

THE COST OF P3s - THE BRAMPTON EXPERIENCE

The Ontario Federation of Labour's (OFL) November 2005 Convention policy paper *Public-Private Partnerships (P3s) and the Transformation of Government* outlines, in some detail the excessive costs of the P3 experience at the William Osler Health Centre in Brampton.

To see how this works in concrete terms, the following is a summary of the P3 for the proposed Brampton Hospital.

1. Annual payments for capital

Unitary Charge (year 2 basis – full year)	\$94,798,000
Services related	<u>\$42,682,000</u>
Implicit capital charge	\$52,116,000

2. What this means for the return on equity portion of the charge

It appears that the financing is structured like a mortgage, with equal payments over the term, covering principal repayment and interest on a declining balance.

Cost of amortizing the debt portion (85% of total capital) over 25.8 years at the senior debt assumed rate of 6.73% is \$37,701,845 per year for 25.8 years – let's round to \$37,702,000.

The remainder – \$14,414,000 represents the cost of amortizing the equity portion over 27.8 years. This implies an assumed return on equity of 17.725%.

3. Comparable annual cost if all money amortized over corresponding terms (85% over 25.8 years; 15% over 27.8 years) at the Government of Ontario borrowing rate for a similar term.

Ontario government bonds maturing 27 years from now currently yield 5.56%. At this interest rate, the cost of borrowing the same total amount of money – \$536,283,000 would be \$39,434,522 per year, some \$12,680,130 less than under the P3 option.

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4. Total cost differential over the term of the P3 contract

Total debt payments under P3	\$1,373,383,640
Total debt payments with government rates	<u>\$1,028,911,100</u>
DIFFERENCE	\$ 344,472,540

5. Present value of difference in borrowing cost

In present value terms, the difference is over \$175 million. (That's the difference in annual debt costs, discounted to present value at the government long-term borrowing rate of 5.56%).

In other words, in Brampton, it is costing us \$175 million more to borrow \$536 million through a P3 than it would to borrow the money at government borrowing rates.

The breakdown is as follows:

Debt portion – annual payment difference – \$4,017,544	
period – 25.8 years	
PRESENT VALUE OF DIFFERENCE – \$54,368,331	
Equity portion – annual payment difference – \$8,662,587	
period – 27.8 years	
PRESENT VALUE OF DIFFERENCE – \$121,184,877	
TOTAL	PRESENT VALUE DIFFERENCE – \$175,553,208

Source: Brampton P3 documentation made available for inspection through court actions.