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Tuesday » August 16 » 2005

RAV swallows an extra $400 million -- before work starts

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VICTORIA - They took the wraps off yet another RAV deal last week, this time announcing a "fixed" price of $1.9 billion, up from the $1.5 billion touted a little over a year ago.

Thus the advertised cost of the Richmond-Airport-Vancouver transit line has jumped by 27 per cent and $400 million before the official sod-turning, anticipated this fall.

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"Not to worry," say the RAV boosters. The private builders have signed to build the line at the higher cost, insulating taxpayers from the tab for any construction overruns.

That rationalization sidesteps how taxpayers, through their respective governments, have already chipped in tens of millions of dollars in successive efforts to keep RAV alive.

Plus the project has been scaled back repeatedly in an undisguised effort to allow the private partners to build less for the same price.

The latest version of the project provides for fewer stations, less tunnelling, more surface travel, and higher fares on the airport leg of the line.

If all those reductions-in-scope were factored in, the overrun is probably more like half a billion dollars on the line as envisioned in the initial call for bids.

Nor is that likely to be the end of it, for all the talk of fixed prices.

The private partners, operating as InTransitBC, are indeed putting up about a third of the cost of constructing this elevated/cut-and-cover money pit.

But they fully expect to make back all that and more on a 35-year agreement to operate and maintain the RAV line.

Will the private operators definitely be able to recover their investment, plus interest, and make a tidy profit as well? "Yes, absolutely," was the reply of company representative Steve Crombie last week.

RAV is a "very solid project," he went on to say. That's not the only reason the private partners are so confident.

For once the line goes into service in the fall of 2009, the main uncertainties are ridership and revenues.

Virtually all of those operating risks are the responsibility of TransLink, the Lower Mainland's publicly funded transportation authority.

The deal assigns 90 per cent of the ridership-and-revenue risk to TransLink, just 10 per cent to the private sector partners.

TransLink has defended the imbalance, saying it was necessary to maintain public control.

The public authority did not want to give up control over the three main factors that affect ridership and hence, revenues -- fares, marketing and service levels.

The private operating company will retain responsibility for some relatively minor factors in ridership, such as standards of maintenance on the system. Hence the 10 per cent.

Perhaps the private partners would have taken on greater risk if it came with the power to raise fares or cut service.

But I can't think they tried very hard to alter the 90/10 split. If they did any research, they surely realized there was every likelihood the RAV line will fail to meet its revenue and ridership targets.

The Millennium line is the example at hand. When the previous New Democratic Party government ramrodded that $1.1 billion project in the late 1990s, they offered the usual heady ridership and revenue projections.

Today, more than three years after it went into service, ridership continues to fall well short of projections and the Millennium line is a chronic money loser.

Last year, for instance, TransLink admitted to losses of $27 million, including operations and interest charges.

That underwhelming performance, far from being the exception, is the pattern for similar large scale transportation projects all over the globe.

I'm quoting from a study by a trio of Danish researchers, who surveyed more than 200 transportation projects in 14 countries, including roads, bridges, tunnels, rail and urban transit lines.

They compared initial forecasts -- either traffic levels or ridership, depending on the type of project --and use once the work was completed.

They found the planners usually missed the mark. Moreover, the worst record -- attention Lower Mainland residents -- was in rail and urban transit projects.

Ridership was overestimated in nine out of 10 cases and the average overrun was an incredible 106 per cent.

Given how outcomes were all skewed in the same direction, the researchers concluded ridership figures were deliberately exaggerated to build support and ensure projects would go ahead.

Of course RAV might be the one project in 10 in which the demand forecasts are on the mark.

Assuming the pattern identified by the Danish study applies here as well, then Lower Mainland residents could be in for a nasty financial surprise once their newest transit line goes into service.

In a subsequent column, I'll have more to say about the implications of this landmark study.

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