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Private-sector portion of RAV risk isn't so private, after all

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VICTORIA - When the B.C. Liberals agreed to pump another $63 million into the over-budget RAV line last fall, Premier Gordon Campbell said that was the last of the public funding.

"That's it, kaputski, done," Campbell told reporters. Any further overruns on building the proposed Richmond-Airport-Vancouver transit line were "going to be picked up by the private sector."

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Taxpayers surely needed the assurance. They were already on the hook for almost $1.3 billion in construction costs, via several levels of government and two publicly-owned transportation authorities.

But in the months since the premier's "kaputski" comment, the estimated cost of building RAV has continued to climb, even as planners tossed parts of the project in an effort to stay on budget.

Then last week came the news that the winning bidder on the project, SNC-Lavalin, had taken on new partners to spread around its share of the risk on construction.

One of those newcomers is homegrown -- the B.C. Investment Management Corporation. It is, as the website announces, "an independently-managed crown corporation," and it mostly manages public sector pension funds.

As I make it, that means SNC-Lavalin has found a way to disperse some of the private sector share of the risk back to the public sector.

Doubly so. For the other new partner in this "private" enterprise is the Caisse de Depot, the principal investing agent for public sector pension plans in Quebec.

Thus, if RAV produces less than optimum returns, then public sector pension plans in B.C. and Quebec will presumably have to eat any financial downside along with the one remaining, genuinely private, risk-taker.

Not for nothing is SNC-Lavalin known as one of corporate Canada's most experienced practitioners in partnering with government.

So much for the construction risk. The operating risk is almost entirely -- 90 per cent -- public, thanks to the generous undertakings of TransLink, the Lower Mainland transportation authority.

TransLink insists it can manage the risk on behalf of the public. It has every confidence in the operational budget, based on anticipated traffic of 100,000 RAV riders a day.

But the record of such forecasts is not good. In the most comprehensive survey of its kind, a trio of Danish researchers found ridership figures were nearly always grossly overestimated on projects like RAV.

They looked at 200 transportation projects in 14 countries, including more than two dozen large-scale projects involving passenger rail, light rail and other forms of urban transit.

The trio -- Bent Flyvbjerg, Mette Skamris Holm, and Soren Buhl, all of them associated with the planning school at Aalborg University -- published their findings in the spring issue of the Journal of the American Planning Association.

How (In)Accurate Are Demand Forecasts in Public Works Projects? asked the headline. The answer: very inaccurate, especially on passenger rail and other big-budget urban transit projects.

They found the project boosters got it wrong nine times out of 10. Moreover, they overestimated ridership by an average -- average! -- of 106 per cent. Once these projects went into service, there were less than half as many riders as forecast.

"The data document a massive problem with inflated rail passenger forecasts," wrote Flyvbjerg and his associates.

"The traffic estimates used in decision making for rail infrastructure development are highly, systematically and significantly misleading -- inflated."

"Decision makers are well advised to take with a grain of salt any traffic forecast that does not explicitly take into account the uncertainty of predicting future traffic."

Ahem: "For rail passenger forecasts, a grain of salt may not be enough."

Before proceeding to drain the salt shaker, I'll concede the possibility, noted here yesterday, of RAV being the one project in 10 where the ridership forecast was bang on.

It is also possible that in the course of chewing their way up Cambie Street the RAV-builders will strike oil or stumble across the lost mines of King Solomon.

But if we let stand the pattern identified by the Danes as an alternative possibility, the RAV line could attract fewer than 50,000 riders a day. Assuming one-way fares of $3, the farebox would be short a considerable $150,000 a day.

Taxpayers, through TransLink, would be on the hook for 90 per cent of that revenue shortfall.

Purely hypothetical, of course. But enough to say "kaputski" to the notion that taxpayers are finished pouring money into the RAV sinkhole.

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