To: All media outlets December 15th, 2016

This statement on the proposed CCC/Aecon/Project Co deal is provided to all media.

It is penned by the all-Bermudian pair, Craig Mayor and Larry Burchall. Both of us have already taken public stances on the proposed CCC/Aecon/Project Co deal.

We have already communicated with all 35 MP's as well as the Auditor-General, Deputy Governor, and Governor.

OUR STATEMENT

Financial Analysis

Public and private sector capital projects are evaluated by comparing the amounts of cash invested with the amounts of cash returned. This simply answers the question *"How much do I put in and what do I get back"*

This analysis is achieved by identifying cash expenditures and cash receipts over the life of the project.

In the P3 with Project Co, it is clear that at the end of the concession Government will take back a 30 year old Terminal.

But what isn't so clear to Government is how much Government will pay Project Co to Design, Build, Finance, Operate and Maintain [DBFOM] the Terminal over 30 years.

There are two broad categories of cash expenditure that Government will incur for the project. Using 2016/17 estimates, they are:

(i) Payments to operate the AT. These include annual expenses for the new Quango, Electricity subsidy, and Retained Airport Services,` such as Security, Fire & Rescue, Air Traffic Control, and Meteorology. For Government these operating expenses are assumed to total $18m/year (as in the overview prepared for MP's.)

(ii) Amounts paid to PROJECT CO to DBFOM the AT. In this case Government will hand over all Airport Revenues, currently $37m/year and Project Co will assume approximately $10m/year of Government's Airport Expenses.

(iii) On an aggregate basis Government will therefore hand over Net Revenues of $37m/year less $10m/year or $27m/year.

In summary, over the 30 year concession the AT will cost:	per year	30 years
(i) Operating Expenses	$18m	$540m
(ii) Net Revenue payments to Project Co	$27m	$810m
Total Cost	$45m	$1,350m

Government has properly included Operating Expenses of $18m/year but has erroneously omitted the payments to Project Co which total $27m/year or $810m over 30 years.

It is important to note that the Net Revenues ($27m/year) will be adjusted for any payments under the Revenue Guarantee or any receipts under the Revenue Sharing Agreement. Thus the actual Net revenue Payments of $27m/year could turn out to be higher or lower.

Because these amounts cannot be ascertained with reasonable certainty they have rightly been excluded from Government's cash flow analysis.

By omitting the Net Revenue transfers to Project Co totalling $810m, Government is by definition saying Project Co will build and operate the AT for 30 years at no cost to Government. Clearly Project Co will not build and operate the AT for free and by omitting $810m in Net Revenues transferred to Project Co, Government's cost analysis makes no economic sense.

The Terminal that Government says will cost $540m to build and operate over 30 years will, in fact, cost just under $1.4bn or 2.5 times Government's estimated cost.

Therefore, with a cost understatement of $810m, all of Government's financial analysis to justify the cost, business case, and economics is totally invalid.

It makes no financial sense to pay $1.4bn to build, finance, operate and maintain an AT which Government purports will cost $267m to construct. Under this scenario Project Co will receive $1,083m for financing, operating and maintaining the terminal, which is 4 times the construction cost of $267m.

Direct Inward Investment & Economic Stimulus

A major rationale offered for Aecon's new build was to have 'direct inwards investment' in Bermuda, because this kind of investment would help stimulate Bermuda's economy and help pull it out of recession.

However, the promised 'direct inwards investment' of $267m can only ever result in about 60% of that 'investment' actually being spent in Bermuda.

This 60% or $160m of on-Island spending would help stimulate Bermuda's economy and boost Bermuda's GDP. However, this stimulus action would only apply for the 40 month construction period.

The $107m balance would be spent on imported materials and on paying the 40% Canadian workforce employed by Aecon. The wage savings from the Canadian workforce will be repatriated to Canada. Money spent on materials and wage savings that are repatriated would boost Canada's GDP. Not Bermuda's.

At the end of the 40 month construction period, Bermuda's economy would start paying back the $160m spent on-Island as well as the $107m that had been spent in or repatriated to Canada.

Job creation for Bermudians

A second equally major rationale was that the CCC/Aecon project would provide hundreds of jobs for Bermudians. In March 2015, the promise was 600 jobs with 75% for Bermudians. In November 2016, the promise reduced to 400 jobs, with only 60% of jobs for Bermudians.

There is no guarantee, promise, or suggestion that jobs for Bermudians will not decline further to 50%, or 40%, or lower. However, Bermuda and Bermudians will carry and pay the full costs that are now shown to be around $1.4bn. And Bermudians will pay for the Canadian workers to work in Bermuda.

Fresh Debt

The third 'explanation' for the proposed Aecon deal was that Bermuda would not incur any additional national debt to pay for the proposed new Air Terminal.

In the past nine years, Bermuda's Gross National Debt has grown sevenfold [720%]. From $345m in 2007/08 to 2016/17's new high of $2,484m.

Government is still operating in 'deficit'. Any surrendering of revenue [$27m/year] will therefore result in either a tax increase that will be required to cover the increased deficit. Or, there will have to be increased borrowing in order to close the $27m revenue gap that exists only because of the surrender of $27m to Aecon/Project Co.

Or across-the-board spending cuts of $27m.

Taxes

This plan proposes that Aecon should be exempt all Customs duties as well as the employer's portion of Payroll Tax. This exemption would last for 33 years and four months.

Downside risks and downside liabilities

Finally, under the planned Revenue Guarantees, Government will retain an obligation to make up any shortfalls in 'base case' revenue.

All downside risks of Revenue shortfalls are therefore underwritten by Government. This will be accounted for and reflected as contingent liabilities. By increasing Total Liabilities, it will negatively impact Bermuda's Sovereign Credit Rating.

Conclusion

This project must be stopped immediately pending an independent investigation of the true costs and economic viability of building a new Terminal as currently planned with CCC/Aecon.

Given the enormity of the error in Government's costing of the project and the substantial demonstrations on Friday 2nd December 2016, it is in the best interests of the country for the Auditor-General to give an opinion on the $810m cost understatement, and to do so as soon as possible.

If confirmed, this should prevent further and continued waste of Government Expenditure, suspend social unrest, and allow Government to focus on other issues.

At $1.4bn, and with only a short and small 40 month economic stimulus impact on Bermuda's GDP and small and vague promises of employment for Bermudians, it is difficult to imagine how this Project, as currently planned, can ever be justified.

Forward?

Start with the primary question: *"What, exactly, does Bermuda need at its Airport."*

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