

Message

From: Bucci, Remo (CA - Toronto) [/O=DELOITTE/OU=CA/CN=RECIPIENTS/CN=166794]
Sent: 9/16/2011 1:40:58 PM
To: Rob Pattison (Infrastructure Ontario) [robert.pattison@infrastructureontario.ca]; John Traianopoulos (IO) [John.Traianopoulos@infrastructureontario.ca]; Andrew Chiu [Andrew.Chiu@infrastructureontario.ca]; Laith Qamheiah [Laith.Qamheiah@bmo.com]; Fishbein, Michael (CA - Toronto) [mfishbein@deloitte.ca]
CC: Bruce Beaton [Bruce.Beaton@infrastructureontario.ca]; Cautillo, Michael (CA - Toronto) [mcautillo@deloitte.ca]
Subject: Ottawa LRT -- Affordability RE Issues and Next Steps
Attachments: ATT40797

At the end of yesterday's call I spent about another hour with Brian, Jeff and Mona to get a handle on the main issue. So here it is (as I understand).

1. Political Issue:

- \$2.1B (1.7 Construction + .4 City) is a highly politically sensitive target.
- Concern is that detractors will be seeking any opportunity to criticize the project if this target is not met.

2. Cash-Flow Affordability and the 400 "F":

- 30 yr DBFM F+f is affordable on a cash basis.
- F=400 was not intended to be a hard target -- not really an issue.
- Main issue is public / political perception on the budget (\$2.1B).
- There is flexibility on cash-flows during operations (Question asked – could we get creative to shift costs to the operating term?).

3. Accounting Issues:

- City will have to account for Construction Work in progress and the "F" as a Finance / Capital Lease.
- Each Milestone / Completion Payment will be recorded on annual financials, up to SC.
- The \$400F comes in at the beginning of the maintenance term (basically at SC).
- Based on our modeling, here is what the City's financials would show at SC (lines D and E):

Total Construction "Tender" Cost (as presented to council)	1718	A
Construction Work (Costs paid by City During Construction)		
Milestone Payments (w/o financing) by Year		
	2015	328
	2016	438
	2017	143
	2018	48
	Subtotal	957
Substantial Completion Payment		614
	Subtotal	1571
		D=A+B+C
Value of Finance Lease ("F" Principal)		400
		E
Total		1971
		F=D+E
Delta with Construction "Tender" Cost		253
		G=A-F
Delta if CTP Shadow Bid of 1,586 Applied		132
		H=G-B-ESS
Delta		121
		6.1%

So what does all of this mean – as structured the project could be \$121M to \$253M over the 'Budget' (line A).

Options:

- 1) Keep as is, communicate Affordability Definition in RFP as above and challenge bidders to find the savings. This option will necessitate the need for a Scope Ladder discussion. Also, revisiting the financial parameters (F and/or f) cannot close this gap.
- 2) Begin the process of repositioning the public communications on the "budget" and "construction costs" as compared to what gets capitalized on the City's books.

Going forward, we have a follow-up call with Mona, Jeff and Brian Monday aft – I send the invite. Also, I believe we need to re-convene in Ottawa on Tuesday to provide some form of resolution (I think was going to set this up).

Michael will look to set up a call for us to discuss Monday AM.

Is there any-other way around this??

Regards
Remo

Remo Bucci, P.Eng

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