cost-benefit analysis.

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