

Headline: Economics of Airport Development

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### ***“Airport cost and financing”***

The costs of most things go up over time. This is a well-known fact; it is the concept of inflation. One should hardly be surprised therefore that the cost of constructing an international airport increases as time passes. In fact, many of us have argued that if any of our past governments had built an international airport years ago, it would have cost us far less than it costs us today. This same logic applies to the cost of building an airport in 2005, with what it would cost when the airport is completed by 2011. Naturally, over time, the cost components change, which is one of the reasons why we provide for such contingencies as price rises and unplanned expenditures.

#### ***Airport cost based on MMM's 2005 estimate***

Up to now, the government and IADC have been using estimates of the airport project done by the international consulting firm, Marshall Macklin and Monaghan (MMM) of Canada, which was hired by the previous government to do a study of airport development on mainland St Vincent. MMM's first report was submitted in 1998. However, early in its first term, the ULP administration requested MMM to update its estimate of the airport project. MMM did so in 2005. It is this revised estimate in 2005, which put the airport project at EC\$480.6 million, the figure presented by the government and IADC.

MMM's 2005 estimate totalling EC\$480.6 million for the airport is broken down as follows: Land & house acquisition \$83.7 million, Earthworks 183.8 million, Apron, Runway & Taxiway 41.3 million, Terminal building, control tower, roads & support services \$55.4 million, Project management \$55.1 million, and Contingencies \$61.3 million.

#### ***Airport revised cost based on current prices***

Naturally, over the period 2005 to 2008, the cost of construction of the international airport would have increased, within the international context of rising prices of oil and steel, to mention a few items, in very much the same way that it is more costly today to build a house than it was in 2005.

Over the last few weeks, the IADC's engineers have been preparing their work plans, using the final detailed designs available to them, to prepare for the earthworks and to arrive at an updated cost of the airport project. Their revised estimates now put the airport project at EC\$589 million, or EC\$108 million more than the MMM 2005 estimate.

The revised costs of EC\$589 million is broken down as follows: Land & house acquisition \$107.3 million, Earthworks 279 million, Apron, Runway & Taxiway 45.1 million, Terminal building, control tower, roads & support services \$59.5 million, Project management \$55 million, and Contingencies \$43 million. Compared to MMM's 2005 estimate, earthworks is the component with the largest increase. One must also remember that the earthworks are being done by Venezuela and Cuba, as a grant.

Clearly, now that the final designs are available, our engineers are in a much better position to make a more accurate assessment of the cost of constructing the airport than MMM, which did not have the benefit of these detailed designs. In other words, if one is building a house and has

the **detailed** house plans, one can make a far more accurate assessment of the cost of building that house compared to someone who probably only has information on the size of the house to be built.

The preliminary works that we have done over the last 2½ years and the detailed designs available to us give our engineers specifics about the cuts and fills to be done, the type of rocks to be excavated, the amount and nature of compaction to be performed, among other useful information. Our engineers therefore now have the information to make the most accurate estimate possible of the airport project.

### **Update on airport financing**

Even though as we all expect the cost of the project will increase over time, the most wonderful thing about the Argyle Airport project is that while it is now estimated to cost EC\$589 million, government is only expected to put in about \$175 million of this amount. This \$175 million covers the cost of acquiring the properties on the 375 acre earmarked site at Mt Pleasant/Argyle, the project management related costs, estimated at EC\$55 million, and an estimate for contingencies of EC\$12 million. It is important to remember also that government's investment in the airport project will come from the sale of Crown lands, which National Properties, a wholly owned government company, is in the process of selling, to raise this money. The upshot of this is that government does not intend to borrow money to pay for its stake in the airport project, but rather has chosen to sell Crown lands to finance its share.

The other \$414 million for the airport project is to come as grants and soft loans from friendly governments that form the "Coalition of the willing". This grand and diverse coalition includes Cuba, Venezuela, Taiwan, Trinidad and Tobago, Caricom, Mexico, Austria, Malaysia, Turkey, and possibly Canada. When this plan unfolds, as it has been doing so far, what we will have at the end is an international airport at Argyle for which the country paid less than one-third of what it really cost, with money that came from the sale of some of its Crown lands and a large helping from friendly countries.

### **Concluding remarks**

We are now positioned to begin to realise "our national dream". It is a dream we all share, and one on which we should all work together to see to fruition, with God's grace.