

Backgrounder for four P3 Projects Costing and Evaluation Methodology, January 2009

Introduction

In 2009 CUPE BC released a report by Ron Parks and Rosanne Terhart, examining financial information concerning four public private partnerships (P3s) in British Columbia. These were the Abbotsford Hospital and Cancer Centre, the Canada Line Rapid Transit Project, the Gordon and Leslie Diamond Centre at Vancouver General Hospital and the Sea-to-Sky Highway. The report is *Evaluation of Public Private Partnerships: Costing and Evaluation Methodology*.

The four projects studied have common features and some differences. In three cases the private partner finances the entire project through a combination of borrowing and equity investment. In the case of the Canada Line the project is partially financed by the private sector through \$600 million in borrowing and \$120 million in equity.

In each case the private partner designs and constructs the project and then manages and maintains the infrastructure for more than 30 years. In the case of both health care projects the private partner will manage the physical asset. With the Abbotsford Hospital the private partner will also be responsible for such services as help desk, housekeeping, materials and patient portering. With the Diamond Centre the private partner is responsible for housekeeping, security and grounds keeping. In the Diamond Centre the private partner is also responsible for leasing commercial space in the building.

In the Sea-to-Sky project the private partner is responsible for maintaining and rehabilitating the corridor over the life of the project. In the Canada Line project, not only will the private partner operate and maintain the line, it will also own the train vehicles.

The government pays for the private investment and borrowing as well as operating and maintenance costs through a stream of payments to the private partner over the life of the project.

Abbotsford Hospital and Cancer Centre

The Abbotsford Regional Hospital and Cancer Centre is a 300-bed replacement for the MSA Hospital in Abbotsford. The capital cost of the project is reported by Partnerships BC as \$355 million, however, the 2008 Provincial Budget and Fiscal Plan documents report the capital cost at \$449 million.

The Provincial Budget and Fiscal Plan in 2008 reported total operating costs for the 33-year project as \$1.233 billion. However, in response to a Freedom of Information request in June 2007 Partnerships BC reported that the total cost of a public project for nominal operating and lifecycle costs including operation cost, repair and replacement and risk costs were \$855 million. This was more than \$300 million less than the operating costs of the private project.

The Canada Line Rapid Transit Project

The Canada Line is 19.5 kilometre-long rail rapid transit line connecting downtown Vancouver, central Broadway, Richmond and Vancouver International Airport. It has a capital cost of \$2 billion.

The project's Value for Money report says the "net present value" of the project over 32 years is \$1,658 million.

While substantial information was obtained under Freedom of Information requests this data proved difficult to use.

The Canada Line applied a 6 per cent discount rate to annual costs over the life of the project. The Value for Money report included a chart that examined the impact of using different discount rates comparing a public and a private project. The report found that the impact of changing the discount rate was greater for the P3 than for the public sector comparator. The report explained that this is because a greater proportion of the P3's costs occur over the operating period as a portion of capital costs are financed with private capital, whereas the full cost of building the line is paid for during construction in the Public Sector Comparator.

Since the cash costs to the public of a P3 option occur much later in the project life than in the Public Sector Comparator option, the application of a high discount rate will almost always serve to portray the P3 as offering more value for money.

Gordon and Leslie Diamond Health Care Centre

The Diamond Centre (formerly the Academic Ambulatory Care Centre) is an 11-storey, 365,000 square foot health care facility on the site of Vancouver General Hospital (VGH). Completed in 2006, the facility has an estimated capital cost of \$95 million. The P3 was delivered through a partnership agreement between Vancouver Coastal Health (VCH) and Access Health Vancouver (AHV).

Despite the fact that the construction cost is reported as \$95 million, the Value for Money report states, "The agreement with AHV, which combines design, financing, construction and facility management, will cost the public sector approximately \$64 million over 32 years in net present value (NPV) terms."

In response to a Freedom of Information request made, CUPE received on May 21, 2008, the annual payment schedule of the Public Sector Comparator and the P3 from the Vancouver Coastal Health Authority. These schedules indicated that the total nominal cost of the Public Sector Comparator amounted to \$89 million and the total of the P3 amounted to \$203 million. This represents a difference of \$114 million. In other words, in nominal dollars the P3 costs \$114 million more than the Public Sector Comparator.

By applying a 7.12 per cent discount rate to these cash flows the Value for Money report was able to change the \$114 million cost advantage to the public sector to a \$17 million advantage to the private sector. As with other projects, since the cash costs to the public of a P3 option occur much later in the project life than in the Public Sector Comparator option, the application of a high discount rate will almost always serve to portray the P3 as offering more value for money.

Sea-to-Sky Highway

The Sea-to-Sky Highway is a 95-kilometre long section of Highway 99 from West Vancouver to Whistler. Approximately two-thirds of the capital expenditure of the overall project is being undertaken through a 25-year Design-Build-Finance-Operate (DBFO project) public private partnership contract between MoT and the S2S Transportation Group (S2S). The remaining third of the capital expenditure for the improvements is being procured by MoT through separate Design-Build (DB) contracts.

The Value for Money report states that the expected cost of the project to the Province is \$789.8 million (Net Present Cost \$2005) over the 25-year contract. By comparison, MoT estimates that the NPC of the risk-adjusted public sector comparator (PSC) would be \$744.0 million (\$2005).

The report asserted that while the net costs of the private project were higher than a public project, additional benefits from the private project made the P3 worthwhile.

The Sea-to-Sky Highway project used a discount rate of 7.5 per cent. Shortly after the project's Value for Money report was released Simon Fraser University Professor Marvin Shaffer published an analysis using a discount rate closer to the government's cost of borrowing. This increased the advantage to the public sector to \$220 million.

As with other projects the Parks and Terhart report find the discount rate used for the Sea-to-Sky Highway project to have been arbitrary.