

Notes to presentation to Core Area Liquid Waste Management Committee

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February 25<sup>th</sup>, 2010-02-25

The Knappett Group of companies has been in the business of delivering Public Infrastructure since 1983 in British Columbia. We are a Victoria Company with local Ownership and Offices.

We have worked on most of the major sewage systems on Vancouver Island including the CRD, the Nanaimo Regional District and the Comox Valley. We have also brought a unique Technology to British Columbia (Upflow Sludge Blanket Technology, "Ecofluid") that we successfully implemented for several systems including Sun Peaks Ski Hill, Kicking Horse Mountain Ski Hill and Nanoose and Pedder Bay First Nations.

I have several concerns with the procurement models proposed and wish to address some of the concerns I and my fellow contractors have with the current procurement strategy.

Firstly, I would note this is the largest single Construction Project (outside the E&N Railway) that I am aware of ever on Vancouver Island. The impacts of the building of this system will be profound on my Industry and long lasting. We are currently undergoing one of those periodic retractions of Capital Spending that has resulted in large layoffs in the commercial Construction Industry and we in the Industry do not see any relief in sight. This Project is an important source of possible employment and a possible lifeline for many companies in Greater Victoria. However there is a real risk that it will instead be a nail in the coffin for many local firms .

What we need is access to the work and the opportunity to compete and procure contracts to keep our employee's working.

My fear is that these Projects will become P3's which are the death knell of Regional Contractors or that Packages will be of such size in tendering that they will not be available to any but International Companies.

An example of my concerns would be the upgrading of the Sea to Sky Highway. We used to build Highways Bridges and have built Bridges all over British Columbia over the past 30 years. The Sea to Sky Highway was all given to one international Contractor who built all the bridges and did all the roadwork with their own Forces and equipment imported from the United States. We were not able to source any work on that P3 whatsoever.

Of equal concern to me is the Engineering work, which typically in the P3 world is given to large International Firms, resulting in the local Engineering firms, which of course support the British Columbia Universities, being dealt out.

The inevitable result to all this is there is a destruction of our very competent local Construction, Engineering and Educational infrastructure.

I also am very suspicious of the business models presented to bolster the case for P3's.

We are told they eliminate Risk but recent P3's in other parts of the world have not shown this to be true, also I have been involved in hundreds of Public Infrastructure Projects over the years that were on time and on budget and I really have a hard time accepting that there is a problem in conventional delivery methods with Construction Risk.

The Financial Comparators are also suspect. I still do not understand that why when comparing Conventional delivery to Unconventional Delivery (P3's) the same discount rate for money is used despite the fact we know the public sector enjoys a significant advantage in interest rates.

I would ask that these models be looked at very closely by you and questioned hard.

Finally the impact of these Projects on the local Industry must be considered given the size and scope of works in comparison to the size of the local Industry. Whoever wins the P3 award will require local skilled labour for this work. The obvious current source of this labour Pool will be the employees of local Firms which will be hard pressed to retain them with the current economic situation. This will result in our Firms being gutted of skilled workers for the duration of the Project.

In summary I request that the committee find ways that local firms can participate in the Project and that Project size and Procurement model be tailored to allow Regional Firms to bid in a significant way.

# P3's

(or "No Country for Old Contractors")

Public Private Partnerships have suddenly become the method of choice for the Province of BC capital spending programs. We have been, as a Construction Industry, very busy over the past 3 or 4 years with an unprecedented boom in condominium building and resource sector spending. Just about every type of construction activity has been flourishing and in the mix, few of us have spent much time worrying about what the Provincial Government has been up to with its much heralded Public Private Partnership agenda. Even when Premier Gordon Campbell announced that forthwith all projects over 20 Million dollars would be examined for P3 potential we as an Industry hardly flinched. After all, wouldn't P3's just mean more construction work and even better times for everyone in the industry? But slowly some reality has been seeping through. The Subprime Mortgage crisis in the US has many of the traditional builders of public infrastructure such as Schools, Hospitals, Highways and Sewage Treatment Facilities starting to think that maybe the next project is not just around the corner. The Industry has started to look over its shoulder at those projects that carried us through many tough times in the 80's and 90's and what we see is a huge Pac Man gobbling up the provincial Capital Project Budget at a ferocious rate and that Pac Man is labeled P3.

Now wait, wasn't the Public Private Partnership model supposed to mean more construction not less. Well the reality is that debt is debt no matter from whom it is borrowed or how it is dressed up. The P3's debt financing goes on the books just the same as a Bond issue floated to build any Project under traditional procurement. The "Construction Pie" is not getting larger, as I was told it would with P3's, it is just getting cut up a different way. Multinational construction companies that never really could compete against the highly competitive and

efficient regional firms are now getting a huge slice of provincial spending and local firms that have contributed for years to local economies are being dealt out. As I was told recently by a highly placed official at Partnerships BC, my firm must "adjust to the new reality". Adjust in this context is a euphemism for "go big or go home". As going big is somewhat difficult for a Victoria based Contractor when faced with competition from Germany, London or Omaha and the realities of putting together billion dollar financing packages, "go home (out of business)" is the probable answer.

So one asks why is the Province so anxious to go down this road given that the very sector that supported the Liberal government, and worked so hard on 3 Elections to see it in power, is now slowly but surely being dealt out of the Public Construction Sector? Recently a major conference on Public Private Partnerships was held in Vancouver where the Premier was a keynote speaker and major speakers from around the world extolled the virtues of P3's. It seems the *raison d'être* is simple, P3's are on Time, on Budget and a better deal for the Taxpayers. No question about that insisted all the speakers who were, incidentally, employed mostly by the very entities that are beneficiaries of these multi million dollar projects. But where is the evidence of all this. And what about 100 years of design and building by local construction companies and designers performing work on time and on budget, what about the Island Highway Project, numerous Schools, Hospitals and other Wastewater Treatment facilities done so well in the past. Unfortunately for the most part the evidence of P3 success is provided by the very entities that benefit most from the system including Partnerships BC. How is it possible that the Abbotsford Hospital that had only one bidder could be such a financial bargain for the Province? "Well we compared it to the public sector comparator" says Partnerships BC and it was good value. Hmm. In an environment where even the best cost consultants are struggling to come to grips with escalating construction costs in all sectors, how is it that the "public sector comparator" is so accurate. The truth is we are selling huge amounts of our public construction industry off at a rapid pace with no real idea whether it is a good deal or not.

On time and on budget? Compared to what? Our Firm has completed hundreds of public sector projects in BC over the past 25 years and we have seldom been late and never over budget. I know that because when we bid on a Stipulated Sum Contract we have a contracted fixed budget and an attached schedule to the Contract. If we are late the Province has penalties it can assess and if we are over budget we must absorb the cost at no fee to the Province. Our firm used to build highways bridges, I say "used to" because most of the provincial budget for Highways is being spent on the "Sea to Sky Highway" which is all being built by one Firm. When all the expertise in the Province is concentrated in one Consortium how do the rest of us participate? "go Big or go Home" unfortunately my home is in Victoria, BC, not Omaha Nebraska.

Currently the Capital Regional District is under a direction from the Provincial Government to install secondary sewage treatment for Greater Victoria. The Province has further mandated that this \$1.2 billion dollar project be built if at all possible as a P3 Project. In simple terms what this means is that those of us who live, work and help build the community on Vancouver Island are about to get the heave ho for a consortium of bankers and multinational contractors from far afield. Although some local procurement will certainly be done such as buying gravel or hiring hourly dump Trucks, the management and engineering jobs and the general construction contracts for all the sewage plants and pipelines will almost certainly be handled, like the Sea to Sky Highway or the GoldenEars Bridge, by one foreign company. Remember how well the Cambie Street merchants were treated by the Canada Line Project? You can be sure that local sensitivities will be the furthest things from the minds of the chosen cartel. It is also hard to imagine, that with so much money riding on a choice of whether to go P3 or not, that the local construction community's capabilities will be given much consideration in the choice of procurement method. The way I see it a P3 is currently a done deal.

This whole P3 debate reminds me of another provincial policy foisted on an unsuspecting public almost half a century ago. At one time the Ministry of Forests managed our Forests and parcels of timber were put out to bid to medium sized timber companies who cut and milled the trees. A system of Tree Farm licenses

was brought in whereby huge tracks of forest were managed by large forest companies. These companies supposedly had the mandate to run local sawmills and log sustainably within an annual allowable cut. Fast-forward 50 years and the Timber is all gone, the Mills are all gone, and even the Pulp Mills teeter on bankruptcy. One has to wonder where we would be today if smaller local firms with an interest in their communities had retained the ability to access the Timber.

In summary I do not believe that we must wrap up large portions of our Public Construction Budget and hand it out to huge Construction Consortiums. Our province was built by British Columbia Contractors, Engineers and Architects. We have become known around the world for our expertise in many Engineering fields because we had opportunity here at home to develop it. If the current model continues I fear that we will be simply a Branch Office Province. One Architect from the UK, at the recent P3 conference in Vancouver, acknowledged that the medium sized regional builders were being forced from the market in the UK as P3's took hold. I see the survival of my firm inextricably linked to the public construction market being **Accessible, Fair, Open** and **Transparent** and as a (getting rapidly older) contractor I do not like what I see with P3's.

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