

BACKGROUNDER

THE COST OF PRIVATIZING REGINA'S WASTE WATER TREATMENT PLANT

There are a lot of numbers going around in the debate about Regina's wastewater treatment plant.

The City says a P3 will save us money whereas Regina Water Watch says P3s cost more.

As a voter, you want to know the facts. When we're about to enter into a 30-year, \$1 billion secret contract with a private corporation, a lot is at stake.

FACT: PRIVATE FINANCING COSTS MORE THAN PUBLIC SECTOR BORROWING

How can we save money by paying a private company to borrow money at a much higher rate than it would cost the city to borrow the money? The city admits that private financing is more expensive but refuses to say by how much.

FACT: PRIVATE COMPANIES EXPECT TO MAKE A PROFIT

The city cannot explain how a private company can operate and maintain the waste water treatment plant for less than the city itself. A private company expects to make a profit (return on investment). In the case of the Moncton P3 Water Treatment Plant, the private company made 24% return on its investment.

How much profit would we have to pay the company that runs our waste water treatment plant? Again, the city won't say.

FACT: P3S COST MORE THAN TRADITIONAL WAYS OF BUILDING PUBLIC INFRASTRUCTURE

The city is using a lot of numbers. But they're not showing their math so we don't know how they got to these numbers.

They have not shown their estimates on the cost of private sector borrowing, the profit rate paid to the corporation or the expected debt-to-equity ratio of the corporation's financing.

Without knowing these numbers, we won't know what the true cost of P3 privatization will be.

That's why Regina Water Watch asked independent economist Hugh Mackenzie to calculate the possible costs of the waste water treatment plant P3. The City of Regina has refused to release Deloitte's economic assumptions to the public, so Mackenzie made a number of calculations based on different scenarios. His conservative estimate is that private financing through a P3 will cost \$95.9 millionⁱ more than public financing. Even after receiving the \$58.5 million federal P3 grant, Regina rate payers will still pay \$37.4 million more for private financing.

Mackenzie also made calculations based on the economic assumptions of PPP Canadaⁱⁱ, the federal agency that promotes P3s. Using their assumptions, the P3 privatization model is even more expensive: \$135.7 million more before the P3 Canada grant, and still \$77.2 million more expensive than the traditional Design-Bid-Build option after with the federal grant.ⁱⁱⁱ

In other words, it would cost us far less—between \$37.4 to \$77.2 million less—to say “no thanks” to the federal grant and not use a P3 privatization model for the wastewater treatment plant.

So, the city's claim that voting no and going with a P3 will cost taxpayers \$276 per year in increased utilities? Just more funny math that the city can't explain.

If you really want to save money on the cost of utilities over the next 30 years, vote YES.

SCENARIO ONE

Mackenzie's original conservative economic assumptions (80/20 debt/equity ratio; equity return of 10%; private finance spread 200 basis points)

	City financed	P3 financed	YES vote savings before P3 grant	P3 Canada grant	YES vote savings after P3 grant
Discounted present value of financing costs*	\$104.0 million	\$164.6 million	\$60.6 million	\$44.3 million	\$16.3 million
Nominal value of financing costs	\$222.6 million	\$318.4 million	\$95.9 million	\$58.5 million	\$37.4 million

**discounted numbers were used in the Deloitte report summarizing options for the city; the city is using "nominal" numbers when talking about the value of the P3 Canada grant being \$58.5 million.*

SCENARIO TWO

Using PPP Canada's economic assumptions (88/12 debt/equity; equity return 13.5%; private finance spread 275 basis points).

	City financed	P3 financed	YES vote savings before P3 grant	P3 Canada grant	YES vote savings after P3 grant
Discounted present value of financing costs*	\$118.6 million	\$203.5 million	\$84.9 million	\$44.3 million	\$40.6 million
Nominal value of financing costs	\$253.7 million	\$389.5 million	\$135.7 million	\$58.5 million	\$77.2 million

**discounted numbers were used in the Deloitte report summarizing options for the city; the city is using "nominal" numbers when talking about the value of the P3 Canada grant being \$58.5 million.*

On Sept 25
Keep water public!

Vote YES!

Pledge to vote YES: Text "YES" to **306-988-1754** or text INFO for more information

 Regina Water Watch **ReginaWaterWatch.ca**

ⁱ In nominal dollars. Mackenzie's original calculations in the report *Flushing Money Away* were based on net present value figures in the Deloitte summary report which showed the value of the P3 Canada grant as \$44.3 million. He estimated that private financing would cost \$60.5 million more in net present value. The City of Regina is using the nominal figure of \$58.5 million for the federal grant, so Mackenzie has revised his analysis to show his calculations in nominal dollars.

ⁱⁱ PPP Canada assumes a debt/equity ratio of 88/12, an equity return of 13.5% and a spread between public and private borrowing of 275 basis points.

ⁱⁱⁱ To see all of Mackenzie's calculations, go to: www.reginawaterwatch.ca.