Ministry of Finance
Government of Bermuda

Response to Craig Mayor

This report provides responses to the memorandum provided by Craig Mayor on October 19, 2016.

Point #1: G2G Costs understated by $810m

There are several issues with this statement. First, the net revenues of $27 million is not an appropriate figure to use. Second, the reference that the G2G should include the net airport cash flows should be included is inaccurate. We have included this figure in the DB and EBA options as a positive cash flow. To also show this is a net cash outflow to the G2G or DBFOM report would not be appropriate as the option is already reduced by the fact that it is not included. We would be inherently overestimating the cost of the G2G or DBFOM options relative to the DB and EBA options if we took this approach.

Point #2: Evaluation of Deficits, Debt and Credit Ratings Omitted

This analysis is being performed as part of the Ministry's response to Deloitte Report. The report specifically looks at the impact of the project to the sovereign credit rating of Bermuda as well as overall affordability.

Point #3: Failure to Review Debt Metrics

This analysis is being performed as part of the Ministry's response to Deloitte Report. The report specifically looks at the impact of the project to the sovereign credit rating of Bermuda as well as overall affordability. On another note, the Ministry is in regular discussions with the credit agencies and we have discussed this issue with the rating agencies. To-date, they have not indicated any potential downgrade to Bermuda's credit rating. Also, the point about "Bermuda approaching bankruptcy" is simply unfounded. Bermuda has a strong investment grade credit rating from two internationally recognized credit rating agencies and strong financial monetary reserves.

Point #4: NPV irrelevant to analysis of Debt Metrics

First, the notion of Bermuda approaching bankruptcy is not supported as noted in Point #3 above. The Ministry is reviewing debt metrics as part of our response to the Deloitte Report. The Ministry did not use NPVs in analyzing the impact on our sovereign debt.

Point #5: Repaid to Build Later Option

A comprehensive list of options was identified by the Government of Bermuda's technical consultant. An analysis of each one of these options is being presented to the FCO as part of Bermuda's response to the entrustment report. The technical consultant, a highly qualified firm with experience in airports and public procurements, did not identify the "repair to build later" as a viable option and therefore, we did not include.

Point #6: Contingent Liability

This point is incorrect. For a contingent liability to be recorded, it must be known and measurable. As the quantum of the contingent liability is not measureable as it varies with passenger volumes which fluctuate year to year, it cannot be recorded as a contingent liability.

Point #7: DB Capital Cost is Illogical

It is not appropriate to assume that Government of Bermuda would receive the same construction cost under the DB Option and G2G Option . One of the biggest differences is that a DB option would not typically be done on a fixed-price basis and would be done on a cost-plus basis. As a result, any overages in construction price would be borne by Bermuda and not the contractor; therefore, one would need to assume that the construction price would be higher. Also, the G2G option is a tailored solution which involved significant discussions between the Bermuda and the private party over many months. This included detailed discussions about required size, affordability, regulated fee comparison to other airports, etc.

Typically, under a DB Option, Bermuda would simply tender the construction under certain specifications and then select the lowest price. As noted above, the only data point which provides a realistic estimate of what the construction-only price would be is the estimate put forward in 2008 indexed for inflation. As such, using the $250MM construction price is not appropriate for evaluation purposes.

Point #8: Incorrect Use of Annual Cash Flows

The report focuses on the cash flow profile of each option which is the accurate method to assess cash flows.

Point #9: Invalid Assumptions on G2G Tourist Arrivals Exceed EBA Arrivals

The point raised is unsupported. Airport management has a significant impact on passenger volumes and this is well documented. For instance, to your point on London, London City Airport (LCA) was purchased by a private equity fund several years ago which had an in-house airport management team. Since they acquired the airport, passenger volumes have increased significantly as the airport management team focused on route development and working with airlines to increase passenger flows. The point is that bringing in an experienced airport management team with knowledge of growing routes and working with airlines to increase passenger flows does drive passenger volumes and by extension tourist traffic. The EBA option does not lead to the a new management team and, as a result, passenger growth will continue to be stagnant under this option.

Point #10: Wade unlikely to Survive Category 4 Hurricane Storm Surge

Our technical advisor has advised us that the airport is highly susceptible to storm damage. This will result in significant capital expenditures to repair the airport after each hurricane or severe whether event. Furthermore, the Government of Bermuda did evaluate the option of fully upgrading the airport terminal and this was actually the highest cost from a capital expenditure perspective. Leaving the airport in the current footprint is not prudent over the long-term horizon.

Point #11: NPVs cannot be used to Compare Projects with Different Lives

The method used in the report is common in public procurement analysis.

-End of Report-