



GOVERNMENT OF BERMUDA

The Airport Redevelopment Project – Fact Sheet

Building a new airport will be an important investment for Bermuda. It will help to stimulate the economy, add new jobs and provide a state-of-the-art facility of which Bermudians can be proud.

Our goal is to ensure that this project is completed without incurring additional debt. The Government and people of Bermuda have an opportunity to support one of the largest capital projects undertaken in recent years.

Questions have been raised about the project. Here are some key facts everyone should know.

The top 10 things you should know about the Airport Redevelopment Project

- It will substantially improve a strategic Bermudian asset
- It will create hundreds of jobs in the near future to build a new terminal
- It will increase long term employment for Bermudians at the airport once the project is completed
- It will provide a far better and safer working environment for Bermudians employed at the airport
- It will mean a more comfortable, safer and pleasant travelling experience for residents and visitors
- It will stimulate economic growth in Bermuda without further encumbering the already excessive debt burden of the government
- It will be the best deal Bermuda can get at designing, building and financing the largest single project undertaken by the Government
- The Canadian Commercial Corporation — a 100% Canadian Government-owned entity — will guarantee the delivery of a state-of-the-art terminal building on-spec, on-time and on-budget
- Travellers – especially the elderly and disabled — will no longer be wind-blown and rain-swept walking to and from the aircraft
- It is an opportunity to finally get something done to improve the deplorable, deteriorating conditions at Bermuda's major gateway

Question

Why not use the traditional tender process to get value for money?

Answer

A tender process provides value for money at the contract stage, but this is meaningless if overruns and poor quality work balloon the final cost — as it has time and time again in Bermuda. The guarantees by an agency of a government rated 'AAA' for on-spec, on-time and on budget delivery eliminate that risk. The urgency for Airport renewal, economic stimulation and job creation, the desire to keep the Project off of the Government's balance sheet, and the uniqueness of the Canadian government's guarantees provide a compelling solution for the Government to move forward on a highly expedited basis. If we use a tender process the debt will inevitably be on the Government's balance sheet. It is an inescapable

fact and we cannot afford that. Value for money will be optimized at the contract stage by a combination of an independent fairness assessment coupled with world class advisers retained by Government for that purpose.

Question

Is it true that "...a large part of the \$275 million (of the inward investment for the project) will never reach Bermuda? Bermuda imports 99% of all materials for all new construction... so the inward direct investment that Bermuda will actually receive and that will directly impact Bermuda's economy is \$165 million not \$275 million."

Answer

Firstly, the preliminary estimated cost is \$250 million, not \$275 million. Inward direct investment consists of, not only money for labour, but any kind of tangible asset — like steel, cement, glass, etc. Inward direct investment is the money spent on labour plus other tangible assets. You can't just ignore the materials — they're worth about \$100 million and they will be added to Bermuda's infrastructure.

Secondly, all capital projects — not just this one — have a large component of the materials coming from abroad. So why build hotels? Why reclaim land for The America's Cup if the 'net investment' is small? Why build a hospital wing? Does this mean we should not invest in infrastructure in Bermuda because we have an extremely high need to import? Clearly not. Modern infrastructure is an investment that provides a foundation upon which we grow the economy.

Question

Will the airport be privatised?

Answer

The Bermuda airport will not be privatised. Under the Public Private Partnership, Bermuda will retain ownership of the entire airport facility. A Special Purpose Company to be owned by Aecon and institutional investors will be formed to design, finance, develop, operate and maintain the airport. A 100% Government owned airport regulatory authority will be created to regulate the Special Purpose Company and ensure that it operates according to the terms of the concession agreement and the best interests of Bermuda.

Question

Won't the Bermuda Government stand to lose approximately \$2 billion in revenue over the next 30 years and \$620 million in profit?

Answer

This claim is not true. The revenues from the airport **and** the expenses from running the airport are being transferred to the Special Purpose Company. The \$2-billion estimate does not take the expenses into account. Before we raised the airport revenue to help fund the project earlier this year the airport operated at a small loss.

There is no \$620-million profit. The money referred to comprises increased Departure Taxes and the new Airport Improvement Fee which were specifically earmarked as new revenues to help finance airport development. This money was never intended to enrich the Government Treasury. You cannot lose something that you were never going to have in the first place. Revenue from the airport will be used to pay development and operating costs, finance costs, maintenance, salaries and employee benefits over the next 30 years *and Bermuda will have a new airport.*

The agreement provides that operating profits will be used to pay back international lenders and once the debt has been repaid, **profits thereafter will be shared between the Bermuda Government and the Project Company.**

Question

Will Aecon stand to collect revenues that will be in excess of \$2 billion?

Answer

Aecon will not receive any airport revenues. All revenues would be received by a Special Purpose Project Company whose sole purpose will be to finance, build and operate the project. All airport revenues will be ring fenced within this vehicle. Aecon will be a lead investor in this vehicle. Airport revenues will be utilized to pay for capital costs (including development, financing costs and repayment of debt), and, for operations and maintenance. Net revenues will also need to provide a fair return on equity invested into the project.

Aecon will not receive any airport revenues, but will be eligible to receive fair and reasonable compensation relating to project activities including:

- construction revenue as the domestic supplier to CCC in relation to the construction of the new terminal and associated work.
- compensation for any management services provided.
- return on its equity investment in the project.

Any and all payments by the project company directly or indirectly to Aecon or to any other party will be on fair market terms and conditions and provide value for money. **The Government of Bermuda has retained a set of world class advisors — financial, legal and technical — to ensure this is the case.**

Question

Is it true that even though the UK Government in its Letter of Entrustment had insisted that conditions be met before proceeding with the project, the Bermuda Government is pushing forward with its plans?

Answer

The Letter of Entrustment imposes no pre-conditions to the project. His Excellency the Governor has confirmed this. Both the Bermuda Government and the Letter of Entrustment require a Value for Money determination. The Bermuda Government has made certain commitments which will be fulfilled during the second phase of project development, which has only just begun. The Bermuda Government and CCC will work together with independent international consultants to ensure that the final project plan delivers Value for Money and benefits for all Bermudians.

Question

Does an independent report by Deloitte on the handling of the project note gaps in the process?

Answer

Her Majesty's Government and the Bermuda Government — in a jointly paid for retainer — asked Deloitte to identify and assess the Project Concept with reference to the UK Green Book Value for Money principles. While acknowledging that the Bermuda Government is under no legal obligation to follow the Green Book, Deloitte proceeded to compare the current Project Concept (Outline Business Case) to the scenario of a Final Business Case. The UK Government has considered the guidance it has received from that evaluation work, and we are using an incremental project development process, instead of a tender process. It is only during the completion of Phase 2 that the information noted by Deloitte will be developed. We have only just commenced Phase 2. Therefore, gaps would have been inevitable in view of the timing of the report. But the commissioning of the Deloitte report confirms the Government's commitment to ensure Value for Money and project transparency.

Question

Did the Deloitte report pour cold water on the Government's claim that their approach can guarantee value for money?

Answer

On the contrary, and as noted below, the UK Government considered the guidance it received from the evaluation work undertaken by Deloitte. The Deloitte report is effectively the Bermuda and UK Governments' roadmap for ensuring Value for Money.

Question

Did Deloitte, in examining the financial case, find that many items were developed by CCC and may not take into account the full costs to be borne by the Government of Bermuda?

Answer

Deloitte was not examining the definitive financial case, but rather the preliminary financial model, because it occurred early in the phased development process. The report clearly states: "It appears that the Government intends to close gaps before financial close of the deal."

Question

How is Government addressing the required accountability, transparency and openness?

Answer

The Deloitte Report and the Letter of Entrustment are public documents which speak to accountability, transparency and openness.

The Deloitte Report is a helpful guide for ensuring value for money. The Government is committed to communicating regularly about the progress of the project and providing opportunities to answer questions about our progress.

Question

Why build a new airport now?

Answer

Bermuda can be, and has been, cut off from the world due to the vulnerability of our terminal to severe weather due to its location. Bermuda needs to replace that crumbling infrastructure. Our competitors are building new airports. Our Airport Redevelopment Project is one of many around the world and it will stimulate the economy, create jobs for Bermudians and deliver a world-class airport. The plan calls for future profits generated during the concession term to be shared between the government and the concessionaire. Financing the project through a PPP protects the public purse by ensuring Bermuda does not incur future debt and is able to generate revenue through this financial opportunity. This is the right time for this type of necessary project.

Question

Is this CCC model the best overall way forward to redevelop the airport?

Answer

Yes it is. Bermuda's airport is small, having less than a million passengers a year. The only airports of this size that have been tendered in recent decades have been part of third world development aid packages. Bermuda's high average GDP per capita disqualifies us from such subsidisation packages.

With the CCC model the users will pay for the airport not the Government. That's why Government debt will not be increased. This is a PPP that enables Bermuda to continue to own and regulate the airport, and create hundreds of job opportunities for Bermudians, both construction and long term. The plan calls for future profits generated during the concession term to be shared between the government and the concessionaire.

The guarantee of an agency of Canada, a 'AAA' rated country, shields the public purse from the real risk of project overruns which, as we have seen in the past, is a serious risk to the public purse. The CCC's 'on-time', 'on-spec' and 'on-budget' guarantee as the construction Prime Contractor is an extraordinary benefit to Bermuda.

The idea of a Government owned public authority to run the airport will not shield the treasury from debt; neither will it shield the treasury from the risks of overruns.

The Bermuda Government has used the tender process for many years on its large building projects and has seen cost over-runs totalling hundreds of millions of dollars. The tender process has proven to be no 'magic bullet'.

The Government is seeking more building guarantees for the Airport Redevelopment Project to ensure the cost to Bermuda does not balloon beyond the agreed price.

Cost over-runs, work not compliant with the specifications or completed on time has been the standard of large building projects. That has been at great cost to the public treasury and the people of Bermuda.

It is time for change.

The Airport Redevelopment Project is an important economic stimulus, bringing much-needed jobs and an economic boost.