Subject: FW: Additional Comments on LVP after Monday Council Meeting
Date: Wed, 22 Dec 2004 09:35:33 -0800
From: "John Hunter" <hunterjohn@telus.net>
To: "Corrie Kost DNV" <kost@triumf.ca>

For FONVCA web

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-----Original Message-----
From: John Hunter [mailto:hunterjohn@telus.net]
Sent: December 21, 2004 11:15 AM
To: Mayor Janice Harris DNV (janice_harris@dnv.org); Councillor Alan Nixon DNV; Councillor Jim Cuthbert (jcuthbert@dnv.org); Councillor Maureen McKeon Holmes; Councillor Richard Walton; Councilor Ernie Crist DNV (ecrist@dnv.org); Councilor Lisa Muri DNV (lmuri@dnv.org)
Cc: Irwin Torry DNV; Bill Tracey DNV; 'Peter Thompson'; 'James Ridge DNV CAO'
Subject: Additional Comments on LVP after Monday Council Meeting

Hi all

Just a few comments on reflection after last night's meeting. I am suggesting some action by council on the bid method, and on the future presentation of numbers.

RISKS

The biggest risks would appear to be revenue and construction costs. In saying this, I assume we will not have another "leaky condo" building like the clubhouse now under repair at Northlands Golf Course (the deck is water damaged and being torn up).

Revenue risk we understand. I remain concerned that there are no binding commitments and the anchor tenant RBC "bailed", but my sense is this is the lesser risk.

We remain seriously exposed to cost overruns unless and until we get lump sum fixed price date certain bids. While in the current environment this COULD cost more than a cost plus bid, it caps your exposure other than for changes in scope imposed by DNV, and perhaps for pre-existing environmental (gas station)conditions and geologic (underground parking) risks. You will know your exposure very well before you break ground. With this approach, there is probably not a big risk of having to curtail scope or run for more money part way through as at Northlands and our own "city hall".

The method described last night apparently results in the project bid being divided into, in effect, staged modules, bid over time. It was not clear to me whether each module is lump sum fixed price date certain, or cost plus. If the latter, it is VERY scary. Even if the former, you are still at serious risk it seems to me, because you may have a big hole in the ground before you have all the bids - that is before you know your total price. It's then too late to turn back. Now staff will have to advise you if I am reading this correctly as I am NOT very familiar with this approach.

On balance, I think anything that does not clearly identify your total exposure up front, pre-ground breaking, on a lump sum fixed price date certain basis, leaves you seriously exposed and potentially backed into a corner later. Several oilsands projects in Alberta are coming in with their as-built costs more than 30% over budget - you can't afford to be cost plus in a hot construction environment.

I urge council to ensure this exposure is eliminated to the extent possible. This means lump sum fixed price date certain, I think. It may be harder to do, and bear a premium, but it’s facing the truth to cap risk.

COSTS TO TAXPAYERS

On another note, and on re-reading Nicole's table of "Project Cost per Household per Year", I believe a fairer assessment would be that the cost is $91 per household per year for option C. This is because of the footnote that the $71 number assumes the Heritage Fund won't be repaid. In fact, I think the numbers would show that the economics are so poor the HF, practically speaking, CAN'T be repaid. (I several times have asked Staff for numbers to show the HF could be repaid as the HF policy demands, and did not get any).

But whether it is repaid or not is moot. If you do not repay it, $7.4 MM must be borrowed for some other future project instead of coming from the HF - the ratepayer will suffer that $20 cost for this project or another one. So the HF money in my view can't be treated as free. It has a real cost, even if just the imputed interest costs.

So I think it fair to say your true costs are $91 less the $6 for the federal grant (which is "free" from our DNV perspective).

Nicole's numbers are NOT (nor did she claim) the actual full costs to the ratepayer, except the top three lines with the gross costs. The lower numbers below (down as low as $17) are too show incremental costs, but the results are NOT full costs to taxpayers as the numbers assume, in effect, that those monies are free. They are not!

I think it inappropriate to try to position this project as costing anything less than $(92-6)= $86 per household to the average ratepayer, AND THIS ASSUMES EVERYTHING GOES RIGHT. This is one of my major concerns on this project – this chronic <u>potentially</u> misleading representation of costs which leads people to see and speak of the costs as a few 10 dollar bills a year.

NUMBERS PRESENTATION FOR THE FUTURE

In a FONCVA meeting, a proponent of the project told us the costs for LVP were $3-6 per household per year, apparently relying on paragraph two, page 3 of the April 28 2004 staff memo. These figures again use this incremental approach and ignore the $5.2 MM for land, the $7.4 MM of "available funding", and the $4 MM from the sale of the old site is a credit. So $16.6 MM, half the cost of the project, is assumed as cost free money which is just not appropriate to advise ratepayers of the costs of a project to them.

Project people and economists can figure this out from the attachments to the April memo, and there are a few hints in previous paragraphs in the April memo, but nowhere that I can find did it clearly state the approach and the assumptions except in the tables at the end. I urge James Ridge and staff to impose more clarity on the process. These figures can be easily misinterpreted the way they are presented now, in April 2004, and in the memo in the summer of 2003. I am very disappointed to see this style of presentation continue.

C. NIXON ANALOGY

I believe C. Nixon's analogy (the quote about spending more money when buying a house) does not fit. When I agree to spend a few more bucks to buy a more upscale house, I know my exposure – it's that house price, albeit higher than I planned to spend. But it is capped at the purchase price.

The proper analogy to our situation is having a house built where we are exposed to overruns.

Your issue here, subject to hearing the error of my analysis, is that you DON'T know your exposure and may not until the construction is complete. Sure, people say we won't spend more that x dollars, but what will you do when it is 90% built and the money is gone? Practically speaking there is only one answer. It's hard to start cutting at that stage.

Hope this is useful.

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