Project Report: Achieving Value for Money
William R. Bennett Bridge Project
Purpose of this Document

Before entering into a public private partnership, Partnerships BC undertakes an analysis of the value for money expected over the life of the partnership. Value for money is a broad term that captures both quantitative factors, such as costs, and qualitative factors, such as service quality and protection of public interests.

Value for money is one of six key principles guiding public sector capital asset management in British Columbia. The others are:

- sound fiscal and risk management;
- strong accountability in a flexible and streamlined process;
- emphasis on service delivery;
- serving the public interest; and
- competition and transparency.

Since 2002, these principles have guided the B.C. public sector’s approach to acquiring and managing assets such as roads and health care facilities. Under the Capital Asset Management Framework, ministries and other public bodies are encouraged to consider all available options for meeting their service objectives. They analyze the options and, after considering the qualitative and quantitative advantages and disadvantages of each, choose the one that overall best meets service delivery needs and makes the best use of taxpayers’ dollars.

In some cases, the best option may be traditional procurement – where assets are purchased entirely with taxpayer supported debt and operated exclusively by the public sector. In other cases, agencies may find innovative ways to meet their service needs without acquiring capital assets. In all cases, agencies are publicly accountable through regular budgeting, auditing and reporting processes.

In all of its procurement processes, including public private partnership agreements, the Province is committed to a high standard of public disclosure to ensure accountability. This report describes the rationale, objectives and processes that led to the use of a public private partnership for the William R. Bennett Bridge project, giving the public a clear sense of how and why the decision was reached to proceed with that option. It explains how value for money was measured and how it is expected to be achieved in the context of current market conditions.

For more on the Province’s Capital Asset Management Framework, please go to http://www.fin.gov.bc.ca/tbs/camf.htm

For more on public private partnerships in B.C., please go to www.partnershipsbc.ca
# Table of Contents

1. Executive Summary ......................................................... 1  
   Project Background ..................................................... 1  
   Achieving Value for Money ............................................. 1  
   Capital Cost ............................................................... 2  
   Final Contract ............................................................ 2  
   Competitive Selection Process ........................................ 2  

2. Project Background, Rationale and Objectives ..................... 3  
   Public Private Partnerships in Transportation ...................... 3  
   Project Background and Rationale .................................... 3  
   Project Objectives and Scope ......................................... 4  
   Project Planning and Procurement Options Analysis ................ 4  
   Expected Benefits of the Preferred Option .......................... 4  

3. Competitive Selection Process ........................................ 5  
   Project Implementation .................................................. 5  
   Process and Timetable ................................................... 5  
   Evaluation ................................................................. 6  
   Contract Finalization ................................................... 7  
   Competitive Selection Costs ............................................ 7  

4. Changes in the Project .................................................. 8  
   Capital Cost Comparison ................................................ 8  
   Life Cycle Cost Comparison ............................................ 8  

5. The Final Contract ..................................................... 9  
   Profile of the Contractor ............................................... 9  
   Key Terms of the Contract ............................................. 9  

6. Achieving Value for Money ............................................ 11  

7. Ongoing Contract Monitoring ......................................... 12  

8. Expected Budget Reporting and Accounting Treatment ........... 13
1. Executive Summary

Project Background

The Province has entered into a contract with SNC-Lavalin to provide a new bridge across Okanagan Lake to satisfy traffic demand and improve safety.

The Okanagan Lake Bridge is part of Highway 97; it links the City of Kelowna on the east side of Okanagan Lake to the west side of the lake and the communities along Highway 97 to the U.S. border, and to Highway 5. The existing bridge, which provides the only crossing of the 120-kilometre long lake, cannot meet current and projected traffic demands, and has a high accident rate. The floating structure is in an advanced state of deterioration and cannot practically be repaired beyond the short term.

The new William R. Bennett Bridge will form part of Highway 97, crossing Okanagan Lake between Kelowna and Westbank, at a location immediately adjacent and parallel to the existing Okanagan Lake Bridge. In addition to the new bridge contract, both the Ministry of Transportation and the City of Kelowna will be upgrading the east and west approaches to the bridge to improve traffic flow.

The contract between SNC-Lavalin and the Province, for the delivery and long term operation of the William R. Bennett Bridge, was finalized June 30, 2005 and meets the Province’s objectives to:

- satisfy immediate and mid-term traffic demand;
- achieve value for money;
- ensure the usable 75-year design life of the bridge is secured by way of the optimized 27-year turn-over condition commitment; and
- improve and ensure long term safety on the crossing.

By completing this project as a public private partnership, the Ministry of Transportation expects to deliver a bridge which will benefit from private sector knowledge and expertise, resulting in the lowest possible life-cycle cost to taxpayers, and the safest possible structure.

Achieving Value for Money

The contract with SNC-Lavalin offers value for money on both a financial and qualitative basis.

The public private partnership contract, when compared to traditional public sector procurement, is expected to deliver both quantitative and qualitative value for money. The net present value cost for the project, as delivered by SNC-Lavalin, is estimated at $170 million. This compares favourably to the estimated net present value cost if the project was completed by the public sector, which is $195 million. Net present value is a risk-adjusted calculation of the estimated stream of payments to be made over the term of the agreement, expressed in today’s dollars.

The William R. Bennett Bridge contract offers expected savings of $25 million on a net present value basis over the 30 year life of the agreement.
Capital Cost

The capital cost of the project has increased since it was announced three years ago.

When this project was announced in 2002, the capital cost was estimated at approximately $100 million. Since that time, construction material and labour inflation, along with changes in the Province's design standards, have resulted in an estimated capital cost increase of $44.5 million. The increase is due largely to construction material and labour inflation experienced in the B.C. market since the project was initially considered. Inflationary pressures would have had an impact on project costs under traditional procurement or the public private partnership model.

Final Contract

The Province will set and monitor the performance standards for the bridge.

Under the contract, the Province sets and monitors performance standards for the new crossing, and licenses the right of way to SNC-Lavalin. SNC-Lavalin will design, construct, operate, maintain and rehabilitate the bridge and is responsible for meeting the Province's performance standards for the term of the contract, along with the provisions for turning over the asset to the Province at the end of the term. In addition, SNC-Lavalin will decommission the existing bridge, once the new bridge is in operation.

The Province will pay SNC-Lavalin annual service payments of approximately $20 million a year, assuming there are no performance deductions. Over the 30-year term of the contract, using a discount rate of eight per cent, these annual payments are equal to approximately $170 million in net present value terms.

Competitive Selection Process

This project benefited from an open and fair competitive selection process.

Partnerships BC was engaged as the transaction and procurement manager for the project.

Five teams responded to the initial Request for Qualifications in the Spring of 2004. Three teams were chosen to proceed to the Request for Proposal stage which concluded in December 2004. A Best and Final Offer stage involved negotiations with two qualified teams to achieve the best possible agreement on behalf of taxpayers. A Conflict Adjudicator was retained to ensure there were no conflicts in the evaluation process. A Fairness Auditor was retained to observe and report on the evaluation process. The Fairness Auditor concluded that the process was fair. The Fairness Auditor's report is available at www.partnershipsbc.ca.
2. Project Background, Rationale and Objectives

Public Private Partnerships in Transportation

Public private partnerships are used in the transportation infrastructure sector around the world.

Internationally, public private partnerships have been used for many years in the transportation sector. In B.C., the Ministry of Transportation is encouraged to pursue public private partnerships, where they can deliver value for money and serve the public interest, as laid out in the Capital Asset Management Framework.

In such partnerships, the private sector typically designs, builds, maintains, operates, rehabilitates and finances roads, bridges and highways to meet detailed performance standards set by the Province and embodied in a binding contract. The Province typically owns the asset and performance payments are paid according to the standards outlined in the final project agreement.

The partnership model is designed to capture the strengths of both the public and private sectors, recognizing that private companies have always played a part in delivering infrastructure such as roads, bridges and other facilities. Key differences between the public private partnership approach and traditional project procurement are the inclusion of performance based payments, and the transfer of many of the risks inherent in capital projects, such as construction schedule, to the private sector.

Of particular importance is that the projects are structured on a whole life cycle costing basis; this results in achieving efficiencies through the integration of both capital and operating costs.

Public private partnerships are part of the Province’s plan to provide affordable infrastructure that meets public needs in a timely manner. As transportation demands increase, this procurement model has the potential to maximize the value of taxpayers’ investments in new and improved infrastructure.

Project Background and Rationale

In 2002, the Province determined the need to proceed with replacing the aging Okanagan Lake Bridge.

The Okanagan Lake Bridge, a part of Highway 97, is a vital link in B.C.’s transportation network. The bridge connects the City of Kelowna and points north, on the east side of Okanagan Lake, to the west side of the lake and the southern communities along Highway 97 to the U.S. border and to Highway 5. The bridge provides the only crossing of the 120-kilometre long Okanagan Lake.

- The existing bridge was opened as a two-lane facility in 1958 and was modified in 1984 to accommodate a three-lane counter-flow operation.
- The 47-year-old structure has serious deterioration problems with pontoon concrete integrity and deck and electrical system failure. The bridge cannot be repaired beyond the short-term.
- Since 1984, traffic has increased about 200% with average daily traffic exceeding 46,500 vehicles. Daily traffic is significantly higher during the summer months, with average daily traffic exceeding 57,700 vehicles. These traffic volumes exceed the current bridge’s capacity, and the capacity shortfall is compounded by as many as eight lifts of the bridge lift-span per day, during the summer, to allow for marine traffic, and by closure of the centre lane for emergency vehicles.
- The safety performance of the bridge and approaches is poor; the accident rate is higher than the provincial average.

Map of the Okanagan Bridge area
Project Objectives and Scope
The Ministry of Transportation established objectives for the project.

- Deliver a new Okanagan Lake Bridge service that will:
  - satisfy medium term traffic demand;
  - achieve value for money for taxpayers;
  - ensure the existing bridge serves traffic demand during construction of new service; and
  - ensure the usable 75-year design life of the bridge is secured.

Project Planning and Procurement Options Analysis
The project team reviewed options and determined that a public private partnership offered significant benefits.

Consistent with the requirements of the Capital Asset Management Framework, the Okanagan Lake Crossing Project Team considered two traditional procurement models and one public private partnership model for this project. Each option was analyzed on the basis of financial and qualitative criteria. The project team recommended the public private partnership model because it concluded that this model would:

- provide an opportunity to achieve value for money for the taxpayer in partnership with the private sector;
- provide an opportunity to transfer appropriate risks to the private sector for a very technically challenging piece of transportation infrastructure;
- deliver priority transportation infrastructure in a timely manner.

Expected Benefits of the Preferred Option
Through the options analysis, the project team identified a number of expected benefits of the public private partnership option.

- The public private partnership would provide incentives to the contractor to manage the project and the facility in an efficient manner. For example, the contractor would not be paid until the facility was built, thereby encouraging completion of the project on schedule and on budget. Incentives for the contractor to meet operating and maintenance standards would also be incorporated in different elements of the payment mechanism. For example, the contractor would have an incentive to maximize lane availability, maintain customer satisfaction, and improve the safety record of the route.
- The public private partnership is flexible to allow for private sector innovation. The project has significant design and construction challenges, which would benefit from private sector involvement.
- The public private partnership would be based on the principle that risks should be allocated to the party in the best position to manage them. For example, the contractor would assume risks associated with design, construction, facility operation and maintenance. The Province would retain risk for changes to legislation and for force majeure (events beyond the control of either party.)
- The contractor would make a significant investment of equity and debt in this project. This money would be at risk to varying degrees throughout the term of the agreement and would be dependent on the contractor's performance. For example, the return on equity which the private partner could expect would vary depending on both highway condition and highway performance. If significant construction cost overruns were experienced, the contractor's equity capital could be at risk.
- The Province would retain oversight of the project, and would remain accountable for seeing that the project met its intended objectives.
3. Competitive Selection Process

**Project Implementation**

A governance and management structure was put in place to guide project development and procurement. It included a project board, which was responsible for key decisions throughout the procurement process. The board consisted of:

- the Deputy Minister of Transportation;
- the Assistant Deputy Minister of Operations (Ministry of Transportation); and
- the Chief Executive Officer of Partnerships BC.

Reporting to the project board, and implementing the procurement process, was a project management committee with resources from the Ministry, Partnerships BC, and external advisors. The project was led by a Ministry of Transportation Project Director and a Partnerships BC Procurement Director.

The procurement process was managed by Partnerships BC. An independent Fairness Auditor oversaw the procurement process to ensure that all proponents were treated in a fair and equitable manner. A Conflicts Adjudicator was used to ensure that the evaluation process was clear of any conflict of interest. Evaluation of submissions during the competitive selection process was managed by the evaluation committee, with sub-committees for technical, legal, financial and commercial analysis.

**Process and Timetable**

The project team anticipated a competitive field of bidders, despite the specialized nature of qualifications required in the areas of marine structure design and construction. The competitive selection process did generate strong initial interest from the market with five teams responding to the Request for Qualifications. The selection process provided sufficient competitive pressure to result in added value for the Province, as the teams competed to provide the best value for money in order to be selected as the contractor.

*Work starts on the pontoons for the new bridge*
Evaluation

The evaluation committee reported to the project board and included: the Assistant Deputy Minister in charge of the project; the Project Director from Ministry of Transportation; and the Chief Project Advisor from Partnerships BC.

Evaluations were conducted by:
- Ministry of Transportation representatives;
- Partnerships BC representatives;
- Ministry of Attorney General representatives;
- Financial/Business Advisor (Macquarie North America Ltd.);
- Engineering/Design Consultant/Technical (Westmar Consultants);
- Operations and Maintenance Advisor (Geoplan / Opus);
- Legal Advisor (Miller Thomson); and
- Traffic Consultant (Halcrow/TSI).

### Milestone Table

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Date</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request for Qualifications issued</td>
<td>December 30, 2003</td>
<td>Five proponents responded.</td>
</tr>
</tbody>
</table>
| Submissions evaluated and short-list developed       | May 2004      | Three proponents were short-listed as a result of this evaluation. The teams were:  
  - Bouygues Travaux Publics  
  - Okanagan Crossing Group, and  
  - SNC-Lavalin Inc. |
| Request for Proposals issued                         | May 31, 2004  | Bouygues Travaux Publics chose to withdraw from the competition before the deadline. Proposals submitted by:  
  - Okanagan Crossing Group, led by Ledcor Projects Inc., and  
  - SNC-Lavalin Inc. |
| Proposals due                                        | December 1, 2004 (technical proposals)  
  December 13, 2004 (financial proposals) | Both proponents proceeded to this stage. |
| Best and Final Offer stage                           | January 2005  | SNC-Lavalin was chosen as the Selected Proponent and financial close was reached. |
| Final negotiations                                   | June 2005     |                                                                         |
| New crossing to open                                 | July 1, 2008  |                                                                         |
Evaluation criteria were divided into two broad categories:

- technical evaluation criteria; and
- legal and commercial evaluation criteria, including value for money.

Technical evaluation was on a pass/fail basis determined by baseline expectations related to functional design and detailed design aspects of the project.

Commercial evaluation focused on such items as legal structure of the final contract, construction and operating costs, and financing structures and guarantees. Again, baseline expectations of acceptability were established for criteria such as:

- consortium legal organization (joint venture, limited partnership, incorporation);
- level and type of contractor participation;
- parent company financial guarantees;
- minimum equity levels and equity payback period; and
- committed financing packages.

The proponents’ pricing proposals consisted of a stream of performance-based payments for the term of the agreement. Value for money was calculated by comparing the present value of the stream of payments to the benefits arising from each proposal. Present values for both proposals were calculated using a consistent discount rate that was deemed appropriate for the level of risk involved with this project. These net present values were compared to a public sector comparator, a financial model that estimated the cost of the project if it was built using conventional procurement methods.

**Contract Finalization**

The contract was finalized in a timely way to keep the project on schedule.

Once SNC-Lavalin was chosen in March 2005 as the preferred proponent at the Best and Final Offer stage, the Province’s project team began intensive negotiations that lasted until mid-April. Commercial and financial close was achieved on June 30, 2005.

**Competitive Selection Costs**

The William R. Bennett Bridge is one of the first major transportation projects to be initiated and implemented as a public private partnership by the Province. As such, this project will serve as a guide for future transportation projects.

Procurement costs capitalized as part of the project, including the costs of engineering, transaction and legal advisors from the issuance of the RFP through to the completion of financial close, were $5.3 million. This represents approximately three per cent of the project’s net present value, or four per cent of the capital cost. For evaluation purposes, the cost of procurement was added to SNC-Lavalin’s proposal to ensure that procurement costs were accounted for in the value for money assessment.

Early in the planning stages, the Province spent an estimated $7 million on advance planning and feasibility studies which were used to make the decision to proceed with procurement of the new bridge.
4. Changes in the Project

Capital Cost Comparison
The capital cost of the new bridge is higher than originally estimated.

The capital cost of the William R. Bennett Bridge was initially estimated at $100 million in 2002. Since that time, construction cost inflation and labour cost inflation have increased dramatically across the Province.

Between now and the 2010 Olympics, at least $12 billion worth of major infrastructure, institutional and commercial construction projects are planned for the province. There is also high construction volume in other provinces, including Alberta, Ontario and Newfoundland. As demand for construction increases, so do construction prices.

According to an independent survey conducted by BTY Group, British Columbia has experienced rapid construction inflation over the past five years. Between 2002 and 2004 alone, concrete formwork inflation was 50 per cent, concrete material inflation was 20 per cent, and reinforcing steel inflation was 40 per cent. In addition, oil prices have increased by about 100 per cent since January 2004, including an increase of 35 per cent in the first quarter of 2005 alone. Oil is a major source of energy for both production of materials and transportation, and as such, price increases here have a major impact on large construction projects.

Largely as a result of these inflationary pressures in the construction market, the capital cost of the new crossing is estimated at $44.5 million higher than originally estimated. The revised estimate was verified by an independent third party review undertaken for the Ministry of Transportation. Capital cost increases would have occurred under either traditional procurement or the public private partnership model.

However, the contract with SNC-Lavalin will protect the Province from any future cost escalations.

Life Cycle Cost Comparison
Over the whole life cycle of the project, the public private partnership model is expected to cost taxpayers less than a traditional procurement contract would have cost.

When the Province proceeds with a public private partnership, it often uses a hypothetical financial model, called a Public Sector Comparator (PSC) to compare the cost of the project under conventional procurement with the costs as proposed by proponents competing for the project. This financial model is a risk-adjusted estimate of the costs for the Province to undertake the project under a conventional delivery process. Under a conventional delivery process, the Province retains substantial design, construction, operations and asset management risk. These risks are accounted for in the financial model. The PSC provides a benchmark against which the cost of the project can be assessed. It takes into account all of the assets, services, staff, consumables, and other elements required to deliver the project to the same standards and level of certainty required of the private sector under a public private partnership.

During the competitive selection process for the project, an independent cost estimate was prepared and a public sector comparator was calculated and compared with the cost of each proposal. For the comparison, both proposals and the PSC used a market-based discount rate of eight per cent, which is an estimate of the private sector weighted average cost of capital for a project of this type. The comparison was also analyzed at discount rates of seven and nine per cent, and the SNC-Lavalin proposal showed the best value in all cases. The sensitivity analysis showed value for money of $14.5 million to $33.7 million at those discount rates.
5. The Final Contract

Profile of the Contractor

The SNC-Lavalin team includes:

- SNC-Lavalin Constructors (Pacific) Inc. and Vancouver Pile Driving Ltd. (design-build);
- SNC-Lavalin ProFac, a wholly owned subsidiary of SNC-Lavalin Group Inc. (operations and maintenance);
- Sun Life Assurance Company of Canada and the Ontario Teachers’ Pension Plan Board.

Key Terms of the Contract

The term of the contract is 30 years, comprising a three-year construction period and a 27-year operation period.

SNC-Lavalin will provide the Ministry of Transportation with a new crossing across Okanagan Lake. The new crossing will be completed by July 1, 2008 and will meet or exceed the performance standards in the contract. In addition SNC-Lavalin will provide the operations, maintenance and rehabilitation services on the new crossing in a manner that meets or exceeds the provincial standards for the next 27 years. Under the terms of the agreement SNC-Lavalin will:

- design and construct the bridge in accordance with the agreement including both the specified required scope of work as well as any additional works that SNC-Lavalin commits to provide;
- decommission the existing bridge;
- provide financing for the design, construction, operation, maintenance and rehabilitation of the new bridge and the decommissioning of the existing bridge;
- provide the operation, maintenance and rehabilitation (OMR) services for the new bridge including providing the resources, materials and equipment to manage, plan and deliver the OMR in accordance with the requirements specified by the Province; and
- ensure that, at the end of the contract term, the asset meets the turn-over conditions specified by the Province; for example, the bridge must meet the remaining life profile criteria at the end of the contract term.

The Province will make annual payments to SNC-Lavalin based on performance achieved corresponding to user satisfaction, lane availability, public safety and traffic use standards as defined in the contract. The Province will not start these payments until the bridge is open to the public. Moreover, if SNC-Lavalin does not meet the standards set by the Ministry, it will face financial penalties.

The following graph demonstrates the anticipated payment stream to SNC-Lavalin over the term of the agreement. This graph assumes no bonuses or penalties. Using a discount rate of eight per cent over 30 years, these annual payments are equal to the $170 million net present value of the project.

Financing

SNC-Lavalin is financing the project through a private placement with Sun Life Assurance Company of Canada and the Ontario Teachers’ Pension Plan Board.
Contract Termination

The contract can be terminated by either party, based on specific conditions or events, as defined in the final agreement.

Risk Allocation

Generally, SNC-Lavalin bears risks related to design, construction, operations, maintenance, and rehabilitation of the new bridge. This adds value for taxpayers because the Province is protected from the possibility of costs associated with unexpected issues related to these areas. The Province retains risks that are outside the control of SNC-Lavalin and most of the risks resulting from changes to legislation. A more detailed breakdown of the risk profile is presented below.

<table>
<thead>
<tr>
<th>Risks relating to:</th>
<th>Public (Ministry of Transportation)</th>
<th>Private (SNC-Lavalin)</th>
<th>Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design of bridge and long term impacts</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Design standards prescribed in the Concession Agreement</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Design of bridge meet required obligations (for example, noise levels, vibrations)</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Geotechnical or subsurface risks</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Construction costs, and schedule</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Construction safety</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Construction materials</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Completion of bridge in accordance with standards</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Causeway fill and preload (This work was completed as a separate contract in the summer of 2005.)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of approach roads (MoT has committed to SNC that the roads will be available at a certain time and will be able to accommodate pre-defined traffic levels.)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graving dock (MoT provided the site to SNC, SNC is responsible for designing, constructing, and deconstructing the graving dock site and complying with all required permits.)</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Unexpected site conditions (for example, rock and soil quality)</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Environmental issues dealing with construction method, operation of new bridge, and required environmental monitoring.</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Permitting, for example, permits not received in timely manner, permit requirements result in higher costs, and missed or unknown permits</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Traffic management needed during the construction of the new bridge or traffic management during operations</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Force majeure</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Financial – inflation and financing costs</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Performance payments during the operations phase will be indexed to inflation. Inflation risk during the construction phase has been transferred to SNC-Lavalin.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Operations and maintenance – equipment availability, labour action</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance – latent defects discovered in new bridge</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance – changes in traffic composition may impact operations and maintenance costs</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance – changes in required standards</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance risk associated with existing bridge</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
6. Achieving Value for Money

The contract with SNC-Lavalin offers value for money on both a financial and qualitative basis.

The public private partnership contract, when compared to traditional public sector procurement, is expected to deliver both quantitative and qualitative value for money. The net present value cost for the project, as delivered by SNC-Lavalin, is estimated at $170 million. This compares favourably to the estimated cost if the project was completed by the public sector, which is $195 million. Net present value is a risk-adjusted calculation of the stream of payments to be made over the term of the agreement, expressed in today's dollars.

The William R. Bennett Bridge contract offers expected savings of $25 million on a net present value basis over the 30 year life of the agreement. This benefit is a direct result of:

- using a whole life cycle costing approach to the contract over the contract term to optimize capital, operating, maintenance and rehabilitation costs; and
- achieving an optimal allocation of risks between the contractor and the Province through the competitive procurement process. SNC-Lavalin is bearing the risks for design, construction, financing, and operations. For example, SNC-Lavalin assumes responsibility for cost over runs in the design and construction phases, and will incur financial penalties if the new bridge is not constructed and open to traffic by July 1, 2008.

The contract also offers qualitative benefits to taxpayers. SNC-Lavalin has committed to a performance-based contract. The contract ensures that SNC-Lavalin has incentives to meet or exceed long term safety, reliability and capacity objectives set by the Ministry of Transportation. Further incentives are included to minimize road delays and closures, improve predictability and complete the project on time. Payments to SNC-Lavalin, which will not start until the new bridge is open to the public, are based on provincial standards for user satisfaction, lane availability, public safety and traffic use.

The expected qualitative and quantitative benefits of the agreement were confirmed by two independent business advisors.

Macquarie North America, the business advisor to the Province for this project, compared the final agreement with SNC-Lavalin to a hypothetical traditional procurement, and concluded that “the project represents good value for money for the Province, relative to conventional delivery.”

In addition, the Province retained Ernst and Young Orenda Corporate Finance Inc. (“Ernst and Young”) to conduct an independent third party review of the final agreement. Ernst and Young concluded that based on the documents they reviewed, “the OLC project provides a robust value for money proposition,” and that the final agreement represents “a reasonable commercial transaction for the province when taking into account the risks of the project.”

The ultimate success of the project is contingent on implementation of the next stages of the project, including detailed design, construction and ongoing operations and maintenance of the bridge.
7. Ongoing Contract Monitoring

The Province will monitor the contract to ensure that SNC-Lavalin is meeting the required performance standards.

The Ministry of Transportation will set and monitor the performance standards for the bridge, throughout the term of the agreement.

If SNC-Lavalin fails to meet the performance standards specified by the Province, the Province will be entitled to make deductions from the performance payment in accordance with the agreement.

For example, if SNC-Lavalin was three months late in having the bridge open to traffic, the Province would reduce payments by about $4.9 million in 2008 dollars.
8. Expected Budget Reporting and Accounting Treatment

The total capital cost of the project will be recorded as debt by the Province.

The William R. Bennett Bridge project will be treated as an asset by the British Columbia Transportation Financing Authority and consolidated into the financial statements of the Province. The performance payments will be considered an obligation, with the component of the performance payments related to capital costs treated as debt by the British Columbia Transportation Financing Authority and consolidated into the financial statements of the Province. Upon completion of construction, the recorded book value of the project will be amortized over 40 years for bridge structures and highway roadbed and over 15 years for paving, fencing, signage, traffic control equipment and most other assets attached to the project.