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PARKING ALTERNATE PROPOSAL REV.1

Mis en forme : Espace Après : 12 pt

ADDITIONAL INFORMATION

I. Introduction

This note aims at clarifying the object, intent and characteristics of the Parking Alternate Proposal.

II. Nature and Object of the Parking Payment

The Parking Alternate Proposal must be set against the terms and conditions of the Project Agreement which require ProjectCo to assume the costs of managing the parking of the Facility and to reflect into the Periodic Payments the estimated revenues generated by the parking in addition to the responsibility to design, construct and maintain the Facility.

The essence of the Parking Alternate Proposal is to:

- a) eliminate this additional requirements imposed on ProjectCo to assume the cost of managing the parking and the parking revenues risks.
- b) provide that MUHC will make coincidentally with the Financial Close of the Glen Campus project, ~~a progress payment~~ an advance Service Payment which should be, in all likelihood, in an amount equal or exceeding the net present value of the estimated net parking revenues foregoneforegone by ProjectCo-which is. This capital contribution will have to be used by ProjectCo for the financingto pay part of the cost of construction of the Facility.
- c) confirm that no reimbursement of the Parking Payment is required at Global Substantial Completion or at any time thereafter since i) the Parking Payment is a capital contribution made in order to reduce the level of Annual Service Payments and, ii) MUHC will retain the parking revenues generated by the Facility in exchange for the Parking Payment with no minimum guarantee from ProjectCo.

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Therefore, it follows from the above:

- a) The phrase “Parking Payment” derives from the genesis of the Alternate Proposal, not to its object nor to the use these funds may be applied by ProjectCo.
- b) The Affordability Criteria is, in net present value terms, the total budget the Government of Quebec has allocated for the Glen Campus project. Since the Parking Payment does not affect this budget (nor the MUHC capital or operating budget), it must not be included in the calculation of the Affordability Criteria (i.e. it is excluded from the NPV calculation). This is the same rationale that is applied for the Base Proposal: the estimated parking revenues are subtracted from the total cost when calculating the Affordability Criteria.

- c) Since the ability of the MUHC to effect the Parking Payment is predicated on the expected level of net revenues generated by the parking, the size of the Parking Payment is totally dependent on the number of interior parking stalls as per the Addenda and no other factor.
- d) The Parking Payment would be made at Financial Close. Therefore, there is no need to include the Parking Payment in the Quebec Government Letter of Undertaking.

III. Use of Proceeds of the Parking Payment

The Parking Payment is ~~a progress payment~~ an advance Periodic Service Payment made by the MUHC with respect to the whole Glen Campus project. Therefore, ProjectCo may use the proceeds to pay Construction Costs and Eligible Costs related to the whole Facility. The proceeds are not dedicated to the parking component of the Facility and, in their use, can be commingled with other funds raised by ProjectCo.

To this effect, the Parking Payment Agreement between MUHC and ProjectCo would define the terms as follows:

"Construction Costs" means all costs, expenses and fees, including applicable Consumption Taxes, properly incurred and payable by ProjectCo to the Constructor under the Construction Contract as set out in the Project Agreement.

"Eligible Costs" means audit and tax fees, amounts payable under the Management Agreement, insurance costs, banking fees, and fees, costs and disbursements of the Independent Certifier and ProjectCo's legal advisers.

It follows from the above that the long-term debt to be raised by ProjectCo should be reduced by an amount equivalent to the Parking Payment.

In terms of financing costs, MUHC expects to reap two benefits from the Parking Alternate Proposal: i) a reduction in the cost of financing (reduced spread) stemming from the fact that parking revenue risks have been eliminated and that the Periodic Payments become, for all practical purposes, an Availability Payment backed by the Quebec Government Letter of Undertaking; ii) a further reduction in the cost of financing (reduced spread) reflecting the fact that the total amount of long-term debt to be raised is significantly ~~reduced by 20% or more.~~

IV. Interest on the Parking Payment

MUHC is not authorised and cannot assume the risks inherent in a delayed financing of the Parking Payment. Hence, funding of the Parking Payment by MUHC must be completed by the date of Financial Close. Moreover, since the financing of the Parking Payment is predicated on the receipt of parking revenues, MUHC is saddled with a negative carry until the parking produces revenues. Here again, MUHC does not possess the resources to assume the negative carry cost.

It follows from the above that:

- a) Disbursement of the Parking Payment must occur at Financial Close.
- b) The Parking Payment must be an interest bearing advance ~~payment~~Periodic Service Payment which will pay the Parking Payment financing costs incurred by MUHC between the date of inception of the loan and the date of Global Substantial Completion. However, since the Parking Payment substitutes for long-term financing, the net cost ~~to of~~ financing during the construction period incurred by ProjectCo should be ~~not~~unchanged or lower than what it would otherwise be.
- c) Interest on the Parking Payment should be treated as a Project Cost under the credit facilities. Interest payments by ProjectCo will be made on a semi-annual basis.

- **Rate of interest on the Parking Payment**

The Addenda issued on November 11, 2009 specified that the “Base Interest Rate will be equal to the financing costs paid by MUHC to secure funding of the Parking Payment”. For the reasons explained above, this remains the operative condition.

MUHC expects the financing costs of the Parking Payment to amount to the interest rate on a representative basket of benchmark Government of Canada bonds plus about 300 basis points. For the purpose of the Parking Alternate Proposal, proponents should use an imputed all-in fixed rate of 6,99% per annum calculated from the date of Financial Close.

The exact financing cost will be known at Financial Close at which time final adjustment to the financing cost of ProjectCo will be made.

- **Reduction of interest payment on the Parking Payment**

As indicated above, the reason why the Parking Payment bears interest is simply to compensate MUHC for the negative carry on the financing of the Parking Payment until the parking generates revenues. Therefore, to the extent part of the parking can be used by parking-fee paying users prior to Global Substantial Completion, it is in the interest of both ProjectCo and MUHC to reduce the amount of interest paid by an amount corresponding to the net revenues generated during that period by the operation of the parking since it lowers the total cost of the Glen Campus project.

This adjustment provision mentioned in the Addenda remains valid. However, since the potential for early use of parts of the parking is design dependent, each Proponent must determine the schedule of parking availability and the impact on its financing costs.¹

¹ For the purpose of estimating the net reduction in interest payments, the net revenues accruing from a partial operation of the parking should be calculated as follows:

Monthly net revenues from partial operations =	Parking stall available	X Monthly interest payment on parking payment	X 0.7
	Total number of parking stalls		

V. Security

The description of the Parking Alternate Proposal issued on November 1, 2009, asked Proponents “to assume that they would be required to provide security in the form of an irrevocable letter of credit in an amount equal to the Parking Payment”.

MUHC is of the view that security in the form of an irrevocable letter of credit is unnecessary if the Parking Payment Agreement between MUHC and ProjectCo contains the following safeguard mechanisms:

- a) The Parking Payment funds need to be segregated from other funds and deposited in a parking payment escrow account.
- b) The establishment of a Parking Payment holdback account where ProjectCo will deposit the holdback amounts payable to the Constructor which are related to or proportional to the amounts payable paid with the Parking Payment funds, in accordance with the provisions of the Civil Code of Quebec pertaining to legal hypothecs.
- c) Draws from the Parking Payment escrow account to be made in accordance with a draw schedule for the sole purpose of payment of Costs of Construction or Eligible Costs already incurred. Each Draw will be authorised by MUHC based on the review of the supporting documentation by the Independent Certifier (the process and documentation required will be similar to that governing disbursement of a construction loan by banking institutions).
- d) MUHC would have a security interest in all of ProjectCo’s rights, titles and interests in the Parking Payment escrow account and the Parking Payment holdback account.

e) A Parking Payment performance security in a form and substance satisfactory to MUHC providing:

(i) an irrevocable and unconditional joint and several guarantee of ProjectCo, Constructor and the Parent Guarantors in favour of MUHC guaranteeing performance of ProjectCo of all of its obligations under the Parking Payment Agreement; and

(ii) an irrevocable and unconditional joint and several guarantee of ProjectCo, Constructor and the Parent Guarantors in favor of MUHC guaranteeing the amount of the Parking Payment held in the PPE Account.

VI. Parking Payment and Termination Events

Since the proceeds of the Parking Payment must be used to pay Costs of Construction and Eligible Costs incurred prior to Global Substantial Completion, it follows that subsequent to that

date the compensation regime provided for in Schedule 26 to the Project Agreement – Compensation on Termination – is unaffected.

During the period prior to Global Substantial Completion, the following would apply:

- a) The undrawn portion of the Parking Payment held in the Parking Payment escrow account will revert back to MUHC. The amounts held in the Parking Payment holdback account would be paid to the Constructor and/or subcontractors in accordance with the applicable provisions of the Civil Code of Quebec.
- b) Subject to paragraph a) above, the provisions of Schedule 26 – Compensation on Termination to the Project Agreement would apply without change.