HOSPITAL EMPLOYEES' UNION

Review of the Request for Proposals: Abbotsford Hospital and Cancer Centre

December 24, 2003

RON PARKS & ASSOCIATES INC.
INVESTIGATIVE AND FORENSIC ACCOUNTING

HOSPITAL EMPLOYEES' UNION

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CONTENTS

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Review of the Request for Proposals: Abbotsford Hospital and Cancer Centre

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1.0 INTRODUCTION

Ron Parks & Associates Inc. was retained by the Hospital Employees' Union of British Columbia to review and comment on the Request for Proposals (the "RFP"): Abbotsford Hospital and Cancer Centre (the "AHCC") issued by Partnerships British Columbia on September 25, 2003, and to make inquiries as we considered necessary to clarify the process and address concerns raised by project stakeholders.

At September 25, 2003 four prospective proponents had been identified by the Request for Expressions of Interest ("RFEOI") process started in January 2003; however, we understand that only two proponents have firmly committed to participate in the competitive process and submit a proposal.

The RFP is for a Public-Private Partnership ("P3") project that will "…achieve a competitively priced more effective facility that is superior in design, construction and operation than that which would be provided through a traditional procurement process."

On May 7, 2002, while operating as part of Kroll Lindquist Avey, we issued a report entitled Review of the Initial Evaluation of the Public Private Partnership (P3) for the Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre. In that report we concluded that the findings of the Initial Evaluation were not conclusively in favour of a P3 approach to the project and should not be used as the basis for a definitive decision.

We also point out that we are not opposed to the P3 approach to infrastructure projects where the assessment of value for money warrants and where the process meets requirements and characteristics established by previous P3 experience.

2.0 SUMMARY OF FINDINGS

The following is a summary of our major comments and observations resulting from our review of the RFP.

- Since the Initial Evaluation was performed for AHCC, the Project has increased significantly in size, cost and financing sources. Notwithstanding these changes, no further assessment of value for money was performed to revaluate the decision to proceed as a P3 project, despite the fundamental requirement that P3 projects demonstrate value for money from the perspective of the taxpayer as client.

- By analyzing the cash flows of Health Co and Project Co over a 33 year period, as anticipated by the RFP, we identified a difference between the cash Health Co (the government) will pay to Project Co (the private partner) and Project Co's cash outflow for expenses and debt servicing, of approximately $393 million to the benefit of Project Co. The total cash paid by Health Co to Project Co will total approximately $1.4 billion over 33 years, while the costs for Project Co will total approximately $1.0 billion. At this time it is unknown what portion of this difference is likely to be profit for Project Co, or what other costs Project Co will have to incur to build the hospital and provide the services indicated.

- Another of the fundamental requirements for a P3 project is: "the private sector must assume some of the risks of the project". At this point it is not clear what risks Project Co will assume nor what value can be placed on such risks. However, we believe that financing risk and ownership risk are likely to remain with the public sector, firstly because of

the initial contribution of $71 million of public money, and secondly because Health Co will own the asset and Project Co will have nothing to provide as collateral other than government guarantees.

- Although the level of transparency is high relative to information provided for similar projects in other jurisdictions, there is little assurance that the public interest will be protected. There is also no assurance that all stakeholders will be involved in the process, a requirement that we identified in the P3 literature we reviewed.

- We understand that the appointments to the Proposal Evaluation Committee (committee that evaluates proposals and decides on the winning proponent) have not been made and that "they will not be public in order to avoid inappropriate influence". We believe that making these appointments public would serve to alleviate many of the concerns of stakeholders and provide assurances that the public interest is protected. Furthermore, the appointees should be representative of the stakeholders and independent enough to avoid inappropriate influence.

3.0 P3 EXPECTATIONS AND BENEFITS

In An Introduction to Public-Private Partnerships, prepared by the Ministry of Finance of B.C., March 2002, the Ministry sets out a number of governments' expectations and benefits from P3s. We address some of these below in view of the RFP.

1. *"**Obtain private sector investment in public sector infrastructure.***

   Investment in hospitals, schools, highways and other provincial assets has traditionally been at the expense of the province and overall debt. P3s can help bridge the gap between the need for provincial infrastructure and province's financial capacity."

   The project scope description which includes a long-term land lease and a turnover of the facility at the end of the

concession period, indicates to us that this will be classified for accounting purposes as a capital asset. We also understand that the public sector will own the assets throughout. Accordingly, there would be no opportunity for "off-balance sheet" treatment and the debt obligation would be added to the province's overall debt. This has been confirmed by the Chief Project Officer, Mr. Mike Marasco.

2. *"**Faster capital delivery** – P3 projects are often delivered faster than using traditional means."*

   The RFP contemplates project facility completion and occupancy not later than March 2008, four years from the RFEOI issue. Since much of the planning and the business case for the project had already been developed, it is likely that the project would not take any longer if it were done as a public sector project using traditional procurement methods.

3. *"**Enhanced competitiveness** – competition results in improved efficiency and project economics."*

   The provision of this benefit for government will only be realized if there are a sufficient number of prospective respondents and proponents. The literature we have reviewed suggests there should be at least three such proponents. Having fewer may reduce the competitive advantage for government and ultimately the taxpayer.

   When traditional procurement methods are employed for the provision of the various services set out in the RFP, the contract terms are usually for relatively short periods of time, after which bids are solicited from potential suppliers. The thirty-year term of the concession for Project Co could result in reduced competition in the marketplace as potential bidders are effectively sidelined for a long period

of time with respect to this particular project. On the other hand, Project Co can renegotiate and/or tender with its suppliers and enjoy the benefit while government, having entered into a thirty-year agreement, will not be in a position to do so.

4.0 THE NATURE OF THE PROJECT

The AHCC Project has a number of basic characteristics as set out in the RFP.

- Health Co is the public sector party;
- Project Co is the private sector party;
- Project Co will provide financing (except for $71 million from the Fraser Valley Regional Hospital District (the "RHD")), design, development, construction, building operation, building maintenance and facilities management services;
- The physical assets will be owned by the public sector;
- The capital cost of the Project is estimated at $286 million including some equipment;
- The Project term is approximately thirty-three years including a thirty year concession term starting at substantial completion of the facility;
- The services to be provided by Project Co during the concession term are:
  - general management services
  - biomedical engineering services
  - food services – both patient and non-patient
  - housekeeping services
  - laundry/linen services
  - materiel services
  - plant services
  - protection services
  - transcription services

- utilities management, and
- parking services.

All other services will be the responsibility of the public sector.

4.1 Public-Private Partnership Objective

The RFP states "A key objective of developing the AHCC through a Public-Private Partnership is the delivery of a superior facility that both offers value for money and meets Health Co's criteria for affordability." The RFP goes on to state "Health Co and its advisors have developed a Public-Private Partnership financial model with financial outputs similar to that required of Proponents in the Proposal submissions. This model will be utilized to assist in the evaluation of each Proposal and to assist in the assessment of the value for money being offered by each Proponent".

We understand that since the Initial Evaluation of the P3 (which we reviewed in a Kroll Lindquist Avey report of May 7, 2002), there has been, in Mr. Marasco's words (Chief Project Officer of AHCC), "no attempt to revaluate the decision to go P3; therefore, no additional analysis was done to further support the original analysis." In our report of May 7, 2002, we found the original analysis unconvincing as support for a P3 approach to the project.

4.2 Change in Project Scope and Financial Parameters

The original analysis referred to above was based on a 300 bed hospital as is the RFP. However there are other changes, which we set out below.

	Original Analysis	RFP	Increase
Building size	100%	115%	15%
Capital costs (including some equipment)	$211 million	$286 million	36%
Other equipment costs	$40 million	$89 million	123%
Government financing	nil	$71 million	-
Annual Service Payments	$21 million	$40 million	90%
Total project cost estimate	$720 million	$1.4 billion	94%

Even though the costs reflected in the original analysis are estimates based on our interpretation of the model used, it is clear that the project scope has increased significantly enough that in our view, it warrants a revaluation of the decision to proceed with a P3. This was not done for reasons unknown to us.

5.0 CASH FLOW AND NET PRESENT VALUE

In order to illustrate the cash flows over thirty-three years of both Health Co and Project Co, we created Schedules 1 and 2 attached. Schedule 1 reflects the cash flow of Health Co to Project Co beginning with the $71 million of RHD funds (plus interest) and continuing with the Annual Service Payments of $39.7 million indexed for inflation at 0.89% (2.0% inflation with an indexation factor of 0.445). We used a discount rate of 6.0% to calculate net present value ("NPV"). Schedule 2 reflects the cash flow of Project Co for operating costs and debt financing. We used a finance cost of 5% and inflation of 2.5% on capital costs and 2.0% on operating costs. Again we used a discount rate of 6% to calculate NPV.

The Schedules illustrate a difference between the cash Health Co will pay to Project Co and Project Co's cash outflow for expenses and debt servicing of $393 million and NPV of cash flow of $178 million, both to the benefit of Project Co. The total cash paid by Health Co to Project Co will total $1,431,487,221,

approximately $1.4 billion, while the costs for Project Co will total $1,038,227,301, approximately $1.0 billion.

When we change the discount rate to 3.5% (see Schedules 3 and 4), as utilized for similar projects in other jurisdictions, the difference in NPV increases to $238 million to the benefit of Project Co.

At this stage it is not clear what other Project Co costs are likely to be incurred (other than the cost of services listed in section 4.0 above) which would absorb any part of the cash flow difference identified, nor what part will be profit to Project Co.

6.0 OUR QUESTIONS AND RESPONSES FROM PARTNERSHIPS BC

In order to gain a better understanding of the RFP and the ramifications of the Project for Partnerships BC and the provincial government, we met with Mr. Mike Marasco, Chief Project Officer of AHCC, and Ms Suromitra Sanatani, Vice President, Corporate Relations of Partnerships BC. At our meeting we asked the following questions and received the following responses. Our comments and observations follow each response where appropriate.

Question: Why is the Draft Form of Project Agreement not available to the Public?

Response: The "commercial people" thought we were already going too far with transparency. To release it now would jeopardize our negotiation position. The proponents need to run their own competitions for service providers; to release the Draft Agreement would weaken their competitive position. We are currently negotiating the form of agreement.

Comment: As we noted in Section 3.0 above, the fact that only two proponents have indicated they will proceed may reduce the competitive advantage for the

government and weaken its negotiation position. Given the amount of information made publicly available with the RFP, which was considerable, we fail to see how release of the Draft Form of Project Agreement would jeopardize the government's negotiation position. Instead it could serve to increase the public's understanding of how the P3 deal is to be structured and provide some level of assurance that the public interest is protected.

Question: **Please clarify the ownership of the assets.**

Response: Health Co will own the land and provide a long-term lease to Project Co. As construction proceeds, Health Co will account for both the asset and related liability on its books. This is unique for a hospital P3. The driver is value for money; not the accounting treatment.

Comment: The implication here is that the financing of the asset will indirectly be the responsibility of the government and reflected in government accounts. There is no opportunity for "off-balance sheet" financing.

Question: **Is this not simply a design-build project with a long-term contracting out of certain services?**

Response: This is much more. There is different risk transfer involved. This is a finance-design-build-operate-maintain project.

Comment: We are unable to comment on the issue of risk transfer without reviewing an updated Public Sector Comparator, which we understand was not

completed in the context of assessing value for money. While we agree that certain risks can be transferred to the private sector, much will depend on the final Project Agreement and financing guarantees.

Question: **Since Project Co will not own the asset, will Health Co/government have to provide financing guarantees?**

Response: The security for borrowed money is an unknown at this time.

Comment: We expect, given the ownership of the assets and the fact that almost all revenue will come from government, that Health Co/government will have to provide financing guarantees with respect to the capital borrowed for the Project. Accordingly, there will be no opportunity for transfer of financing risk to the private sector.

Question: **There is a significant difference between what Health Co will pay and Project Co's costs. What other Project Co costs are contemplated?**

Response: Project Co will have other costs such as a maintenance reserve and lender requirements. The $14.1 million (operating costs outlined in the RFP) includes only the bundle of services.

Comment: We are unable to comment on this response as we do not have Project Co's prospective information. However, if such other costs are identified in a Project Agreement, the existence of a "right to

audit" clause is mandatory in order to protect the public sector's interests.

Question: **Why was PricewaterhouseCoopers exempted from conflict of interest status?**

Response: Their contract and involvement was finished.

We also submitted a written list of questions to Mr. Marasco which follow along with his written responses. Our comments follow each response where appropriate.

Question: **Have the appointments to the Proposal Evaluation Committee (selection committee for winning proponent) been made? If so, please advise who they are and the organizations they represent.**

Response: No, they have not been made for this phase, they will not be public in order to avoid inappropriate influence.

Comment: We would hope that appointees to the Proposal Evaluation Committee would be independent enough to avoid inappropriate influence. We believe that making these appointments public would serve to alleviate many of the concerns of stakeholders and provide assurances that the public interest is protected. In order to insure that the appointees are well briefed and prepared to evaluate the proposals, they should have been in place when the RFP was issued and part of the Bilateral Meeting Process scheduled for early November.

Question: **Have the appointments of AHCC Advisors to the Proposal Evaluation Committee been made? If so,**

please advise who they are and the organizations they represent.

Response: They have not been finalized at this time, but they will be made public after evaluation.

Comment: Essentially the same comment applies as to the response above.

Question: **Will the report of the Process Monitor (the person who will monitor the evaluation process by the Proposal Evaluation Committee, the ranking of the Proposals, and the selection of the Final Proponents) be made public and if so, when?**

Response: Yes, as was the case with the EOI phase of the project, this will likely be released following the evaluation and selection process.

Question: **Has Partnerships British Columbia quantified the cost of monitoring Project Co's performance to identify Failure Events, Quality Failures, Quality Satisfaction Failures, and circumstances warranting Bonus Payments? If so, what is the estimated annual cost?**

Response: In the RFP, it states that the partner is responsible for reporting these incidents, and the Health Authorities have the right to audit. Although it has not been finalized at this point, it is likely that this function will be performed by existing Quality Assurance management staff within the Health Authorities. These positions are budgeted as part of the pre-construction operating estimates.

Comment: Clearly there will be a need to monitor performance, including the responsibility of Project Co to report these incidents. If the Quality Assurance staff have

been budgeted as part of the "pre-construction operating estimates", we might assume such costs are included in the $14.1 million of operating costs, meaning that Project Co will be responsible for them. We expect that this is not the case, and that the cost of monitoring will be additional and borne by government.

Question: **Who will be responsible for setting prices for patient amenities such as telephones, television, and parking?**

Response: This will be based on negotiated terms, based on the ancillary revenue opportunities identified in the proponents proposals.

Question: **Over the life of the concession, who will be responsible for Category A (medical) equipment replacement and upgrading? Will Project Co be required to establish a Category A equipment replacement reserve or will the responsibility and cost be borne by Health Co?**

Response: Category A equipment will be the responsibility of Health Co (see RFP).

Comment: The RFP states "Initial Proposals are not required to include an Option for an equipment replacement program for Category A". If this is to be the responsibility of Health Co, then it is an area of risk (obsolescence) that will not be transferred to Project Co.

Question: **Has Partnerships BC created an updated Public Sector Comparator to assess value for money of proposals? We note that Mr. Marasco was quoted October 4, 2003 by the Abbotsford News as saying,**

"…there was no point in doing another cost-analysis with the traditional hospital financial model, because the provincial government had made a firm decision to go forward with the P3 model." Is this quote accurate?

Response: The quote was accurate in that there was no attempt to revaluate the decision to go P3; therefore, no additional analysis was done to further support the original analysis. However, it should be stated that the PSC (Public Sector Comparator) and shadow bid variables have been updated in order to inform our negotiation process.

Comment: As we commented previously, "the original analysis" was less than convincing in favour of a P3 approach to the Project. We believe the changes in scope, risk transfer and costs necessitate an updated assessment of value for money. If, as Mr. Marasco states, the PSC has been updated to "inform our negotiation process", then we question why the decision to go forward with a P3 cannot be revaluated.

Question: **In the proposed model, although the hospital will still be owned by the public, the facilities management services will be provided by Project Co. Has Partnerships BC considered the impact of this arrangement on hospital foundation fundraising? If so, what is the anticipated impact?**

Response: There was an initial concern raised about this issue, although no evidence could be found in other jurisdictions (e.g. UK) to support this hypothesis.

Question: **The RFP estimates Project Co's operating costs at $14.1 million per annum (indexed for inflation).**

Please identify the specific operating costs that are included in this amount.

Response: We have not been specific with proponents other than to provide the overall number itself and list of facilities management services in the RFP and output specifications.

Question: **Please identify Project Co's costs that are not included in the $14.1 million but are anticipated by Partnerships BC.**

Response: This is part of our financial model, and we will not be releasing any of the details during the competitive process.

Comment: Mr. Marasco verbally indicated that there are anticipated costs beyond the $14.1 million, including lender requirements and maintenance reserve. We believe that further identification of these anticipated costs will help explain the $393 million gap between what Health Co will pay and Project Co's costs (see Section 5 above).

Question: **Has Partnerships BC identified and quantified the risks that will be transferred to Project Co? If so, please provide details.**

Response: Yes, although in order to protect the public sector's negotiating position, these details will not be released during the competitive process.

Comment: We note that the Initial Evaluation of the P3 identified and quantified transferred and retained risks; accordingly we fail to understand how release of such details, at least in a general way, could impact the competitive process.

Question: **The RFP states that Health Co. and its advisors have developed a P3 financial model with financial outputs "similar to that required of Proponents…". We understand how this model can be utilized to assess affordability of proposals, but how can it be used to assess value for money if it is not a public sector comparator?**

Response: The shadow bid includes our assessment of risk, overhead, ROI etc. It will be used to assist during the negotiation process. The PSC comparison will also be used to assess value for money.

Comment: This response raises two very fundamental questions. If the decision to go forward with a P3 is irrevocable, what will happen if the PSC comparison referred to demonstrates value for money is absent? Of what use is an updated PSC if it is not to assess value for money, whether or not to proceed with a P3, and/or to ensure the public interest is protected?

Question: **What is the annual operating budget of Partnerships BC? Has a specific portion of that budget been allocated to Abbotsford Hospital and Cancer Centre?**

Response: The annual operating budget of Partnerships BC is approximately $5 million. The Abbotsford Hospital and Cancer Centre project has its own separate procurement budget.

Comment: The total cost of procurement, including an allocation from Partnerships BC related to this Project, should be factored into any assessment of value for money. These costs are likely to include substantial costs of consulting, accounting and legal

assistance regarding the project which should be estimated and included in the prospective cost of a P3 approach to the Project.

Question: **Will the Project Agreement contain a "right to audit" clause that will enable Health Co or its appointed auditor to inspect the records of Project Co?**

Response: We have taken substantial measures to protect the public sector's interests. The provisions related to Health Co's rights will be made public when the final Project Agreement is released.

Question: **Will the Project Agreement provide any mechanism which will enable Health Co to monitor Project Co's ongoing financial viability?**

Responses: We have taken substantial measures to protect the public sector's interests. The provisions related to Health Co's rights will be made public when the final Project Agreement is released.

Question: **Will the Project Agreement contain "step-in" provisions for an orderly take-over of the Project to ensure continued service to the public should Project Co fail?**

Response: We have taken substantial measures to protect the public sector's interests. The provisions related to Health Co's rights will be made public when the final Project Agreement is released.

Comment: We believe it would be in the public sector's interests to assure the public and the stakeholders that the Project Agreement will address the specific concerns raised in the previous three questions. To do so would enhance the level of transparency of

the process and at the same time not jeopardize the competitive position of any of the parties.

Question: **We understand the "Site", including land and buildings, will be owned by Health Co, and that as construction proceeds, both the asset and related liability will be accounted for on the balance sheet of Health Co. Will the financial statements of Health Co be included in the accounts of the Province?**

Response: Yes, the financial statements of Health Co will be included in the accounts of the Province, through the Health Authorities.

Question: **Who audits Partnerships BC and eventually, Health Co?**

Response: The Auditor General of British Columbia will audit Partnerships BC and eventually Health Co.

Comment: We have not confirmed this response with the Auditor General.

RON PARKS & ASSOCIATES INC.

Per: Ronald H. Parks, FCA, CA•IFA
President

ABBOTSFORD HOSPITAL & CANCER CENTRE

Health Co to Project Co
November 1, 2003 to November 1, 2036

Interest Rate **3.08%** [1]
Inflation Rate **0.89%** [2]
Discount Rate **6.00%**

Year	Date	Year	Project Cash Flow	Interest	Total Cash Flow	NPV at November 1, 2003	Cumulative NPV
0	Nov-1	2003					
1	Nov-1	2004	$ 18,000,000 [3]		$ 18,000,000	$ 16,981,132	$ 16,981,132
2	Nov-1	2005	$ 36,000,000 [3]		$ 36,000,000	$ 32,039,872	$ 49,021,004
3	Nov-1	2006	$ 17,000,000 [3]	$ 2,217,600 [4]	$ 19,217,600	$ 16,135,468	$ 65,156,471
4	Nov-1	2007	$ 39,700,000 [5]		$ 39,700,000	$ 31,446,118	$ 96,602,590
5	Nov-1	2008	$ 40,053,330		$ 40,053,330	$ 29,930,178	$ 126,532,768
6	Nov-1	2009	$ 40,409,805		$ 40,409,805	$ 28,487,318	$ 155,020,086
7	Nov-1	2010	$ 40,769,452		$ 40,769,452	$ 27,114,014	$ 182,134,100
8	Nov-1	2011	$ 41,132,300		$ 41,132,300	$ 25,806,914	$ 207,941,014
9	Nov-1	2012	$ 41,498,377		$ 41,498,377	$ 24,562,826	$ 232,503,840
10	Nov-1	2013	$ 41,867,713		$ 41,867,713	$ 23,378,712	$ 255,882,552
11	Nov-1	2014	$ 42,240,336		$ 42,240,336	$ 22,251,682	$ 278,134,234
12	Nov-1	2015	$ 42,616,275		$ 42,616,275	$ 21,178,983	$ 299,313,217
13	Nov-1	2016	$ 42,995,560		$ 42,995,560	$ 20,157,996	$ 319,471,213
14	Nov-1	2017	$ 43,378,220		$ 43,378,220	$ 19,186,229	$ 338,657,441
15	Nov-1	2018	$ 43,764,286		$ 43,764,286	$ 18,261,308	$ 356,918,749
16	Nov-1	2019	$ 44,153,788		$ 44,153,788	$ 17,380,975	$ 374,299,724
17	Nov-1	2020	$ 44,546,757		$ 44,546,757	$ 16,543,081	$ 390,842,804
18	Nov-1	2021	$ 44,943,223		$ 44,943,223	$ 15,745,579	$ 406,588,383
19	Nov-1	2022	$ 45,343,218		$ 45,343,218	$ 14,986,523	$ 421,574,907
20	Nov-1	2023	$ 45,746,772		$ 45,746,772	$ 14,264,060	$ 435,838,967
21	Nov-1	2024	$ 46,153,919		$ 46,153,919	$ 13,576,425	$ 449,415,391
22	Nov-1	2025	$ 46,564,689		$ 46,564,689	$ 12,921,938	$ 462,337,330
23	Nov-1	2026	$ 46,979,114		$ 46,979,114	$ 12,299,003	$ 474,636,333
24	Nov-1	2027	$ 47,397,228		$ 47,397,228	$ 11,706,099	$ 486,342,432
25	Nov-1	2028	$ 47,819,064		$ 47,819,064	$ 11,141,776	$ 497,484,208
26	Nov-1	2029	$ 48,244,653		$ 48,244,653	$ 10,604,659	$ 508,088,867
27	Nov-1	2030	$ 48,674,031		$ 48,674,031	$ 10,093,434	$ 518,182,301
28	Nov-1	2031	$ 49,107,230		$ 49,107,230	$ 9,606,854	$ 527,789,155
29	Nov-1	2032	$ 49,544,284		$ 49,544,284	$ 9,143,732	$ 536,932,887
30	Nov-1	2033	$ 49,985,228		$ 49,985,228	$ 8,702,935	$ 545,635,821
31	Nov-1	2034	$ 50,430,097		$ 50,430,097	$ 8,283,388	$ 553,919,209
32	Nov-1	2035	$ 50,878,925		$ 50,878,925	$ 7,884,066	$ 561,803,275
33	Nov-1	2036	$ 51,331,747		$ 51,331,747	$ 7,503,994	$ 569,307,269
			Total		$ 1,431,487,221	$ 569,307,269	

Notes:

[1] Bank of Canada: Real Rate of Return on Long-Term Bonds, September 30, 2003.

[2] 2% with indexation factor of 0.445 as per RFP.

[3] RHD funding for construction.

[4] Interest on RHD funding.

[5] Annual Service Payment inflated at 0.89%.

ABBOTSFORD HOSPITAL & CANCER CENTRE

Project Co re: Costs
November 1, 2003 to November 1, 2036

Inflation Rate (Years 1-3)	**2.50%**
Inflation (Years 4-33)	**2.00%**
Finance Cost	**5.00%**
Discount Rate	**6.00%**

Year	Date	Year	Capital Expenditure	In Flow (Govt')	In Flow (Financing)	Project Cash Flow	Financing Cost (Principal + Interest)	Total Annual Cash Flow	NPV at November 1, 2003	Cumulative NPV
0	Nov-1	2003								
1	Nov-1	2004	$ 66,625,000 [2]	18,000,000	48,625,000 [4]	$ -	$ 2,431,250	$ 2,431,250	$ 2,293,632	$ 2,293,632
2	Nov-1	2005	68,290,625 [2]	36,000,000	32,290,625 [4]	-	4,045,781	4,045,781	3,600,731	5,894,363
3	Nov-1	2006	167,994,938 [3]	19,217,600	148,777,338 [4]	-	11,484,648	11,484,648	9,642,732	15,537,095
4	Nov-1	2007				14,100,000	14,941,857	29,041,857	23,003,871	38,540,966
5	Nov-1	2008				14,382,000	14,941,857	29,323,857	21,912,492	60,453,457
6	Nov-1	2009				14,669,640	14,941,857	29,611,497	20,874,937	81,328,394
7	Nov-1	2010				14,963,033	14,941,857	29,904,890	19,888,460	101,216,854
8	Nov-1	2011				15,262,293	14,941,857	30,204,150	18,950,458	120,167,311
9	Nov-1	2012				15,567,539	14,941,857	30,509,396	18,058,465	138,225,776
10	Nov-1	2013				15,878,890	14,941,857	30,820,747	17,210,144	155,435,920
11	Nov-1	2014				16,196,468	14,941,857	31,138,325	16,403,281	171,839,201
12	Nov-1	2015				16,520,397	14,941,857	31,462,254	15,635,776	187,474,978
13	Nov-1	2016				16,850,805	14,941,857	31,792,662	14,905,641	202,380,618
14	Nov-1	2017				17,187,821	14,941,857	32,129,678	14,210,988	216,591,606
15	Nov-1	2018				17,531,578	14,941,857	32,473,435	13,550,030	230,141,636
16	Nov-1	2019				17,882,209	14,941,857	32,824,066	12,921,072	243,062,707
17	Nov-1	2020				18,239,853	14,941,857	33,181,710	12,322,507	255,385,214
18	Nov-1	2021				18,604,651	14,941,857	33,546,507	11,752,811	267,138,024
19	Nov-1	2022				18,976,744	14,941,857	33,918,600	11,210,539	278,348,563
20	Nov-1	2023				19,356,278	14,941,857	34,298,135	10,694,321	289,042,884
21	Nov-1	2024				19,743,404	14,941,857	34,685,261	10,202,857	299,245,741
22	Nov-1	2025				20,138,272	14,941,857	35,080,129	9,734,915	308,980,655
23	Nov-1	2026				20,541,038	14,941,857	35,482,894	9,289,325	318,269,980
24	Nov-1	2027				20,951,858	14,941,857	35,893,715	8,864,978	327,134,957
25	Nov-1	2028				21,370,895	14,941,857	36,312,752	8,460,822	335,595,779
26	Nov-1	2029				21,798,313	14,941,857	36,740,170	8,075,858	343,671,637
27	Nov-1	2030				22,234,280	14,941,857	37,176,136	7,709,139	351,380,776
28	Nov-1	2031				22,678,965	14,941,857	37,620,822	7,359,767	358,740,543
29	Nov-1	2032				23,132,545	14,941,857	38,074,401	7,026,887	365,767,430
30	Nov-1	2033				23,595,195	14,941,857	38,537,052	6,709,691	372,477,122
31	Nov-1	2034				24,067,099	14,941,857	39,008,956	6,407,410	378,884,531
32	Nov-1	2035				24,548,441	14,941,857	39,490,298	6,119,314	385,003,845
33	Nov-1	2036				25,039,410	14,941,857	39,981,267	5,844,710	390,848,556
			$ 302,910,563	$ 73,217,600	$ 229,692,963	$ 572,009,917	$ 466,217,385	$ 1,038,227,301	$ 390,848,556	

Notes:

[1] Bank of Canada: Real Rate of Return on Long-Term Bonds, September 30, 2003

[2] Assume $65m with 2.5% inflation from beginning of Year 1.

[3] Cash flow is $67m plus $89m with 2.5% inflation from Year 1.

[4] Schedule 5.

ABBOTSFORD HOSPITAL & CANCER CENTRE

Health Co to Project Co
November 1, 2003 to November 1, 2036

Interest Rate **3.08%** [1]
Inflation Rate **0.89%**
Discount Rate **3.50%**

Year	Date	Year	Project Cash Flow	Interest	Total Cash Flow	NPV at November 1, 2003	Cumulative NPV
0	Nov-1	2003					
1	Nov-1	2004	$ 18,000,000		$ 18,000,000	$ 17,391,304	$ 17,391,304
2	Nov-1	2005	$ 36,000,000		$ 36,000,000	$ 33,606,385	$ 50,997,690
3	Nov-1	2006	$ 17,000,000	$2,217,600	$ 19,217,600	$ 17,333,174	$ 68,330,864
4	Nov-1	2007	$ 39,700,000		$ 39,700,000	$ 34,596,256	$ 102,927,120
5	Nov-1	2008	$ 40,053,330		$ 40,053,330	$ 33,723,829	$ 136,650,949
6	Nov-1	2009	$ 40,409,805		$ 40,409,805	$ 32,873,402	$ 169,524,351
7	Nov-1	2010	$ 40,769,452		$ 40,769,452	$ 32,044,421	$ 201,568,772
8	Nov-1	2011	$ 41,132,300		$ 41,132,300	$ 31,236,344	$ 232,805,116
9	Nov-1	2012	$ 41,498,377		$ 41,498,377	$ 30,448,645	$ 263,253,761
10	Nov-1	2013	$ 41,867,713		$ 41,867,713	$ 29,680,809	$ 292,934,570
11	Nov-1	2014	$ 42,240,336		$ 42,240,336	$ 28,932,337	$ 321,866,907
12	Nov-1	2015	$ 42,616,275		$ 42,616,275	$ 28,202,739	$ 350,069,646
13	Nov-1	2016	$ 42,995,560		$ 42,995,560	$ 27,491,539	$ 377,561,185
14	Nov-1	2017	$ 43,378,220		$ 43,378,220	$ 26,798,274	$ 404,359,460
15	Nov-1	2018	$ 43,764,286		$ 43,764,286	$ 26,122,492	$ 430,481,952
16	Nov-1	2019	$ 44,153,788		$ 44,153,788	$ 25,463,751	$ 455,945,702
17	Nov-1	2020	$ 44,546,757		$ 44,546,757	$ 24,821,621	$ 480,767,324
18	Nov-1	2021	$ 44,943,223		$ 44,943,223	$ 24,195,685	$ 504,963,009
19	Nov-1	2022	$ 45,343,218		$ 45,343,218	$ 23,585,533	$ 528,548,541
20	Nov-1	2023	$ 45,746,772		$ 45,746,772	$ 22,990,767	$ 551,539,309
21	Nov-1	2024	$ 46,153,919		$ 46,153,919	$ 22,411,000	$ 573,950,309
22	Nov-1	2025	$ 46,564,689		$ 46,564,689	$ 21,845,853	$ 595,796,162
23	Nov-1	2026	$ 46,979,114		$ 46,979,114	$ 21,294,958	$ 617,091,119
24	Nov-1	2027	$ 47,397,228		$ 47,397,228	$ 20,757,954	$ 637,849,074
25	Nov-1	2028	$ 47,819,064		$ 47,819,064	$ 20,234,493	$ 658,083,566
26	Nov-1	2029	$ 48,244,653		$ 48,244,653	$ 19,724,232	$ 677,807,798
27	Nov-1	2030	$ 48,674,031		$ 48,674,031	$ 19,226,838	$ 697,034,636
28	Nov-1	2031	$ 49,107,230		$ 49,107,230	$ 18,741,987	$ 715,776,624
29	Nov-1	2032	$ 49,544,284		$ 49,544,284	$ 18,269,363	$ 734,045,987
30	Nov-1	2033	$ 49,985,228		$ 49,985,228	$ 17,808,658	$ 751,854,645
31	Nov-1	2034	$ 50,430,097		$ 50,430,097	$ 17,359,570	$ 769,214,215
32	Nov-1	2035	$ 50,878,925		$ 50,878,925	$ 16,921,807	$ 786,136,021
33	Nov-1	2036	$ 51,331,747		$ 51,331,747	$ 16,495,083	$ 802,631,104
			Total		$ 1,431,487,221	$ 802,631,104	

Notes:

[1] Bank of Canada: Real Rate of Return on Long-Term Bonds, September 30, 2003

ABBOTSFORD HOSPITAL & CANCER CENTRE

Project Co re: Costs
November 1, 2003 to November 1, 2036

Inflation Rate (Years 1-3)	**2.50%**
Inflation (Years 4-33)	**2.00%**
Finance Cost	**5.00%**
Discount Rate	**3.50%**

Year	Date	Year	Expenditure	In Flow (Govt')	In Flow (Financing)	Project Cash Flow	Financing Cost (Principal + Interest)	Total Annual Cash Flow	NPV at November 1, 2003	Cumulative NPV
0	Nov-1	2003								
1	Nov-1	2004	$ 66,625,000 [2]	18,000,000	48,625,000 [4]	$ -	$ 2,431,250	$ 2,431,250	$ 2,349,034	$ 2,349,034
2	Nov-1	2005	68,290,625 [2]	36,000,000	32,290,625 [4]	-	4,045,781	4,045,781	3,776,780	6,125,814
3	Nov-1	2006	167,994,938 [3]	19,217,600	148,777,338 [4]	-	11,484,648	11,484,648	10,358,495	16,484,309
4	Nov-1	2007				14,100,000	14,941,857	29,041,857	25,308,300	41,792,609
5	Nov-1	2008				14,382,000	14,941,857	29,323,857	24,689,901	66,482,510
6	Nov-1	2009				14,669,640	14,941,857	29,611,497	24,088,972	90,571,481
7	Nov-1	2010				14,963,033	14,941,857	29,904,890	23,504,973	114,076,454
8	Nov-1	2011				15,262,293	14,941,857	30,204,150	22,937,381	137,013,835
9	Nov-1	2012				15,567,539	14,941,857	30,509,396	22,385,689	159,399,524
10	Nov-1	2013				15,878,890	14,941,857	30,820,747	21,849,407	181,248,931
11	Nov-1	2014				16,196,468	14,941,857	31,138,325	21,328,062	202,576,993
12	Nov-1	2015				16,520,397	14,941,857	31,462,254	20,821,194	223,398,188
13	Nov-1	2016				16,850,805	14,941,857	31,792,662	20,328,360	243,726,548
14	Nov-1	2017				17,187,821	14,941,857	32,129,678	19,849,130	263,575,678
15	Nov-1	2018				17,531,578	14,941,857	32,473,435	19,383,088	282,958,766
16	Nov-1	2019				17,882,209	14,941,857	32,824,066	18,929,833	301,888,599
17	Nov-1	2020				18,239,853	14,941,857	33,181,710	18,488,974	320,377,574
18	Nov-1	2021				18,604,651	14,941,857	33,546,507	18,060,136	338,437,710
19	Nov-1	2022				18,976,744	14,941,857	33,918,600	17,642,953	356,080,663
20	Nov-1	2023				19,356,278	14,941,857	34,298,135	17,237,073	373,317,735
21	Nov-1	2024				19,743,404	14,941,857	34,685,261	16,842,153	390,159,889
22	Nov-1	2025				20,138,272	14,941,857	35,080,129	16,457,865	406,617,753
23	Nov-1	2026				20,541,038	14,941,857	35,482,894	16,083,886	422,701,640
24	Nov-1	2027				20,951,858	14,941,857	35,893,715	15,719,909	438,421,548
25	Nov-1	2028				21,370,895	14,941,857	36,312,752	15,365,632	453,787,180
26	Nov-1	2029				21,798,313	14,941,857	36,740,170	15,020,766	468,807,946
27	Nov-1	2030				22,234,280	14,941,857	37,176,136	14,685,029	483,492,975
28	Nov-1	2031				22,678,965	14,941,857	37,620,822	14,358,150	497,851,125
29	Nov-1	2032				23,132,545	14,941,857	38,074,401	14,039,865	511,890,990
30	Nov-1	2033				23,595,195	14,941,857	38,537,052	13,729,920	525,620,910
31	Nov-1	2034				24,067,099	14,941,857	39,008,956	13,428,067	539,048,976
32	Nov-1	2035				24,548,441	14,941,857	39,490,298	13,134,067	552,183,043
33	Nov-1	2036				25,039,410	14,941,857	39,981,267	12,847,689	565,030,732
			$ 302,910,563	$ 73,217,600	$ 229,692,963	$ 572,009,917	$ 466,217,385	$ 1,038,227,301	$ 565,030,732	

Notes:

[1] Bank of Canada: Real Rate of Return on Long-Term Bonds, September 30, 2003.

[2] Assume $65m with 2.5% inflation from beginning of Year 1.

[3] Cash flow is $67m plus $89m with 2.5% inflation from Year 1.

[4] Schedule 3

ABBOTSFORD HOSPITAL & CANCER CENTRE

Financing Costs
November 1, 2003 to November 1, 2036

Payment	**$14,941,857**
No. of years	**30**
Finance Cost	**5.00%**

Year	Date	Year	Balance, Beginning	Loan	Payment	Interest	Principal	Balance, Ending
0	Nov-1	2003	$ -					$ -
1	Nov-1	2004	-	48,625,000		2,431,250		48,625,000
2	Nov-1	2005	48,625,000	32,290,625		4,045,781		80,915,625
3	Nov-1	2006	80,915,625	148,777,338		11,484,648		229,692,963
4	Nov-1	2007	229,692,963		14,941,857	11,484,648	3,457,209	226,235,754
5	Nov-1	2008	226,235,754		14,941,857	11,311,788	3,630,069	222,605,685
6	Nov-1	2009	222,605,685		14,941,857	11,130,284	3,811,573	218,794,112
7	Nov-1	2010	218,794,112		14,941,857	10,939,706	4,002,151	214,791,961
8	Nov-1	2011	214,791,961		14,941,857	10,739,598	4,202,259	210,589,702
9	Nov-1	2012	210,589,702		14,941,857	10,529,485	4,412,372	206,177,330
10	Nov-1	2013	206,177,330		14,941,857	10,308,867	4,632,990	201,544,340
11	Nov-1	2014	201,544,340		14,941,857	10,077,217	4,864,640	196,679,700
12	Nov-1	2015	196,679,700		14,941,857	9,833,985	5,107,872	191,571,828
13	Nov-1	2016	191,571,828		14,941,857	9,578,591	5,363,265	186,208,563
14	Nov-1	2017	186,208,563		14,941,857	9,310,428	5,631,429	180,577,134
15	Nov-1	2018	180,577,134		14,941,857	9,028,857	5,913,000	174,664,134
16	Nov-1	2019	174,664,134		14,941,857	8,733,207	6,208,650	168,455,484
17	Nov-1	2020	168,455,484		14,941,857	8,422,774	6,519,083	161,936,401
18	Nov-1	2021	161,936,401		14,941,857	8,096,820	6,845,037	155,091,364
19	Nov-1	2022	155,091,364		14,941,857	7,754,568	7,187,289	147,904,076
20	Nov-1	2023	147,904,076		14,941,857	7,395,204	7,546,653	140,357,423
21	Nov-1	2024	140,357,423		14,941,857	7,017,871	7,923,986	132,433,437
22	Nov-1	2025	132,433,437		14,941,857	6,621,672	8,320,185	124,113,252
23	Nov-1	2026	124,113,252		14,941,857	6,205,663	8,736,194	115,377,058
24	Nov-1	2027	115,377,058		14,941,857	5,768,853	9,173,004	106,204,054
25	Nov-1	2028	106,204,054		14,941,857	5,310,203	9,631,654	96,572,400
26	Nov-1	2029	96,572,400		14,941,857	4,828,620	10,113,237	86,459,163
27	Nov-1	2030	86,459,163		14,941,857	4,322,958	10,618,899	75,840,264
28	Nov-1	2031	75,840,264		14,941,857	3,792,013	11,149,844	64,690,421
29	Nov-1	2032	64,690,421		14,941,857	3,234,521	11,707,336	52,983,085
30	Nov-1	2033	52,983,085		14,941,857	2,649,154	12,292,703	40,690,382
31	Nov-1	2034	40,690,382		14,941,857	2,034,519	12,907,338	27,783,044
32	Nov-1	2035	27,783,044		14,941,857	1,389,152	13,552,705	14,230,340
33	Nov-1	2036	14,230,340		14,941,857	711,517	14,230,340	0
				229,692,963	448,255,705	236,524,422	229,692,963	

RONALD H. PARKS *BA, FCA, CA•IFA*

EMPLOYMENT EXPERIENCE

Ronald Parks is the President of Ron Parks & Associates Inc., a firm specializing in investigative and forensic accounting. He qualified as a Chartered Accountant in 1983 and began specializing as a forensic and investigative accountant in 1987 with Ernst & Young. In 1994 Ron joined Lindquist Avey Macdonald Baskerville and opened the Vancouver office, where he focused on criminal fraud investigations, damages quantification in civil litigation, special purpose audits, financial reviews and inquiries, and statutory compliance and process reviews.

Ron is recognized throughout British Columbia and Western Canada for the "Parks Report", the result of his investigation into the affairs of the Nanaimo Commonwealth Holding Society and related parties, which was prompted by allegations of the misuse of charitable donations, lottery commissions, and bingo proceeds. The "Parks Report" presented detailed findings that led to an RCMP investigation and criminal charges as well as a Commission of Inquiry.

For an international assignment, Ron prepared and facilitated training in an Inter-Agency Anti-Graft Program in the Philippines. This project was sponsored by the Canadian International Development Agency to assist the Philippines government in detecting, investigating and prosecuting graft and corruption cases.

Ron has been a frequent lecturer and seminar presenter to the Institute of Chartered Accountants of BC, the Institute of Internal Auditors, the Justice Institute of BC, police, legal and regulatory organizations, and various corporations and not-for-profit groups. He co-designed and taught a continuing-education program on investigative and forensic accounting at British Columbia Institute of Technology.

Ron was designated a specialist in investigative and forensic accounting (CA•IFA) in 2000 and was recently elected a Fellow of the Institute of Chartered Accountants of BC (FCA). He is a member of the board of directors of the Alliance for Excellence in Investigative and Forensic Accounting.

Representative assignments:

- Fraud investigations
- Funds tracing
- Financial reviews
- Fidelity insurance claims
- Election financing investigations
- Wrongful dismissals
- Government inquiries
- Partnership and shareholder disputes
- Breach of contract claims

NOTEWORTHY CASES

- Assisted the Department of Justice, Canada Customs and Revenue Agency in tax evasion cases by reviewing evidence, recommending methods for the presentation of accounting evidence and preparing counsel for potential defenses.
- Investigated, pursuant to the Society Act of British Columbia, the Nanaimo Commonwealth Holding Society for alleged misuse of charitable donations, lottery commissions and bingo

proceeds. Wrote the "Parks Report".

- Assisted Elections BC and Elections Manitoba in the investigation of alleged election financing regularities.
- Investigated the Recall Campaigns in Prince George North, Skeena and Comox Valley for Elections BC.
- Reviewed the financial implications of the privatization of highway maintenance in British Columbia.
- Reviewed hospital purchasing practices in British Columbia for the Ministry of Health.
- Assisted in the investigative accounting and financial review of Ridge Meadows Hospital and Health Care Centre.
- Conducted a forensic accounting and archival research study of the Touchwood Agency Mismanagement (1920 – 24) Specific Claim. This case involved quantifying a fraud that was alleged to have occurred in this Indian Agency between 1920 and 1924.
- Conducted a public inquiry for the City of Quesnel into cost estimate inflation of the Place St. Laurent project.
- Conducted an investigation and review of roles and responsibilities and the process followed in the Downtown Core Project for the District of Maple Ridge.
- Reviewed the Initial Evaluation of the Public Private Partnership (P3) for the Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre.
- Provided an expert report covering accounting and reporting issues over a forty-year period in Canada's largest First Nations civil case. (Samson et al v. HMTQ and Ermineskin et al v. HMTQ Trust Accounting and Reporting Standards).

SELECTED PRESENTATIONS

"Fraud and Error", Institute of Chartered Accountants of BC**.**

"Fraud in the Retail Environment", Institute of Chartered Accountants of BC**.**

"Fraud Investigation Protocol for Internal Auditors", Institute of Internal Auditors

"Effective Prevention and Detection of Money Laundering", Mexican Bankers Association, Mexico City, Mexico, 1997.

"Fraud Auditing and Forensic Accounting", Conference on Governance, Manila, Philippines, 1997.

"Fraud Awareness for Chartered Accountants in Public Practice", Institute of Chartered Accountants of BC**.**

"Risk Management for Chartered Accountants in Public Practice", Institute of Chartered Accountants of BC.

"Forensic Accounting and Accounting Evidence", Justice Institute of BC.

"Forensic and Investigative Accounting", Resources Development Canada Major Investigation Workshop.

"Investigating Employee Fraud", Association of Certified Fraud Examiners Forum on Fraud.

"Fraud and Theft Prevention and Detection in a Down-sized Workplace", Canadian Controllers' Summit.

"Fraud Auditing and Forensic Accounting", Chinese Auditor Training Program: Canadian International College.

"P3 Project Delivery – A Forensic Accountant's Point of View", Council of Educational Facilities Planners International, Whistler, BC, July 2003

"Employee Fraud Investigations", Privacy Laws & Effective Workplace Investigations, Vancouver, BC, April 2003

PUBLICATIONS

"Lost Income", *Recovery* (a publication of the Insurance Corporation of British Columbia), April 1991. (Co-author)

"Fraud and Theft Prevention and Detection in a Downsized Workplace", Insight Canadian Controllers' Summit, March 1996. (Co-author)

"The Proliferation of White Collar Crime and the Role of the Auditor", *Beyond Numbers* (a publication of the Institute of Chartered Accountants of BC), April 2002. (Co-author)

EDUCATION

2000	Specialist Designation in Investigative and Forensic Accounting (CA•IFA)	Canadian Institute of Chartered Accountants
1983	Chartered Accountant (CA)	Canadian Institute of Chartered Accountants
1981	Extended Studies in Accounting and Business	Simon Fraser University
1964	Bachelor of Arts (BA)	University of Alberta

PROFESSIONAL AFFILIATIONS

Institute of Chartered Accountants of British Columbia (ICABC)

Canadian Institute of Chartered Accountants (CICA)

Alliance for Excellence in Investigative and Forensic Accounting (IFA)

EXPERT TESTIMONY

Ron has qualified as an expert witness in both criminal and civil trials in British Columbia Provincial Court, British Columbia Supreme Court and the Federal Court of Canada. He has also provided depositions in the United States District Court and testimony in arbitration and mediation hearings.