RECREATION P3s GONE WRONG:

LESSONS FOR

THE CITY OF OSHAWA

CUPE Research
August 12, 2004

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ATTACHMENTS

1. Rebuilding Strong Communities with Public Infrastructure,
   A Submission to the Ontario Ministry of Public Infrastructure Renewal,
   April 2004;

2. A CUPE Backgrounder on Urban Infrastructure,
   May 2004.

EXECUTIVE SUMMARY

CUPE recognizes the need for improved and expanded sports and recreation facilities in the City of Oshawa. We do not believe that it is necessary or desirable to enter into a public private partnership (P3) arrangement, relying on the private sector to design, construct, finance (in part), own, operate and manage a new facility.

Numerous P3 arenas have been abandoned by the private sector in Canada.

Experiences in communities such as Guelph, Victoria, Cranbrook, Port Alberni, Maple Ridge, and elsewhere, provide important lessons for the City of Oshawa.

The higher cost of borrowing by the private partner and the need to generate profits make the projects more expensive, explaining in part why they fail. The projects would have cost less and been more sustainable had they been publicly financed.

P3s result in increased public costs, hide debt, reduce accountability, and do not provide value for money. They cheapen the labour pool and compromise quality and access to City services, with negative impacts on the community.

There are limitations to the amount of risk that can be transferred to the private sector. Once a deal stops being profitable, the record shows that it is the public partner who is ultimately responsible and the taxpayer who pays.

Instead of pursuing a P3, the City has two better options:

The question of cost regarding refurbishing the old Civic Auditorium should be revisited, particularly in light of already escalating costs with the proposed new facility. We believe that the city would better serve the residents of Oshawa and users of the services by enlisting the private sector to design and expand the old Civic Auditorium, while keeping the financing and ownership in-house.

If the City opts to build a larger, more expensive facility in the downtown core, CUPE is confident that the City is able to fully finance that new facility and maintain ownership and control over its operations and revenue as well. This would reduce the cost of the project, may provide substantial income for the City of Oshawa, and will ensure that good jobs are protected for public sector workers.

The City of Oshawa should pursue the reliable and affordable alternatives to P3 financing that exist, both to expand its sports and recreation facilities and to revitalize the community's downtown core.

I. INTRODUCTION

CUPE is pleased to have the opportunity to contribute our expertise to this process. As the largest public sector union in Canada, we have undertaken substantial research and analysis about public infrastructure financing and alternatives to privatization.

Our position is clear: public private partnerships (P3s) are not equal partnerships in the public interest. Rather, they benefit private for-profit corporate partners at the expense of public services and communities. The conclusions of auditors general and other economists and policy analysts support this position globally.

While CUPE recognizes the need for an expanded and improved sports and recreation facility in the City of Oshawa, we do not believe that entering into a P3 arrangement is the best way to realize that objective. Relying on the private sector to design, construct, finance (in part), own, operate and manage a new facility in the downtown core requires compromising the public interest.

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II. THE PROPOSED DOWNTOWN SPORTS AND ENTERTAINMENT P3 FACILITY FOR OSHAWA: CUPE'S CONCERNS

The City is considering using a P3 model to build a new Downtown Sports and Entertainment Facility. The low estimate for the cost of a new facility has been set at $30 million dollars but calculations on needed revenue have also been presented based on a $40 million figure in a Report to the Mayor from the City Manager[1].

The City of Oshawa has $12 million in capital and $5 million in land to invest in a potential project. The private partner(s) would provide the rest of the capital, and they would design, build, own, manage and operate the facility on a for-profit basis. On top of the original municipal investment of $17 million, the City would pay a monthly or yearly amount to the private sector through some form of leaseback arrangement.

Every P3 project is a little bit different. Many of the details of this project are not yet known, but we have had the opportunity to analyze a draft Request for Proposals (RFP), along with the Report to the Mayor and Members of Council regarding the project. These documents, complimented by the experiences of several communities where similar projects have been tried, provide substantial evidence upon which to base our opposition to the P3 arena project.

CUPE's key concerns about the proposed project are outlined here.

[1] Oshawa Sports and Entertainment Facility: Request for Proposals, July 15, 2004; Report to Mayor John Gray and Members of Council, July 14, 2004, Meeting Date: July 20th, 2004, from: Bob Duignan, City Manager.

Higher Costs
P3s = BAD ECONOMICS

The first rule is that the cheapest way to finance any project is through public borrowing. On August 6th, 2004 the public borrowing rate in the Region of Durham was approximately 5%. According to the Niagara Credit Union, an estimated interest rate for private sector borrowing over a 20-year term, at low-risk (AAA), could be as low as prime plus two, or 5.75%. [2]

The following table shows the cost of borrowing based on these rates, amortizing over 20 years. The calculations are made using a 'future value' formula based on total costs projected, less the $17 million that the City of Oshawa is contributing from the outset in land and capital:

Total Projected Cost over 20 Yrs	Cost of publicly financed loan at 5% rate of interest	Cost of privately financed loan at 5.75% rate of interest	**Savings with public over private borrowing**
$ 30 million **($13 million loan)**	$ 34, 492, 870	$ 39, 769, 567	**$ 5, 276, 697.00**
$ 40 million **($23 million loan)**	$ 61, 025, 847	$ 70, 361, 543	**$ 9, 335, 696.00**

As the above example shows, financing a loan over 20 years costs more than doing so over a shorter period. By borrowing for a shorter period of time, the public sector can literally save millions of dollars in interest payments.

The savings from opting for public financing are significant even at these underestimated interest rates for private sector borrowing. Put differently, the cost of relying on the private sector for capital is high; a cost that taxpayers will shoulder through lease-back payments over the 20-year period of the agreement.

The return on equity required by the private sector adds to the overall cost again.
A basic rate of return of 15% added to the private sector investment, adds $ 5, 965,435 to the lower priced project, and $10, 554, 231 to the higher priced stadium. We are now looking at almost twice the cost for the $40 million arena.

Projected cost of project	**$30 Million ($13 million loan)**	**$40 Million ($23 million loan)**
Cost of private financing	$ 39, 769, 567	$ 70, 361, 543
15% basic rate of return	$ 5, 965, 435	$ 10, 554, 231
Actual cost of P3 project (Including expense of private financing and return on investment)	**$ 45, 735, 002. 00**	**$ 80, 915, 744.00**

[2] These numbers are vastly under-stating the differential in the price tag of borrowing private over public – extremely generous underestimates of private borrowing rates, versus actual public borrowing rates.

Value for Money

As you know, in the P3 scenario the city is already financing a large part of the total cost. We question the need for private financing at all, given the relatively small debt that would need to be incurred to cover the cost of the project. As the above example shows, this debt would be less, with the municipality as the borrower.

Publicly owned and operated services MAKE money for communities. Not only are they cheaper to begin with, public sector financing results in ownership of assets that can have economic benefits. Communities are able to retain revenue and control how it is reinvested, including prioritizing decent jobs for residents and supporting local businesses. Private, for profit projects, on the other hand, almost always transfer most if not all benefits of a successful venture, out of the community.

If we consider lost revenue from such sources as ticket sales, concessions, and space rental that the city would receive in full were the stadium built through traditional public procurement, the cost of the deal increases again.

Loss of Good Jobs

Oshawa is a working people's city. P3s are known to cheapen the labour pool by lowering wages. Profits have to come from somewhere, after all.

Private proponents are more likely to hire non-unionized workers at low wages with few benefits or pensions, than the public sector is. Introducing a P3 facility will lower the standard of living and average income of Oshawa residents.

CUPE members currently do the work of cleaning and maintaining recreation facilities in Oshawa and should continue to do so in any new project, whether it be a P3 or a smarter public sector project built and operated in the community's interest. This should remain public sector work.

Higher debt, more risk, less public control, less accountability

P3s don't reduce public debt, they just hide it. A little debt can go a long way to build thriving communities, and with a loan as small as the difference required for this facility, the city's credit rating would barely be affected. The more expensive, long-term debt over 20 years that will have to be paid to the private partner, on the other hand, is debt well worth avoiding.

The city will ultimately be responsible for providing the facilities' service and for servicing their debt, should the companies fail to meet their obligations or to turn a profit. In communities across Canada, private partners in P3 arrangements have been unable to bring in revenue to cover costs, let alone get the return on equity that they need to make the whole venture worth their while.

There is no way to guarantee that the parent company or companies will remain the same over the course of the contract. Meanwhile, there is little to no opportunity for politicians or the public to have input on the project during the course of the 20-year deal.

Time and again, regardless of the contractual language, the city ends up covering the extra costs of their foul-ups, on top of the cost of providing the services.

There are limitations to the amount of risk that can be transferred to the private sector. Once a deal stops being profitable, the record shows that it is the public partner who is ultimately responsible. This is true regardless of what the deals says. It was true in Guelph, Victoria, Cranbrook, Port Alberni, Maple Ridge, and elsewhere.
A Downtown Sports and Entertainment Facility P3 in Oshawa risks not earning the projected profits that make the deal worthwhile for the private partner. Should this occur, the City would be forced to make one of two choices. To both pick up the tab and incur tremendous debt at the rate at which the winning bidder borrowed, or shut down the arena and lose the $17 million in capital that it invested.

Conflicts of interest

The City of Oshawa has hired consultant Jonathan Huggett to help draft the Request for Proposals (RFP) and Request for Expressions of Interest (RFEI), as well as to oversee the committee that will evaluate proposals.[3], [4] Mr. Huggett is clearly a supporter of the P3 model, since his firm is a member of Canadian Council on Public Private Partnerships and has been a supporter of P3 arena deals.[5]

It is our sincere hope that the City of Oshawa can assure residents that their decision to hire Mr. Huggett as the lead person on the evaluation committee will not result in a biased decision to go ahead with the P3 regardless of evidence that it may not be the right decision for the community. We feel that his appointment to this important role represents a conflict of interest in the process and his contribution should be considered in this light.

Foremost on the minds of private partners is their return on investment. It is not the good of the community, or the sustainability and affordability of the project. Retaining public control of community assets is the only way to ensure that decisions will be made in the interest of the community.

[3] November 9, 2003 Metroland Papers, page. 4
[4] Pg. 6 of report to Mayor
[5] http://www.pppcouncil.ca/ (August 3, 2004).

III. RECREATION P3s GONE WRONG: LESSONS FOR OSHAWA

a) Failed P3s, City pays many times over

<u>Case Study #1: Guelph</u>

The Guelph Sports and Entertainment Centre was built right into an 80,000 square foot downtown shopping mall. The City guaranteed a $9 million loan to a private company (Nustadia Developments) to build an arena mall complex, and then invested another $10.5 million of public money.

It was early in the 35-year deal that the company realized they were in trouble. Revenue was lower than expected from ticket sales and concessions and the City had to bail the company out, after having already subsidized the project with almost $20 million of capital funding.

The Guelph facility, in competition with major centres, including nearby Kitchener, Brampton, Mississauga and Toronto, had difficulty booking major events. The arena was not able to pay for itself, much less the cost of servicing its debt.[6] Ticket sales and revenue from concessions were expected to finance the loans to build the facility and get it up and running.

It was not the private partner who had to absorb the costs but the municipality, who were now left to cover both the public and private sector's debt.[7] In the summer of 2001, the City began to pay Nustadia's $750,000 mortgage payments and would continue to pay them for four years. The city has also been paying all federal and corporate taxes associated with the project. All of the risk has been borne by the Municipality of Guelph.

<u>Case Study #2: Moncton</u>

The City of Moncton has also had problems with a P3 recreation facility. The project known as the "Moncton Fourplex" was criticized by residents for being expensive and unnecessary.

Slated to open in 2002, the City would pay $1.4 million per year over 20 years for a $15 million facility. That is almost 50% more than the actual cost in debt payment alone, a far greater cost than if the city had simply undertaken the project on its own through public financing. The City also lost on the benefits that would have come to the municipality as a result of being the sole recipient of user fees, concessions, advertising revenue, and so on. The City will continue to pay $150,000 a year to the private company owner to run the facility.

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[6] Metroland Papers, Wednesday October 22, 2003: byline: Martin Derbyshire
[7] Metroland Papers (Guelph), p.1, "A tale of two public private partnerships".

b) Cost overruns, construction delays and higher user fees

<u>Case Study #3: Victoria</u>[8]

In 1996, the Victoria City Council entered a partnership with a private consortium (Victoria Sports/Entertainment Associates), to build and operate a multiplex, at no additional cost to taxpayers. In 1999 the agreement was cancelled since the company could not keep its promise not to increase costs to the City and at the same time, turn a profit. The City lost money, having neglected to cover liabilities in the deal. After the first deal was dissolved, the City put out a call for expressions of interest again. Four firms responded and only one qualified, RG Properties.

Early in 2002 it was predicted that this new project would cost $30 million to build. As is typical in P3s, the deal actually cost the City far more than was originally predicted, almost double in fact, totaling $52 million after accounting for interest payments over the life of the deal.

The project was scheduled to open late in August 2004 but there have been significant construction delays.[9] Now the timeline is getting pushed back again, forcing the town's hockey team to schedule its first 14 games away. The team will also play its last 12 games away from home to accommodate the conversion of the Save-on-Foods Centre to host the 2005 Men's Curling Championships.

That's right. It's called the Save-on-Foods Centre. The naming deal for the facility means a local grocery chain will pay the private partner $1.25 million over 10 years. This is not going to help get the arena built any faster and residents of Victoria won't be saving on the cost of ice time either. Ice rental fees will be at least 25% higher than rental fees at other municipal arenas.

c) Cities decide against P3: Projects kept (or brought back) in house

<u>Case Study #4: Cranbrook</u>

The City of Cranbrook attempted to use a P3 to keep the debt, incurred from building a 4250-seat arena, off of their books. But the project has faced many problems from the start. At first, the private partner had trouble securing financing and construction was late starting. The company met with Council in October 2001 and complained that their costs were in excess of what they had anticipated and their revenues had shortfalls. It was determined that the company was responsible for the first $140, 000 shortfall and the city would be responsible for the rest.

[8] Times Colonist (Victoria), April 20, 2004, B1; May 26, 2004, A1; May 27, 2004, B11; July 14, 2004, B1.
[9] Goldsworthy, Rachel, " Replacing Victoria's Memorial Arena long saga," July 14, 2003, Journal of Commerce, Vol 92, No. 55

The City's borrowing power was reduced substantially as a result of the long-term lease.[10] In the year 2000, ownership of the private partner changed hands when an American company bought out the original firm and a new subsidiary was created. The project proved much more expensive than was expected and when the project failed the City suddenly found itself with the highest debt level in the province of BC.

The tax increase to residents of Cranbrook alone for this project was 7%.[11] Meanwhile, fees had gone up considerably from what was charged at the city-owned rinks, up to over $100/hour for ice rental time, discouraging community use of the facility.

"Five years after the project first began, having struggled through legal disputes, cost overruns and construction delays, the P3 project has officially failed. The private company has left town after paying the City $1.7 million to take the mess off of its hands. The facility has been brought in house and it is now up to the City to find a way to make it work."[12]

Case Study #5: Nelson

In the year 2000, the City of Nelson was looking to develop a recreation complex. It was to be about the same size as Cranbrook's, at a projected cost of about $19 million. They received proposals from three different private sector companies but decided against taking the P3 route. Instead they borrowed the money from the Municipal Finance Authority. "We thought we might as well take the risk and lower (borrowing) costs," the Mayor stated.[13]

[10] Cranbrook Daily Townsman, June 27, 2001, "Cranbrook's borrowing power decreases."
[11] Cranbrook Daily Townsman, May 15, 2001, "Cranbrook taxes to go up almost 11%."
[12] The Daily Townsman (Cranbrook): August 3rd, 2004, "1999 rears its head: Our failed public private adventure," page 4, Barry Cloutier; August 4th, 2004, "Questions remain concerning Rex Plex employees, Kootenay Ice," page 1, Mark Hunter.
[13] Nelson Daily News, December 11, 2001

Case Study #6: Maple Ridge[14]

A big P3 disaster took place in Maple Ridge, BC. Their "Town Centre Project" was also brought back in house after the P3 boondoggle, at great cost to the city.

In 1995, the council of the District of Maple Ridge decided that the district's downtown core needed to be revitalized. The district discussed the project with China International Trade Centre and Investments Inc., a locally incorporated company with a partner company in Beijing. The Chinese investment fell through early in 1999. Later that year, the district council approved a partnering agreement between the district and the same company, under a different name.

The project was to include a leisure centre, youth centre, arts centre, library, office tower, and hotel and parking garage. The district's contribution escalated as agreements were repeatedly renegotiated. The district also essentially guaranteed the developer's debt.

This summer, the community voted in favor of dissolving the P3 agreement. The District will purchase the arts and leisure centre, office tower, library, a park and underground parking garage for a total of $49.1 million to be paid over 22 years. After adding interest and borrowing costs to the equation, the cost to Maple Ridge taxpayers is about $60 million. The failed P3 deal would have cost an additional $20 million, so the expensive buyout is actually saving the district money even after all of the cost overruns, and debacles.[15]

Case Study #7: Port Alberni

The community of Port Alberni also rejected a P3 arena deal. In depth analysis of the financial part of the deal led the city to conclude that the P3 would benefit the private partner more than it would the City or its residents. They decided that the community would be better off using traditional public procurement to develop the needed facility.[16]

[14] Corporation of the District of Maple Ridge Core Project Review. Kroll Lindquist Avey. January 2003.
[15] Maple Ridge-Pitt Meadows Times, Tuesday July 27, 2004, page 1
[16] Canadian Centre for Policy Alternatives, "Public Private Partnerships: The True Costs of P3s", 2003 http://www.policyalternatives.ca/bc/bottom-line-p3.pdf.

d) Are there successful P3s?

Case Study #8: London

The only P3 arena we know of that is considered successful by certain community minded measures is the one in London, Ontario.

While it is hailed as an example of the benefits of public private partnerships, the total cost of the project has far exceeded early estimates of about $21.4 million had it been publicly financed.[17] The project actually cost $47 million of which the city paid $32 million. The City will continue to pay the remainder of the cost to the private companies with interest and inflation through a lease-back arrangement.[18]

As in most P3 arrangements, costs escalated as the project unfolded, costs, which can in large part be accounted for by the higher cost of private sector borrowing and the need to earn a significant return on equity (profit). CUPE is confident that with good planning, the same targets could have been achieved at a much lower cost through public financing, at better interest rates over a shorter term, hiring the private sector to design and build the facility.

The city has a population of 336,539. The venue sells out consistently and has also seen few major delays or problems with construction. While the community is happy with the services and the venue is selling out regularly, it is not the public purse or the taxpayer's pocketbook that is benefiting from this "success". Instead, the private companies are "taking the City to the bank": raking in the profits, while the public continues to pay.

[17] Sault Star, January 27, 2003, A1
[18] This does not include over $100, 000 for a consultant among other costs.

e) How Oshawa is Different from London and Similar to Guelph

While we have a plethora of examples of P3s gone wrong, the City of Oshawa may be looking to London as an example of a P3 gone right to justify pursuing the model, despite it being more expensive. But there are important ways in which Oshawa's circumstance and this proposed project are much more similar to Guelph's than to the London's relevant characteristics, include population size, proximity to other similar or larger venues and ability to attract acts that will fill the stadium on a regular basis, which have contributed to the London P3's relative success.

The City of London had a population of 336,539 in 2001. That is more than five times the size of Oshawa's population of 146,000. Guelph on the other hand, is comparable size at 113,000.

London is a fair distance away from Toronto at 185 km. Guelph is closer to the big city, facing heavy competition for attracting both acts and audiences. Guelph's proximity to Toronto (100 kilometres away) was seen as a key reason for failure of P3 facility. Oshawa is even closer at only 50 kilometres from Toronto.

Finally, London's 10,000 seat venue holds larger events and bigger acts than the Oshawa venue will ever be able to attract. The London Knights sell out consistently and play often, and the private partner, Global Forum, has contracts that guarantee big name acts will stop in London on their touring circuits, and the venue is large enough to accommodate them.[19] [20] [21]

Oshawa should reconsider whether London is a really an appropriate example to use as a model for its own project. And for many of the reasons that the Guelph project bombed, Oshawa's planned Entertainment and Civic Centre risks failing as well.

The new facility will have to work hard to solicit and book the number of events that will be required to fill out the calendar year. It is important that the city consider whether this will be possible given competition from Toronto, the nearby Casino, and other communities with similar or larger facilities in the area.

The risk of low turnouts and low revenue is very real. A risk that the private sector will only bear to a point before the City has to pick up the pieces, as experience has shown.

[19] http://www.londontourism.ca/ (August, 6, 2004)
[20] City of London Website, http://www.london.ca/Planning/corridorstudy/LLTCP_exc_aug23.pdf, August 6, 2004.
[21] City of Guelph Fact Sheets - http://www.city.guelph.on.ca/pdf/fact_sheet-population_growth.pdf, August 6, 2004; and City of Oshawa, Community Profile, November 2002

IV. PROBLEMS WITH P3s IN GENERAL

The evidence indicating that P3 recreation facilities are a bad deal for municipalities and communities is clear. But all P3s, by their very definition, are bad deals for the public sector. They lower the standard of living for workers and communities, eliminate decent jobs, reduce quality of services, cost more and are an irresponsible use of public funds, benefiting for-profit companies at public expense.

a) More Debt, Less Value for Money

Expensive borrowing rates for private companies and the need to make a substantial profit both jack up the costs of any project developed using a P3 model. P3s are promoted as a way to keep debt off the public books and eliminate debt, but while P3s may hide debt, they never reduce it – just the opposite.

Public debt, however, costs less to repay and allows the City to retain public ownership and control of the asset. The obsession with avoiding government debt is misguided. There is good debt and bad debt. P3s incur bad debt for the public partner.

A number of provincial Auditors General in Canada and some abroad have questioned the accounting practices behind P3s and the extent to which these arrangements endeavor to obscure and hide real public liabilities. P3s are not neutral financing mechanisms – private financing is debt financing. Funds are borrowed and have to be repaid – either out of public funds or through other charges to users.

P3 funding should really be counted as municipal debt because the municipality (or public partner) is ultimately responsible if private sector loans are not repaid by the private sector. Off-balance funding is in effect a charade that disguises the financial liabilities of the municipality while increasing the risk to the public entity.

"The International Monetary Fund recently issued a report warning against "off-book borrowing" for PPPs. The IMF's managing director stated that P3 debts should be counted as public borrowing, and that "governments had 'no business' hiding private finance projects away from their balance sheets."[22]

b) Fewer Good Jobs

P3s almost always mean lower wages for workers. Profits, after all, have to come from somewhere. P3's undermine the public sector's role in service delivery and usually mean transferring public sector jobs to private companies whose staff is less likely to be unionized, and receive low wages with few if any benefits.

[22] "Brown warned: don't hide £100bn, Dan Atkinson, Mail on Sunday, 25 April 2004, http://www.thisismoney.com/20040425/nm77403.html"

With privatization, the gap between rich and poor widens and average incomes and spending power in communities goes down. Corporate profits come at the expense of local businesses and strong communities.

c) Conflicts of interest, Lack of transparency

Auditors and auditors general are consistently raising concerns about P3s in Canada. There is tremendous potential to mismanage public funds. In recent reports, even organizations such as the World Bank and, more locally, the CD Howe Institute that support the principle of P3s, cannot point to any outright successes in terms of public benefit.

When P3 contracts are secret, as they consistently have been because of standards practices regarding corporate confidentiality, the public and their elected representatives have little if any opportunity, to influence how services are delivered and how tax dollars are spent and invested. Governments' financial transactions, on the other hand, are required to be transparent. Public policies and procedures that require public consultation and approval are seen as obstacles to P3s.

d) Increased Risk, Reduced Accountability

Substantive risk is not actually transferred to the private sector in P3 arrangements. This is because there is no way to account for the risk that the private sector may fail. Agreements assume that the private sector will continue to operate, while the public sector generally has no choice but to assume many risks in order to continue to deliver services.

Never is everything covered in any deal, and many aspects are unclear. Who is ultimately responsible when a group of companies forms a consortium to make a bid? What happens if one or more of said companies changes ownership?

Private operators have walked away from P3 arena deals in many Canadian cities when profit margins collapsed, leaving the city to pick up the cost of providing these services and of financing the more expensive debt incurred at private sector borrowing rates. In this way, by virtue of its role in the community, the public partner essentially guarantees the loan, whether stated in the deal or not.

In Australia, where there has been some experience with municipal P3s (or PFIs), the Auditor General raised concerns about the ability of the public sector to ensure that the private sector assumed an appropriate amount of risk. He wrote:

"...In order for a private financing deal to represent value for money, it needs to provide for the appropriate allocation of risk to the private sector… an important question is whether there are appropriate arrangements in place to ensure that the private sector

can be made fully responsible and accountable for these (project goals and timelines) results. Experience to date in Australia and overseas at least suggests a qualified 'no'." [23]

e) Hidden costs

Long and costly negotiations, lawyers, accountants and other consultants, management fees, developing and evaluating RFEI's and RFPs, drafting and negotiating and renegotiating complex agreements, are all expenses incurred on the City side that can really add up.

Even once the P3 is up and running, the public partner has legal, supervisory, and insurance and risk costs. Legal and forensic advice and audits on par with private sector's high paid lawyers and consultants, termination payments, monitoring and ongoing negotiation, are all costs rarely factored in to the costing of a P3 deal.

f) No Guarantees

In a P3 arrangement, the parent company of the private partner may change throughout the life of the agreement. This can make facilities and services unpredictable, create volatile relationships and will likely result in significant costs in the form of legal fees and contract renegotiations.

Public ownership ensures that there is a process where elected officials can advance community concerns. A complex contract between a private sector partner, residents and the municipality will not provide nearly the same accountability. The current RFEI essentially outlines the terms of a gift to the private sector, a gift that has the potential to drain the City's finances down the road, while the privates continue to profit.

Commercial confidentiality has been used to justify denying public access to information and even to deny elected officials access to financial and other information. This means that "partnering" with the private sector compromises democratic accountability and transparency. There are no guarantees that the city will have a say in important future decisions, placing the residents of Oshawa at risk of being the victims of corporate foul play.

[23] Barret, Pat, AM, Auditor General for Australia, "Public Private Partnerships: Are there gaps in public sector accountability?" Speech to the 2002 Australian Council of Public Accounts Committees, February 3, 2003.

V. IMPORTANT QUESTIONS FOR THE CITY OF OSHAWA:

We do not have the opportunity to analyze the proposals directly, but we do have plenty of instructive experiences from other communities. CUPE recommends that the City seriously contemplate the following questions before going ahead with a P3 project:

- Who is guaranteeing the loans for the private sectors share of financing?
- What kind of insurance is there (liability, insolvency, etc.)? Who is purchasing it? Which entities will it cover?
- If the deal is not lucrative, is the city prepared to pick up the tab of the full project at the higher cost incurred by private sector borrowing?
- Will the City do a proper comparative analysis of the costs of financing such a project through the city versus through a lease back arrangement with the private sector?
- Will the deals be available for public scrutiny? Will the City have to compromise its own commitments to transparency and accountability in order to “partner” with the private sector?
- If financing is cheaper through the city, taking into consideration the likelihood of cost increases and revenue shortfalls, will the Municipal Council do the right thing and finance, own and operate the project publicly?
- If the City is really concerned about risk isn’t the lowest risk option to use public financing to refurbish the old Civic Auditorium at 99 Thornton Rd South, or to build a new facility, and use its good credit and low interest rates to finance the revitalization of Oshawa’s downtown too?

VI. IMPORTANT CHOICES FACING THE CITY OF OSHAWA:

If the above questions are answered honestly, it will become clear that the P3 approach should be rejected. Instead of pursing a P3, the City has two choices:

1. The City could take the $17 million and invest it in a more affordable and efficient refurbishing of the old Civic Auditorium that is already well located with plenty of parking, the cost of which can be more easily and confidently predicted.

   The savings that will come from choosing a more affordable project and revenue generated by keeping services in house, can then be invested into refurbishing the downtown core of Oshawa in a way that is sustainable and in the community’s interest, or;

2. The City may opt to build a new facility in the downtown location as planned but through a traditional procurement method: borrowing the remaining capital required at the lower rate available to the municipality.

   Again, any and all revenue from amenities, advertising and ticket sales would come back into the City's coffers to support the Generals, refurbish the downtown core and/or reinvest in other public services including good quality jobs for public sector workers.

VII. ALTERNATIVES TO P3 FINANCING

Every Ontario town with an Ontario Hockey League team is in need of new facilities to accommodate demands for community ice time and of the OHL league, along with the fans they hope to attract. The City of Oshawa has an opportunity to act in the public interest and set an example.

Having the benefit of research documenting other experiences with P3s, we hope that Oshawa will make the right decision and use the municipality's good credit rating and low interest rates to invest in a public facility that will give back to the community. The benefits of having the ability to make choices and adapt to change in the long run, rather than being stuck in a 35-year deal, cannot be overstatedstated.

CUPE understands that the city is facing many financial pressures with limited tax revenue or other financial resources. CUPE has information available about alternatives to private financing. There are many options for efficient, worker positive public financing, alternatives to relying on the private sector that do not require municipalities to compromise the community's interest in exchange for residents' tax dollars.

Attached are two documents for your reference that contain information about alternative financing to P3s. One is submission from CUPE to the Ontario Ministry of Public Insfrastructure Renewal, called: "Rebuilding Strong Communities with Public Infrastructure," presented in April 2004. The other is a report from CUPE called: "A CUPE Backgrounder on Urban Infrastructure," printed in May 2004.

The City of Oshawa is likely aware of the province's new Infrastructure Loan Renewal Program. The new Ontario Strategic Infrastructure Financing Authority was announced in the 2004 Provincial Budget. It is intended to provide affordable and efficient financing for municipal infrastructure priorities based on "pooled financing". OSIFA will provide infrastructure capital at rates that would not otherwise be available to smaller borrowers (such as the City of Oshawa).[24]

[24] Information, Ontario Strategic Infrastructure Financing Authority, Government of Ontario, June 11, 2004, www.OSIFA.on.ca.

VIII. CONCLUSION

The City of Newmarket's Director of Parks, Recreation and Culture issued a report in 2003, documenting research findings and recommendations regarding pursuing public private partnerships for their community. The document's conclusions parallel and support CUPE's recommendations to the City of Oshawa.

- Many private facilities were turned back to municipalities after a few years;
- There is little to no advantage to having a private firm finance, construct and operate the facility;
- Private companies would not have the willingness or ability to design/build/own/operate a facility without a subsidy from the municipality;
- Risk associated with many factors including initial costs, possible overruns and competition with other facilities would need to be heavily subsidized by the municipality.

In conclusion the Newmarket report states:

"*In the view of the Parks, Recreation and Culture Department the research clearly states that the costs and risks outweigh the benefits which can be generated from a public/private sector model*." [25]

It went on to recommend that the City design and build and operate its own recreation facility.

Other municipal leaders are doing their research and it is leading them down the right road. CUPE recommends that the City of Oshawa do the same. Whatever project is selected for Oshawa, CUPE trusts that the City of Oshawa will consider our recommendations carefully in making the best decision for the community over the long term.

:as/cope491
File: Research/Contracting Out/Briefs/Oshawa P3 Arena.doc

[25] Town of Newmarket, Parks, Recreation and Culture Report 2003-38, Ascertaining Priorities, re: Public/Private Partnerships, December 23rd, 2003.

CUPE SCFP Ontario

Re-Building Strong Communities
With Public Infrastructure

A Submission To The Ontario Ministry Of Public Infrastructure Renewal

In Response To The Discussion Paper On Infrastructure Financing And Procurement –

“Building A Better Tomorrow – Investing In Ontario’s Infrastructure To Deliver Real, Positive Change”

M THE CANADIAN UNION OF PUBLIC EMPLOYEES
– ONTARIO DIVISION

APRIL 2004

REBUILDING STRONG COMMUNITIES
It's my job!

Introduction

The Canadian Union of Public Employees (CUPE) represents 200,000 public sector employees in the province of Ontario. Our members work on the front lines in the provinces' hospitals, long-term care facilities, schools, universities, municipal services, electrical utilities and social services. Ontario's public infrastructure is our workplaces, as well as the underpinning of our communities. CUPE members work in or with over half of the provinces $240 billion stock of public infrastructure.

CUPE welcomes the opportunity to participate in this important discussion on a long-term plan for Ontario's infrastructure financing and procurement. In this submission we explain our position on the critical importance of public financing for public infrastructure and offer some ideas about how Ontario's infrastructure needs can be met.

We submit that only publicly financed, publicly owned, publicly operated services can meet the guidelines that Minister Caplan establishes in the consultation paper presented by the Ministry of Public Infrastructure Renewal. Models of infrastructure funding which involve private financing, ownership and delivery of services offer poorer service, increased expense, reduced accountability and poorer jobs to Ontario's communities.

In this submission we review the experience and evidence that demonstrates that publicly funded infrastructure is best for the province's taxpayers and the best model for rebuilding strong communities in Ontario. We also offer alternative suggestions for publicly funded models, rather than alternatives involving private financing.

We look forward to working with Minister Caplan and Premier McGuinty's government on rebuilding public services and public infrastructure in Ontario.

The Consultation Process

We have not addressed each of the questions posed in the discussion paper "*Building a Better Tomorrow – Investing in Ontario's Infrastructure to Deliver Real, Positive Change"* in this submission. We are concerned that the discussion paper, the questions that the Minister has posed in it and in public consultation sessions, and the list of stakeholders consulted presupposes that Ontario will be shifting radically toward public-private partnerships (P3s) and the privatization of public infrastructure financing and service provision.

Premier McGuinty and the Honourable David Caplan, Minister of Public Infrastructure Renewal, are well aware that CUPE and tens of thousands of Ontarians oppose a shift to P3s and privatization of public infrastructure and public services. Our experience of the public consultations held by the Ministry in the past month is that a disproportionate number of the "stakeholders" consulted were the very same corporate lawyers, accountants and consultants whose firms aspire to making hefty profits out of acting as lobbyists, brokers and intermediaries for P3s and private financing of public infrastructure. Price-Waterhouse Coopers, KPMG, Borden-Ladner Gervais, Gowling Lafleur Henderson and Bennett Jones are only a few such companies that attended the consultations.

CUPE recommends that the Ministry of Public Infrastructure Renewal give careful and appropriate weight to the views and recommendations of merchants of public financing and operations of public infrastructure. The government needs to be cautious about formulating policy based on the recommendations of those who stand to profit directly from it.

We also caution that the process of the various general and sector-specific consultation meetings in which invited "stakeholders" were required to debate each other in small group discussions and then report back on supposed "agreements" does not allow any stakeholder to properly present their best advice or clearly present their full position. The areas of agreement reported so pleasantly in these meetings do not represent our point of view. CUPE wants to be very clear that our position and advice is spelled out in this document as it has been in our private meetings with the Premier and his Ministers, and in other CUPE documents concerning P3's that we have presented to your government.

The Critical Importance of Public Infrastructure

The Ministry of Public Infrastructure Renewal's discussion paper, "Building a Better Tomorrow", identifies the critical importance of public infrastructure.

- Ontario's public infrastructure is the platform for the delivery of high-quality, accessible public services – education, health care, safe water, breathable air, roads, social services, and more.
- Public services fundamentally underpin our quality of life, which is second to none.
- Ontario's economic competitiveness and economic growth rest on the pillars of our public services.

Two recent studies by Statistics Canada quantify the positive impact that Canada's publicly-owned infrastructure – our roads, mass transit, water supplies, wastewater treatment facilities, power plants, bridges, ports, telecommunications and airports – has on the productivity and economic performance of Canadian business.[26] Public infrastructure, or "public capital" lowers the cost of producing a given level of output in almost every Canadian industrial sector. The two studies demonstrated every $1 increase spent on infrastructure generated, on average, approximately 17 cents of cost-savings for business each year from 1961 to 2000.

We also want to remind the Ministry that it is not capriciousness that has resulted in certain services being in the public domain. Governments provide services, not because of some economic mistake or some historical fluke, but because those services are necessary to ensure a certain quality of life in our communities. Services were brought into the public domain in order to meet basic human needs, to protect public health and safety, and to advance other significant social policy objectives because the private sector would not or could not do so. They became public services because the private sector couldn't or wouldn't deliver the service at a high enough quality to all who needed it at a price they could afford. It is misguided to simply assume that the private sector now can and will meet basic human needs and protect public health and safety.

Everyone agrees that growth and maintenance of public infrastructure has lagged in the past years and that we are faced with a problem that requires dramatically increased investment in the short term. There isn't unanimity on the underlying causes of this problem and increasing divergence on the immediacy of the infrastructure "crisis".

Public capital investment has not kept pace with economic growth or population increase. Stats Canada's study highlights the relative decline of provincial and federal government shares and the increased shares and responsibility of municipalities for infrastructure across the country. In 2002, local government accounted for more than

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[26] Public Infrastructure and the Performance of the Canadian Economy, 1961 – 2000, a summary of 2 research papers available on the Statistics Canada web-site: www.statcan.ca/Daily/English/031112/d031112a.htm

50% of total public infrastructure, compared to 40.8% for the provincial government and a mere 6.8%for the federal government. The provincial government's share has declined from more than 51% in 1979.

The share of GDP invested in public infrastructure has declined over that same period.

As the Ministry notes, Ontario's infrastructure needs are large, both for new construction to meet new demand, and for maintenance and rehabilitation and refurbishment of existing infrastructure.

It is not possible to calculate exactly how much capital spending is needed over what period of time to meet the province's needs. For instance, we are somewhat skeptical of the OHA's calculations that hospitals need $7 billion to $10 billion in the next 3 to 5 years. Are adequate facilities being closed and new ones built, as in Brampton, because that approach attracts private investment rather than being the most rational allocation of resources? Ontario's own study of water and wastewater infrastructure indicates that municipalities are not able to estimate the state of repair of their underground infrastructure or the cost of repairing or replacing it with any assurance. In any case, the need is great.

The current value of Ontario's stock of public infrastructure is $240 billion. The Ministry estimates that keeping it in good repair costs between 1% and 3% of the current value of the capital stock annually - between $2.5 and $7.5 billion. The Ministry also estimates that the population will grow at 2% per year for the next 20 years - which provides some basis for calculating demand for new construction.

Not all of costs building, repairing and maintaining the infrastructure stock are the responsibility of the province. Twelve per cent (12) is federally owned and 42% is municipally owned. The province has responsibility for spending in the municipal sector, but not on federal assets. If we say that the province should contribute 50% of the cost of municipal capital spending (the other half being shared by municipalities and the federal government), then we conclude that province is responsible for good repair and new construction on a base of $158 billion or 66% of the total current stock.

We can use these numbers to estimate the annual budget for capital spending. Acknowledging the pent-up demand for both new construction and maintenance and repair, Ontario could allocate 3% of current value for each in next year's budget – $4.8 billion for repair and refurbishment and $4.8 billion for new construction – if there is actually the capacity to carry out that much work in the next fiscal year. $9.6 billion is 12.4% of the Ontario government's projected spending for 2004/05. The need for infrastructure funding is great but not totally overwhelming or impossible.

Infrastructure Financing Models

We agree with the Ministry "no single level of government, acting alone, can meet all of our investment needs". We have taken the same position with the federal government as we are taking with the government of Ontario. We can even agree that, "no single approach can successfully address all of our infrastructure issues". We begin to disagree when the discussion paper says, "a full range of infrastructure financing and procurement models must be considered". Not all financing models are good ones for funding public infrastructure.

The Minister sets out a framework for establishing clear guidelines for financing and procuring public infrastructure. With only one revision, CUPE agrees with these principles.

- The public interest is paramount.
- Value for money must be demonstrable.
- Public control and ownership must be preserved.[27]
- Accountability must be maintained.
- Processes must be fair, transparent and efficient.

Financing models, which include private financing, private ownership and operation, or public-private partnerships, will not meet those principles. The Ministry's own discussion paper admits that the public sector is superior to the private sector in clear lines of accountability to and control by the public as well as lower-cost. Only publicly financed, publicly owned, publicly operated services will meet the principles set out by Minister Caplan.

We need to clear up questions of language at this point. Proponents of public-private partnerships and privatization of public services – such as the consultants who crowded the Ministry's consultations – have developed the specious contention that only outright ownership of assets is privatization and that the nature of the service deliverer – whether private or public sector – does not determine whether the service is public or private. The current Liberal government has tried to pass this fiction on to the public with its claim that it cancelled the Tory deal for P3 hospitals – claiming that the hospitals will be publicly owned, even though the financial arrangement is the almost identical to the lease-back arrangement set up by the former Tory government and services integral to health care will be provided by private, for-profit operators in the hospitals. CUPE does not accept this fanciful distinction and the public is not fooled by it. More than 75% of Canadians want their public services publicly owned and publicly delivered.[28]

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[27] This is the one CUPE revised. The Honourable David Caplan, Minister of Public Infrastructure Renewal, actually proposed the following principle: "Appropriate public control/ownership must be preserved".
[28] IPSOS Reid poll, April 8, 2004, http://www.cupe.ca/updir/FACTUM.PDF.

As the Ministry's discussion paper notes, there is a continuum of infrastructure and financing models, from completely public to completely private, with variations in financing, design and build work, operations and ownership.

In traditional public sector models, government finances the project, owns the asset and operates the service. The private sector designs and builds the infrastructure and provides some specialized services on a fee-for-service basis. CUPE contends this model is the best way to provide high-quality, accessible public services and the only way to achieve the principles listed above – putting the public interest first, accountability, transparency and best value.

The other models put forward for consideration include private financing, long-term lease-backs, private operation of or in public assets, private ownership with public operators, and possibly others. In the current jargon, these are all referred to as public-private partnerships – P3s.

There is a push for P3s at every level of government, with the suggestion that P3s are a means of building and maintaining infrastructure that will relieve the cost to the public. With the pervasive ideology of the 90's of smaller government, smaller taxes and smaller deficits, politicians have looked to P3s as a way of moving infrastructure costs off of the governments' books and out of the public's view. P3s cost the public more, not less; they simply shift accounting for the debt from one place to another. But the same people pay – pay more and get less from P3s than from the traditional capital procurement financing and processes.

The Problems with Public Private Partnerships and Private Financing

A critical analysis of P3s in Canada and around the world shows their benefits are largely theoretical while the costs are all too real. For all the spin about efficiencies, innovation and transferring risk, the cold hard reality is that P3s inflate costs, reduce service and confound accountability. Whether we look at the sorry history of P3 schools in Nova Scotia, the current tussle over tolls on Highway 407 or the looming nightmare of P3 hospitals, we see the same pattern.

The primary advantages of public financing, ownership and operation of public services over private financing and P3s are:

- Public services have public service as their paramount objective. Private operations have profit as their primary goal. Service suffers.
- P3's and private financing cost more.
- Accountability and transparency are best achieved through public ownership and control.
- Public services provide more and better jobs in local communities.

Poorer Service

Public services deliver more and better service and are accessible to more people. That is their objective. Private companies have profit as their ultimate goal. Services are curtailed and access to services is reduced in order to enhance profits.

There are dozens of examples of profit trumping service in P3 ventures in all sectors – health care, education, municipal services, water treatment and transportation.

The Ontario Council of Hospital Unions (OCHU) and the Ontario Health Coalition have provided your government with voluminous information about PFI disasters in health care in Britain. The latest story out of the UK health sector is that the private landlords have levied huge penalties against the National Health Service because the hospital is full![29] Evidently it's more profitable to treat fewer sick people.

In the education sector we can point to the example of Nova Scotia P3 schools that don't allow teachers to put anything on the walls because it would harm the paint job (read, increase maintenance costs), leaving public school children to learn without any visual stimulation. Those schools were not built where they were most needed because it was more financially advantageous to the private business partner to build them where land was less expensive. Five years after one of the Halifax P3 schools was built, children are still drinking bottled water because there is arsenic in the school's well-water.

Numerous P3 ice rinks and arenas in Ontario have been abandoned by the private sector when they lost money because the community couldn't afford to pay the charges for ice time that were required by the operator to make a profit. In the meantime, higher charges reduced access to the service.

We are fortunate to have very few examples of disasters in private water and wastewater operations – because we have so few private operations. The biggest private operation is in Hamilton, and the private operator refused to take responsibility for a massive sewage spill from the plant it operated into Hamilton Bay. There are lots of other examples around the world.

And there are lots of other examples in all sectors of public service. Rather than list them all in this paper, CUPE has provided the Ontario government with an inventory of available information and research.

P3s invariably result in reduced quality of service and/or reduced access to service. Reductions in staff are almost certain when a service is transferred from public to private operations, and reductions in staff lead to reductions in service. Higher turnover is common with P3s because of lower rates of pay than public services. High turnover in turn reduces quality of service.

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[29] http://observer.guardian.co.uk/print/0,3858,4889986-102285,00.html

The recent report from the Expert Panel on SARS reminds us of the critical importance of being clear about the primary objective of public services.

> Ultimately, the core faith of Ontarians, and indeed Canadians, in government rests on performing certain essential functions well…. Therefore, basic public health and core infection control need to be thought of in this light as functions that reflect part of the social contract between the public and its government, and not simply as another fiscal pressure on a burdened health system. Even in an era of fiscal restraint, we must remind ourselves and others of the cost of ignoring the essentials.[30]

Higher Cost

P3 and private financing arrangements are more costly than public sector funding for infrastructure projects for a number of reasons.

Capital costs for P3s and private financing are sharply higher because of higher private borrowing costs. Governments of all stripes pay less to borrow than private companies do, generally in the range of 2% to 3% less. The Ministry's own consultation paper recognizes that fact. The public sector always has a better credit rating because there is much more certainty governments will repay debt and because governments borrow in such large amounts that they can warehouse their overall debt and get good rates. They can also cross-subsidize smaller projects with their larger borrowing.

Economist Armine Yalnizian has demonstrated the dollar impact of higher borrowing costs for building the new Royal Ottawa Hospital. To use P3 financing on just that one billion dollar project would cost Ontario taxpayers almost $7 million a year over and above what they would pay in new borrowing costs if the government was the source of financing for building the needed facility.[31] That same $7 million would pay for 117 new full-time nursing jobs, which would contribute a great deal more to health care services than paying higher interest rates will. The totally unnecessary expense to Ontario's taxpayers, over the life of these agreements (up to 30 years) would be more than $200 million just to finance one billion-dollar project.

If the same difference in the rate were applied to the entire $9.6 billion in infrastructure spending that we estimate should be invested in Ontario this year, the amount that could be saved by public financing would be $67.2 million.

The Auditor General of New Brunswick estimated the additional cost to taxpayers of building one new school through a lease-back arrangement at more than $400,000 in 1998.[32] In June 2000, the Nova Scotia government scrapped all future public-private

[30] http://www.health.gov.on.ca/english/public/pub/ministry_reports/walker04/walker04_2.html
[31] Yalnizian, Armine, Toronto Health Coalition, "Submission to the Ontario Budget Consultations February 2004".
[32] Auditor General of New Brunswick, *Special Report for the Public Accounts Committee: Evergreen and Wackenhut Leases, 1998.*

partnerships for school construction because it proved too costly. The over 30 schools built under the PPP arrangements cost taxpayers an additional $32 million above and beyond the original estimate of $350 million. Cost overruns were attributed to lax building standards, lack of accountability, last minute design changes and unmanaged development costs. The government said that the $32 million cost overrun could have built an additional three more schools.[33]

The Auditor General for Canada estimated that the additional costs incurred through private borrowing for the construction of the Confederation Bridge were in the region of $45 million.[34]

Lewis Auerbach formerly served as Director in the Audit Operations Branch of the Auditor General of Canada. In analyzing the Ontario governments plans for P3 hospitals he pointed out that governments can publicly fund infrastructure projects but choose not to.

> "It is a choice especially difficult to comprehend when it leads to higher, rather than lower cost to taxpayers".[35]

P3 arrangements must include the cost of private profit within their budgets. The anticipated rate of return is at least 15% on capital investment. Private operations have to include a margin of profit as well, for middle-men" and ancillary services as well as the primary corporation.

In the case of Andersen Consulting (now Accenture) and the Business Transformation Project in Ontario social services, the Provincial Auditor found financial benefits to Andersen of $13 million in excess of what could clearly be attributable to the company's work.

The MFP debacle provides ample instruction in private financing and lease-backs in at least 4 major Ontario cities and in their dealings with the government of Ontario. The Toronto Star reported on the additional costs to the City of Toronto.

> "An analysis done last year shows that the city's total lease costs were $101.8 million, while debenture financing of the same equipment over five years would have totalled $95.9 million, a difference of $5.9 million. When the deal was first approved in 1999, the staff report said debenture financing would be more expensive."[36]

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[33] Government of Nova Scotia, Department of Education, *New Plan for School Construction, News Release, June 21, 2000*
[34] http://www.cupe.ca/www/p3cs/4325
[35] Issues Raised by Public Private Partnerships in Ontario's hospital sector, by Lewis Auerbach, written for CUPE, 2002
[36] Jack Lakey, "Inquiry begins into MFP lease deal; Probe will call 35 witnesses, including top city staff who plugged company", The Toronto Star, Mon 30 Sep 2002. Page: B05.

Governments pay more for P3 lease-back arrangements than if they borrow the money directly.

Private financiers and operators often use “low ball” or “loss leader” bids to get the first contract or to gain greater market share, then raise their price at the next opportunity. MFP again provides an example. They initially offered lease rate financing at a rate of 4.6%, but failed to mention until some time later that the rate was good for only 90 days, after which it could change, and did, to 6.5%

In negotiating P3 schemes, lawyers and accountants pocket princely sums drafting contracts of thousands of pages that are not open to scrutiny by the public, legislators or the press. If the federal Auditor General was stymied in her efforts to access information from Crown corporations, imagine what will be required to pry secrets from the multinationals that benefit from these schemes.

P3s are promoted as somehow transferring debt from the public sector to the private sector. P3s might hide but do not reduce public debt. Governments enter into P3s in order to keep debt off the books. A number of provincial Auditors General in Canada and some abroad have questioned the accounting practices behind particular P3s and the extent to which these arrangements endeavor to obscure or hide real public liabilities. P3s are not neutral financing mechanisms – private financing is debt financing. Funds are borrowed and have to be repaid – either out of public funds or through other charges to users, as in toll roads. Whether it is a 30-year debt or 30-year mortgage, both are long-term financial obligations. However public debt costs less to repay and retains public ownership and control of the asset.

Experience has shown that substantive risk is not actually transferred to the private sector in most of these arrangements. Public agencies pay most of the private partner’s risk premium to the extent that higher financing costs are passed back through ongoing lease payments. If interest rates are reduced by a government loan guarantee, then the public sector has taken on the risk in any event. As well, the public sector generally has no choice but to assume many risks in order to protect or deliver the public services. For example, it was the regional government in Hamilton that picked up the legal and clean-up costs after 180 million litres of sewage poured into the harbour and backed up into 70 homes and businesses. Other private operators have walked away from recycling operations and arena operations in Hamilton when profit margins collapsed, leaving the city to pick up the cost of providing the services

P3s are promoted in the name of competition. The private sector claims that by breaking the public sector monopoly on service delivery, service will be improved and costs reduced. But their real objective is to secure a profitable monopoly for themselves. P3 contracts usually assure the developer a stable, captive market and guarantee that the price of its services may be increased over time

Public-private partnerships are being promoted across Canada, in the U.S. and in many other countries. Auditors and Auditors General are consistently raising concerns with P3s in Canada. In recent reports even organizations such as the World Bank and, more locally, the C.D. Howe Institute support the principle of P3s but cannot point to any outright successes in terms of public benefit or even public perception. If "success" however, is measured by how many major corporations or consortia have profited from these ventures, that is a different matter.

Loss of Public Accountability and Transparency

In 2002 the North Shore News reported on a very instructive presentation to North Vancouver District Council that explained the private sector's perspective on P3s.

> "Lawyers … made a presentation to council that outlined a corporate wish list of procedural, policy and legal changes that would encourage the development and expansion of P3's.
>
> Among the obstacles to P3s presently in place are policies and practices that require public consultation and approval. In particular one slide, entitled Inherent Diseases, outlined some of the areas that the private sector finds problematic in dealing with the public sector -- including the fact that with the public sector the "emphasis is on 'process', 'stakeholders', 'transparency', and 'public justification." The slide explained that these things are "often a threat to the success of the project... "[37]

Public accountability, transparency, public consultation and approval are not "diseases" of the public sector. They are hallmarks of democratic government. They may well, however, be a threat to P3's – not because they are diseases, but because when the full facts of a P3 project are known and transparent to the public, citizens will choose publicly financed and delivered services.

Justice O'Connor, in his report on the Walkerton Inquiry, didn't take a stand against private operation of water systems, but he did insist that any consideration of turning operations over to private operators had to have public input and that all such contracts be public. Just last week Justice Archie Campbell emphasized the importance of transparency and accountability in improving the province's public health care system.

Secrecy is built into P3 arrangements on the grounds of commercial confidentiality. Contracts for the Royal Ottawa Hospital remain secret even though millions of dollars of public funds will be spent on the new facility. The residents of Hamilton have never seen the contract between American Water Services and the City of Hamilton (or any of the predecessor contracts), nor have they seen any reports from the operator to the Council in the last 6 years. A city councillor in Hamilton who asked for an accounting of maintenance expenses during the life of the contract has been told that he will have submit a request under Freedom of Information and pay $2,800 for the privilege.

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[37] Sherry Peters, " *Public/private partnerships pitched to NVD*", North Shore News Wednesday, P. 3, October 2, 2002.

When P3 contracts are secret the public and their elected representatives have no opportunity to influence how services are delivered and how tax dollars are spent. Government financial transactions are required to be transparent. The public can know whether their elected representatives are spending their money well or foolishly. The new government of Ontario has recently discovered and reacted to the wasteful spending that went on when OPG and Hydro One were told to act like corporations and were allowed to hide their books from public scrutiny. The public has still not been allowed to examine detailed financial information for the William Osler Hospital project in Brampton.

This secrecy provides the breeding ground for corruption.

When the ownership and operation of public institutions is handed over to private companies the issue of who is responsible for what becomes confused. In a P3 school the province may be responsible for curriculum, the board for hiring teachers, the parent council responsible for extracurricular programs, and a multinational company based in the United States for the building itself, and custodial/maintenance and administrative services. In Nova Scotia's P3 schools principals didn't know who was responsible for heat and lights while parents reported a lot of "buck-passing" when they asked for improvements in school programs.

Unlike design and build contracts, P3s erode public control over vital public services such as health care, education, water and electricity, through allowing the private sector to determine the quality and quantity of service delivery and in some cases the cost to the user of the service.

One example that should have a great deal of influence in the current discussion is Ontario's own privately owned but publicly built toll highway. The Ontario government has 407 International Inc. in court in a battle over who has control of toll rates on Highway 407.

The length of P3 contracts themselves make accountability next to impossible. The shorter ones are 10 years, allowing the public and their elected representative only one chance every decade to influence an important service such as waste management, water treatment or public transit. It was recently revealed with the contract for the BC Rail P3 is structured so that there are 900 years of renewal options in the "90-year" contract![38]

Public service is immensely more flexible that a long-term P3 contract. A change in public policy or the introduction of new technology can lead to a change in service delivery or infrastructure when it is appropriate and without huge penalties levied by a private corporation for re-opening a contract.

[38] Michael Smyth, "Not being straight with the public comes back to haunt B.C's Liberals". The Province, April 22, 2004, p. A4.

Fewer Poorer Jobs

The MPIR's consultation paper asks how "fair treatment of workers" can be assured in non-public models of infrastructure funding. The net effect of P3s is to reduce the number of jobs and slash wages and benefits. Decent jobs that pay a living wage are replaced by low-wage, casual labour as funding intended for front line services is diverted to overhead and profits. This downward shift has a negative effect on the whole community. The way to build strong communities is with good jobs, and that includes protecting public sector jobs.

CUPE was assured by Premier McGuinty at our first meeting that his government will not pursue a low-wage strategy and we will hold him to that.

Better Contracts Won't Solve the Problems

Lawyers and consultants, who stand to gain even more from brokering P3 arrangements if the contracts are bigger, claim that they can write contracts that would mitigate all of the problems critics raise about P3s and private financing. The MPIR consultation document asks what should be included in P3 contracts. It is our contention that no contract which can shift private for-profit corporations' priorities and motivations from profit to public service, so public ownership, funding and delivery of public services will always be better for the people using those services.

P3 contracts range from 10 years to 40 years in order to ensure that private investors have time to make their profits. No contract can anticipate every eventuality over that period. Extra claims and changes are inevitable.

The negotiations and contracts involved in P3s just add to the expenses of the project. The first 18 PFI hospital projects in Britain spent £53 million (over $110 million) on consultants. The lawyers alone got £24 million. Incredibly, the contract for Coventry's Walsgrave Hospital was 17,000 pages. Reportedly, the two consortia vying for the deal asked for government cash to pay lawyers to read it all.

What has it already cost the public for the 6-foot high stack of contracts between William Osler Hospital and the Healthcare Infrastructure Company of Canada.

The British Treasury has reached the same conclusion:

> "A PFI transaction is one of the most complex commercial and financial arrangements, which a procurer is likely to face. It involves negotiations with a range of commercial practitioners and financial institutions, all of whom are likely to have their own legal and financial advisers. Consequently, procurement timetables and other transaction costs will be significantly in excess of those normally incurred with other procurement options."[39]

[39] HM Treasury, "Public Private Partnerships – Draft Value for Money Appraisal Guide", February 2004. p.23.
www.hm-treasury.gov.uk/media//8C232/draft_%20vfm_%20assessment_%20guidance.pdf

User Fees

In the discussion paper and in subsequent public pronouncements the Ontario government is proposing to increase the cost and range of user fees and institute full-cost-pricing for more services rather than raising taxes. This is the wrong approach to funding public services and public infrastructure. It is regressive, putting more of a burden on residents with lower incomes who have greater need of access to public services. In many cases, it will result in a deterioration of service because "full-cost pricing" won't be able to cover all of the costs or pay for all of the benefits.

Enid Slack discusses these approaches in a paper on alternative infrastructure funding:

> "There are cases where charging full user fees may not be appropriate, however. Where a good or service exhibits externalities, pricing at the marginal cost may not be appropriate. Externalities are benefits or costs of services that are not priced and may therefore not be taken into account by the user. Education is often used as an example of a positive externality where the benefits go beyond the individual to society at large. Recreation programs for at risk youth have significant external benefits in terms of success in school, lower crime rates, etc. When society puts a high value on these positive externalities, then below-cost provision or subsidies are warranted.
>
> The most important general public concern with user fees is that they have adverse distributional effects: low-income families cannot afford to pay user fees and will either not use the services or will have to reduce their consumption of other services. User fees may deter public use, especially in cases where the use of the service is desirable from a public policy perspective."[40]

The people of Ontario have consistently told the McGuinty government that they want public services rebuilt and they are willing to pay. In our pre-budget submission CUPE called for a number of tax measures that would meet this demand in a fair and just way. Ontario Confederation of University Faculty Associations just released a study showing that increases in user fees outstripped tax cuts during the last two terms of the Ontario government.[41] Public services should be funded through an adequate and progressive tax system, not user fees.

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[40] Slack, Enid. "Alternative Methods of Public Financing of Infrastructure in Canada", unpublished paper prepared for the Canadian Union of Public Employees, Toronto, June 2003.
[41] http://www.ocufa.on.ca/press/040419.asp

Public Alternatives for Funding Infrastructure

The good news for Ontario is that there are cost-effective alternative to P3s that protect the public interest. But there is no magic bullet. At times the promotion of P3's and private financing seems to resort to a fantasy that if the private sector takes on the project there won't be a cost to the public. Other than contributions from reserves and current revenue, infrastructure construction and refurbishment will be funded through debt financing. The question is how to arrange the debt financing that maximizes benefits and services to the public and minimizes costs. We have shown above that public financing can meet those objectives and private financing cannot.

Despite debt hysteria, the ratio of debt to GDP is low and falling at the federal and provincial levels. Debt charges in Ontario for municipalities in Ontario were at 3.5 percent of revenues in 2001, well below provincial guidelines. Municipal debt charges have declined over the past 10 years. Grants from upper levels of government to municipalities have declined over the same period.[42] Both the provincial government and municipal governments have the ability and the "room" for significantly more borrowing to finance infrastructure.

There are some innovative variations as well as straightforward, tried-and-true government borrowing. We outline some of our suggestions below.

Pooling Municipal Debt

Small municipalities, who do not receive the same high credit ratings resulting in the same low interest rates that larger governments do, can reduce the costs of borrowing by pooling their debt.

> "When municipal debt is pooled, local governments issue bonds that are purchased by a bond bank which is usually an independent authority established by provincial statute. The bank can pool the issues and sell the larger, combined issue on the national bond market at a lower cost than can some individual municipalities."[43]

Municipal finance authorities have been established in most provinces – the Municipal Finance Authority in British Columbia, the Municipal Capital Borrowing Board in New Brunswick, Municipal Finance Corporation in Nova Scotia, and the Newfoundland Municipal Financing Corporation. Some provinces, such as Nova Scotia and New Brunswick, require all municipalities to borrow through the provincial authority. In other provinces, larger cities issue their own debt.

[42] Ibid.
[43] Ibid.

Ontario recently established the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) with $1 billion to provide financing for municipalities and other public bodies starting in the 2003 budget year.

Municipalities may prefer a pooled financing authority without provincial participation.

> "The purpose of financing authorities is to gain greater access to national and international capital markets and to benefit from lower credit ratings. In this way, the credit risk of all municipalities combined is almost always less than that for each individual municipality.
>
> Municipal finance authorities generally issue bonds on a regular basis; some only for municipal units but others include schools, hospitals, utilities, and other municipal bodies. The administration costs are funded by the provincial government or by earnings on reserve funds, participants, or a combination.[44] In most provinces, loans are directly guaranteed by the provincial governments."[45]

Pooled borrowing lowers the cost of capital and can reduce the cost of administering the debt as well.

Public Bonds

There are several variations on public bonds that can be used to raise funds for financing infrastructure.

Governments could be persuaded to issue special bonds to fund infrastructure projects to develop their own funds or financing vehicles in order to do so. Federal, provincial and municipal bonds are generally considered risk-free, simply because they are issued by governments and guaranteed by them.

Real return bonds, with interest rates adjusted for inflation, may attract more investment from large pension funds than regular government bonds.

Senior levels of government could create bonds to create a pool of funds specifically for infrastructure based on environmental principles – a Green Infrastructure Fund – that offered attractive interest rates. As economist Monica Townson explained,

> "It could be viewed as a way of organizing the debt that is generated from public infrastructure investment and renewal, which

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[44] See Gilbert, M. and R. Pike.1999. "Financing local government debt in Canada: pooled versus stand-alone issues – an empirical study." *Canadian Public Administration*, Vol. 42, p. 531.

[45] Slack, Enid. Op cit.

> may assist not only in attracting investment capital from public sector pension funds in particular but also in drawing attention to the positive commitments that actually are undertaken by governments that use it".[46]

In the U.S. municipalities issue tax-exempt bonds. Following September 11, 2001, New York State developed incentives to rebuild New York, which included triple tax-exempt bonds, and taxable reconstruction bonds, which could be purchased by public employee pension funds.

Tax-exempt bonds offering preferential tax treatment could be directed at funding public infrastructure. Ontario opportunity bonds that went on sale in April 2003 benefit from lower provincial but not federal taxes. The proceeds from these bonds are available for municipalities to borrow at reduced interest rates to finance local infrastructure.

Subsidies from Senior Levels of Government

We cannot forget straightforward subsidies from senior levels of government for infrastructure funding. Both the Ontario government and the federal government have reduced subsidies to municipalities and off-loaded responsibility for other public services, such as social housing, over the past decade. At the same time, the provincial government is imposing new (and often positive) regulations on municipalities, such as requirements for water and wastewater treatment, without providing the millions of dollars of funds that will be required to meet them. As we have done elsewhere, we call for both the federal and provincial government to restore and enhance infrastructure grants to municipalities, public housing, public transportation, public health care and public education.

CUPE looks forward to working with all levels of government on a new deal for cities.

Crown Corporations to Channel Public Investments in Infrastructure

Canada Mortgage and Housing Corporation (CMHC) is a crown corporation, wholly owned by the federal government, which issues bond and mortgage-backed securities and uses its borrowing proceeds to provide mortgage loan financing to social housing project sponsors. Its bond issues are fully guaranteed by the federal government and in fact, offer a higher yield than Government of Canada bonds. CMHC bonds are available to individuals and institutional investors. It administered loans to municipalities in previous years for projects related to municipal water and sewage systems, neighbourhood improvements and urban renewal.

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[46] Monica Townson, "The Role of Pension Funds in Financing Investment in Public Infrastructure", unpublished paper written for CUPE, October 2003, p. 38.

The B.C. government created the B.C. Transportation Financing Authority, which received dedicated fuel tax and auto rental tax revenue to help it pay for its debt.

Public corporations are already used widely in Canada, the U.S. and Britain for the delivery of public services. This model can be examined for infrastructure funding as well.

OMERS

For CUPE one of the most important sources of capital for publicly owned and controlled infrastructure should be and could be OMERS. Money managers of pension funds are telling us they would love to buy government bonds, but governments who worry more about (declining) debt levels than public infrastructure renewal just are not issuing them.

We are seeking your government's cooperation in transferring OMERS out of the hands of the Ministry of Municipal Affairs and Housing and into the hands of the stakeholders in a mutually acceptable arrangement. We urge you to establish a table at which the employer and union stakeholders of the OMERS pension plan can negotiate genuine joint-trusteeship as soon as possible.

Conclusion

In his introduction to the Ministry of Public Infrastructure Renewal's consultation paper, Minister Caplan set out the criteria for infrastructure funding that is acceptable to the current Ontario government for infrastructure funding. We have presented evidence and experience from across Canada that only publicly financed, publicly owned, publicly operated services can meet these guidelines. Private financing, private ownership, private service delivery and P3's will deliver poorer service, increased expense, reduced accountability and poorer jobs to the people of Ontario.

We have much more evidence of the superiority of public infrastructure financing over private financing from around the world than we have been able to include in this submission. Some of it has been presented to Premier McGuinty, Minister Caplan and other ministers in private meetings. We are more than happy to supply additional information whenever it is helpful.

We look forward to working with your government to rebuild strong communities in Ontario with publicly owned, publicly operated and publicly financed infrastructure that meets the challenges of today and tomorrow. We are committed to the quality of health care, education, transportation, water and roads in Ontario as parents, as taxpayers, as community members and as the workers on the front lines in these critical public services.

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A CUPE BACKGROUNDER
ON
URBAN INFRASTRUCTURE

CUPE Research Branch
May 2004

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EXECUTIVE SUMMARY

1. Research into the state of urban infrastructure confirms the importance of public services in Canada. Governments, including local governments, provide services to ensure a high quality of life in our communities. They have brought services into the public arena in order to meet basic human needs, protect health and safety and advance other important social policy objectives.

2. Our urban centres are richer in every manner by the fact that we have experienced steady immigration flows into our major cities. Immigrant workers have contributed greatly to the development of our cities both economically and culturally – they have built our cities into the vibrant places they are today.

3. Canada's publicly-owned infrastructure has a positive impact on the productivity and economic performance of the Canadian business sector. Our roads, mass transit, water supplies, wastewater treatment facilities, power plants, bridges, ports, telecommunications and airports – all play a part in improving the overall economy.

4. When countries like Canada moved to decrease government spending, investment in important infrastructure like bridges, roads, and urban developments like affordable housing suffered. The Federation of Canadian Municipalities (FCM) estimated Canada's infrastructure deficit to be as high as $60 billion and growing by approximately $2 billion a year.

5. Municipalities have to spend huge amounts on capital projects, including transportation, the environment, recreation and culture.

6. Cities have to pay for large capital expenditures by various methods, including property taxes, special assessments, user fee in some cases, "green taxes" or consumption taxes, through federal and provincial grants, development charges, public borrowing and increasingly by entering into public-private partnerships. In general, municipalities have been relying on contributions from their own funds, which include property taxes, user fees, and development charges, in order to finance their capital expenditures.

7. Municipalities have considerable capacity to borrow in most provinces.

8. There are major problems with P3 financing, operations and accountability. Public-private partnerships cost governments more in the long run; they sometimes hide but never reduce public debt. Clearly, private corporations have to show a profit for their shareholders and this results in higher costs for the public. PPPs result in reduced quality of service and reduced wages. The experience of PPPs also shows that there is reduced transparency and reduced public control. Finally, it is clear that a majority of Canadians want their public infrastructure built through direct public investment, not PPPs.

9. Governments are the most secure and efficient borrower for major infrastructure investment. Public borrowing is clearly a far more fiscally and socially responsible choice for municipalities when it comes to financing capital projects.

10. Pension funds are in a position to play a positive role in helping finance public infrastructure by providing a decent rate of return for pension plan members and at the same time assure governments capital at a reasonable rate. If a pension plan can find alternative investments that are equally sound and that generate equivalent returns, this approach makes sense. Hence, pension funds need to be encouraged to invest in public infrastructure.

11. There are many other alternatives for funding infrastructure, including the pooling of municipal debt, government bonds, real return bonds, a dedicated Infrastructure Fund at the national level, tax-exempt bonds, subsidies from senior levels of government, crown corporations on the model of the Canada Mortgage and Housing Corporation and possibly Public Interest Companies (PICs).

12. All of the above confirms the necessity to support the proposed “New Deal for Municipalities” in order to ensure permanent sources of revenue to rebuild infrastructure and in order to maintain a high quality of public services throughout our cities and municipalities across Canada. Canadian municipalities need and deserve secure and stable sources of predictable revenue, such as a dedicated portion of the federal fuel tax.

Canadian communities reflect the inequalities, which exist in the country as a whole. The widening gap between rich and poor is threatening our social fabric. At the same time, crumbling urban infrastructure and chronic under-funding of public services means a poorer quality of life for all communities. It is past time for a new deal that improves democratic control, protects our quality of life, supports quality public services and rebuilds our cities and communities.

INTRODUCTION

The Canadian Union of Public Employees (CUPE) represents over 530,000 members in communities throughout Canada and has consistently fought for a fair deal for our cities and communities.

In 2001, we said the following: “our towns and cities are feeling the worst impact of globalization, downloading, funding cuts, restructuring, and amalgamations – and this means CUPE needs to take on the new challenges facing our communities in a new way” (CUPE Convention paper - *Taking Back our Communities*). Since then, the situation, especially for urban centres, has deteriorated further. A shrinking financial base has caused many cities to forgo important new investments in infrastructure and many are struggling to find new ways of financing investments and services. Canada is facing a major urban crisis. Mayors from major municipalities have begun mobilizing to get a “new deal” for their respective cities and in his February 2004 Throne Speech, Prime Minister Paul Martin, outlined his version of a “New Deal for Communities”. It is important to lay out CUPE’s vision for rebuilding strong communities.

THE STATUS OF OUR CITIES AND COMMUNITIES

<u>The History of Municipalities and Public Services</u>

Public services have played a major role in most societies throughout world history and in virtually all countries in the past century. During most of the 19^{th} century, public ownership and public provision prevailed mostly because of the inefficiency, costs and corruption involved in the private system. The main instrument, or mechanism for public provision was local and municipal management control.

Governments including local governments provide services to ensure a certain quality of life in our communities. They have brought services into the public arena in order to meet basic human needs, protect health and safety and advance other important social policy objectives. Public services have become key determinants of the quality of life in communities precisely because the private sector could not or would not deliver the services at a high enough quality and at an affordable cost to the people who live and work in these communities.

Canadian communities, and in particular our cities, have recently become centres of vibrant cultural, economic, and social activity, cultivated and nourished by public ownership and control.

Urbanization in Canada

Canada has had a proud history of immigration. The influx of new immigrants in the late 1800s and early 1900s, resource settlement, the establishment of transportation corridors and industrial expansion – all of this has made Canada one of the most urbanized countries in the world today. There are both positive and negative effects of this expansion, evident especially in the past few decades. Over 80% of Canadians live in cities and the vast majority live in four large metropolitan areas – Greater Toronto, Greater Montreal, Southwestern British Columbia, and the Calgary-Edmonton corridor. These and other large urban centres have become extremely important determinants of economic, social and cultural growth in Canada. They still absorb the vast majority of immigrants to Canada and play a tremendous role in assisting immigration settlement. Immigrant workers have contributed greatly to the development of our cities both economically and culturally – they have built our cities into the vibrant places they are today. Almost 40% of the population in Toronto and Vancouver are persons of colour and, although this number does not represent only immigrants to Canada, it is a fact worth celebrating. Similarly, in Saskatchewan and other provinces and territories, First Nations peoples constitute a significant percentage of the population in the cities and communities throughout the province. Aboriginal people make up about 12.5% of the Saskatchewan population, although only 2% of the workforce. By the year 2045 the Aboriginal population will grow to 32% of the provincial population.

The importance of CUPE members to the vibrant growth of cities and communities cannot be overstated. In every centre – small or large – it is CUPE members who are the frontline of the face the cities and communities present, to the Canadian and international community. Whether it be at the front desk in municipalities, or on the job recycling waste, tending to the sick and the elderly, assisting in schools and libraries, keeping water safe and clean, working with immigrant families – in whatever capacity, CUPE members contribute greatly to the wealth and health of communities throughout Canada.

Cities remain the centre of economic growth, economic growth which stems not only from resources, manufacturing, and newer knowledge-based industries, but also investment in health, social services, education, housing, and other public infrastructure like roads and public transit, water treatment and solid waste disposal. The major communities have been the lifeblood for building a high quality of life, a quality of life which includes a strong movement towards a cleaner environment, outstanding cultural and recreation opportunities, and livable communities. Montreal accounts for 49% of Quebec's GDP, Winnipeg accounts for 67% in Manitoba, Vancouver for 53% in British Columbia, Calgary and Edmonton together account for 64% of Alberta's GDP, Halifax accounts for 47% of Nova Scotia's GDP and Toronto accounts for 44% of Ontario's GDP (and 20% of the GDP of Canada as a whole).[47]

[47] Enid Slack, "Alternative Methods of Public Financing of Infrastructure in Canada p.17

Canadian cities, like large cities throughout the world, have also become the face of the increasing gap between the rich and poor in our society. Poverty, homelessness, racism and unemployment, crumbling infrastructure and crowded facilities – these have all accompanied the rise in the level of wealth for some. Cities have borne the greatest share of all of these problems while at the same time they have been the greatest engines of growth for the entire economy.

The David Suzuki Foundation recently highlighted the problems Canadian cities have inherited over the past half-century, including urban sprawl, a car-dependent culture, air pollution, and gridlock.[48] The report also documented how between 1966 and 1986 more than 3,000 square kilometers of rural land, mostly prime agricultural land, was lost to sprawl. It costs more to accommodate growth by building new roads, electrical lines, sewer and water infrastructure for new subdivisions and shopping centres, than to integrate people into existing areas (generally referred to as “densification”). Greater densification is the most efficient option not only because it results in the best use of existing infrastructure, but also because new densification investments are more likely to be made in renewal of existing infrastructure than in construction of wholly new assets.

According to the Suzuki Foundation, urban sprawl will cost Greater Toronto $69 billion in the next 25 years, unless steps are taken to make the city more compact and to improve transportation and to improve or ameliorate air quality. Canada is the only major industrialized country without a national program for supporting urban transit. Gridlock in Toronto costs approximately $2 billion a year in lost productivity.[49] We need to look seriously at how to overcome these problems. The financial and environmental crisis facing our communities needs immediate attention.

The Importance of Infrastructure to our Overall Economy

Two studies recently released by Statistics Canada show clearly that Canada’s publicly-owned infrastructure – our roads, mass transit, water supplies, wastewater treatment facilities, power plants, bridges, ports, telecommunications and airports – has a positive impact on the productivity and economic performance of the Canadian business sector. They also show how the federal government has increasingly abandoned its responsibility to provide infrastructure directly.[50]

[48] Sustainability Within a Generation: A New Vision for Canada, David Suzuki Foundation, February 2004, Introduction , p.31
[49] David Suzuki Foundation, p. 31
[50] Public Infrastructure and the Performance of the Canadian Economy, 1961 – 2000, a summary of 2 research papers available on the Statistics Canada web-site: www.statcan.ca/Daily/English/031112/d031112a.htm

Public infrastructure, or “public capital” lowers the cost of producing a given level of output in almost every Canadian industry within the business sector. For example, a well-constructed highway allows a truck driver to avoid back roads and get the goods to market in less time. The reduced time means that the producer has a lower cost and the truck experiences less wear and tear. So, public investment in this highway enables private companies to produce their goods at a lower total cost.

The Statistics Canada economic study demonstrates that within the business sector as a whole, every $1 increase spent on infrastructure generated, on average, approximately 17 cents of cost-savings each year from 1961 to 2000.

However, public capital investment has not kept pace with the growing economy – there is an “infrastructure crisis”. The studies highlight the relative decline of federal government contributions and the increased responsibilities of provinces and municipalities for infrastructure across the country (likely attributable to the federal government’s retreat from direct responsibility for infrastructure such as urban transit, housing, ports and airports). Since the early 1960s, the bulk of public infrastructure capital stock has been under the ownership of provincial and local governments (45.3% and 30.9%) compared to about 25% for the federal government. In 2002, local government accounted for more than 50% of total public infrastructure, compared to 40.8% for provincial governments and a mere 6.8% for the federal government.

Capital Stock of Public Administrations in Canada							
	Total	Federal		Provincial		Local	
	$ billion	$ billion	%	$ billion	%	$ billion	%
1961	9.3	2.2	23.9	4.2	45.3	2.9	30.9
1973	29.2	4.4	15.1	14.6	50.1	10.2	34.8
1979	64.4	7.7	12.0	33.2	51.5	23.6	36.6
1988	113.7	10.9	9.6	54.4	47.8	48.5	42.6
2000	155.2	11.2	7.2	65.1	41.9	78.9	50.9
2002	157.3	10.6	6.8	64.3	40.8	82.4	52.4
Note: Net of linear depreciation.							

Source: Statistics Canada Study

Municipalities collect only 8% of all taxes levied by governments in Canada, 55% of which comes from property taxes. Canadian municipalities are extremely dependent upon the evolution of the real estate market but do not tend to benefit from the economic growth generated within each community.

These two Statistics Canada studies highlight how important public infrastructure is to the Canadian economy as well as the extent to which the burden of providing that infrastructure has increasingly fallen to local and provincial governments.

First, the federal government cut the deficit and the debt by cutting transfers to the provinces, and the provinces responded by cutting support to municipalities. As a result, cities have been forced to play a much greater and more direct role in the delivery of social services and the development of affordable housing, for example.

Proportionately, cities have had a shrinking financial base. Cities get only 8 cents out of every $1 we pay in taxes in Canada, and this share is going down.

The Critical State of Infrastructure in Canada

As conservative ideology began to take hold in the 1980s, in particular, preoccupation with debt and deficits also gained momentum and dominated public policy discussions and decisions in Canada and elsewhere. Government spending was treated with suspicion in this new environment.

As countries like Canada moved in the direction of decreased government spending, the public sector retreated from investment in important infrastructure like bridges, roads, and urban developments like affordable housing. Recently, the Federation of Canadian Municipalities (FCM) estimated Canada's infrastructure deficit to be as high as $60 billion and growing by approximately $2 billion a year.[51]

As CUPE stated in its *Annual Report on Privatization* in 2000, "there is a strong case for public reinvestment in public services. Mounting evidence from Canada and around the world shows private, for-profit services are an expensive and ultimately destructive choice. To let services wither and die is equally destructive for Canada's economy and quality of life. The need for new public funding to strengthen public services is urgent".[52]

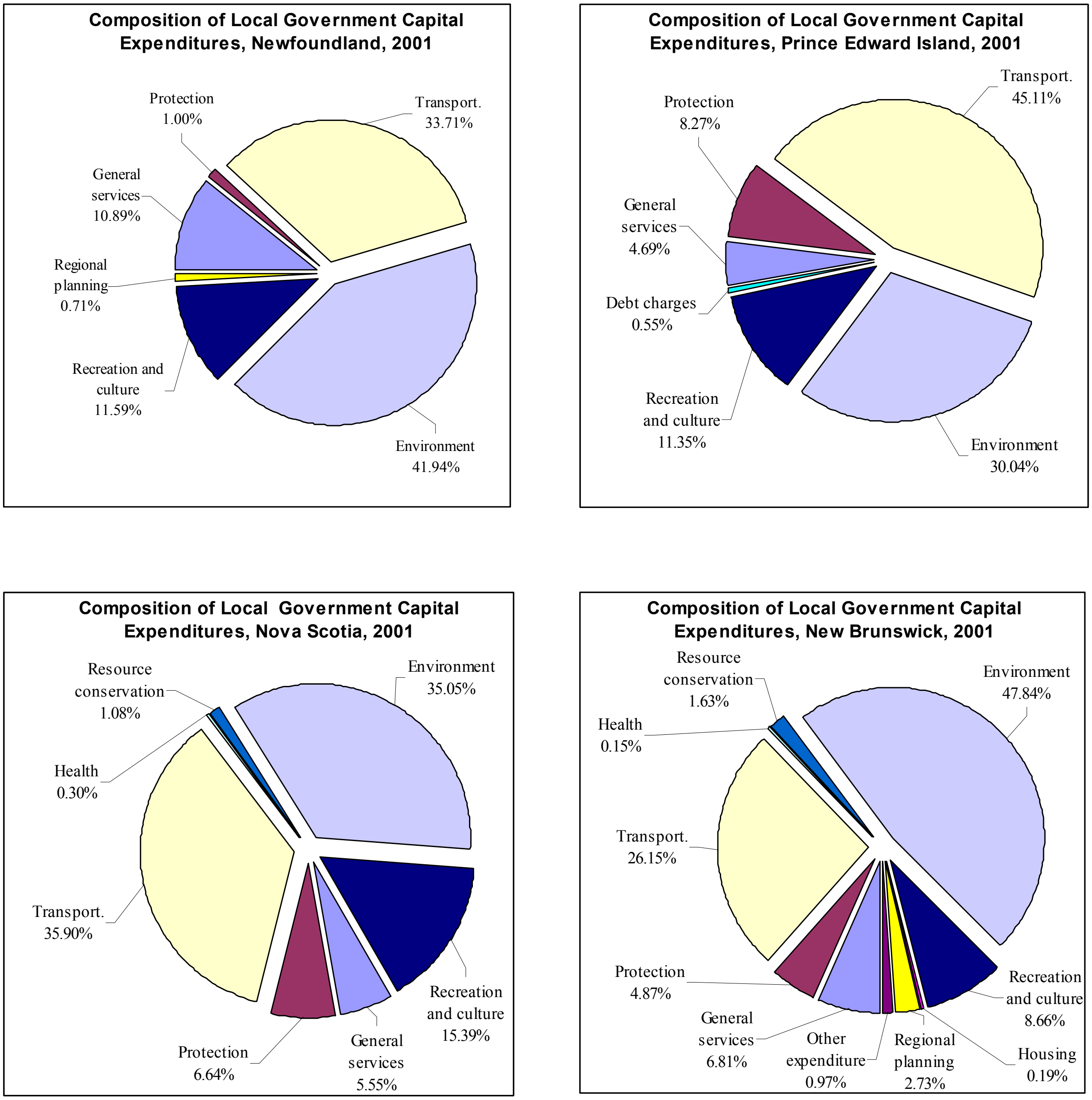
HOW DO CITIES AND COMMUNITIES SPEND ON CAPITAL PROJECTS?

Municipal Capital Expenditures

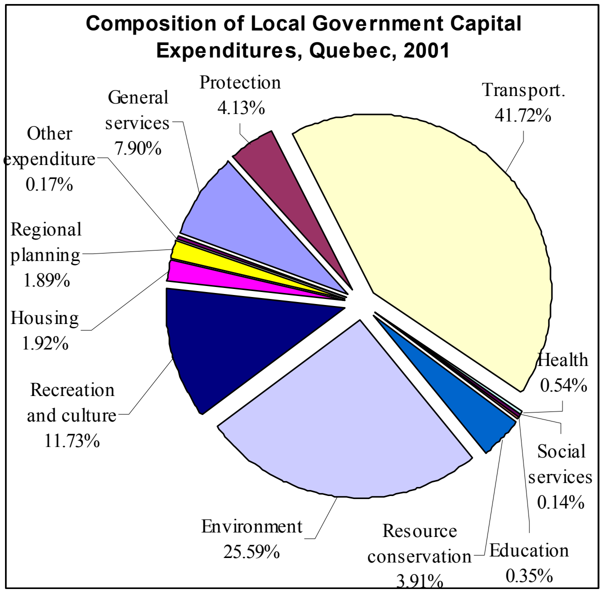
In 2001, municipal capital expenditures were estimated to be almost $8.9 billion.[53] up from $6.3 billion in 1988. While governments generally increase operating budgets each year in order to keep up with inflation, service demand and population growth patterns of investment for capital are less consistent and fluctuate on a year-to-year basis. (For capital expenditure patterns, see figure 1).

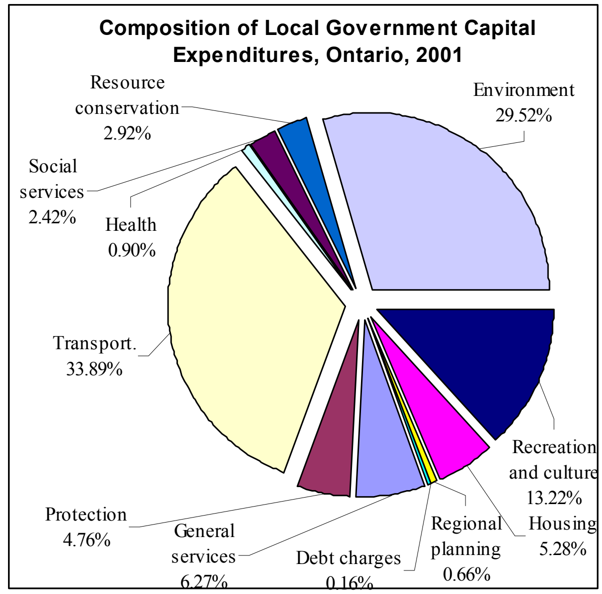
[51] FCM – web-site
[52] CUPE Annual Report on Privatization, 2000, viii
[53] Enid Slack, p.4

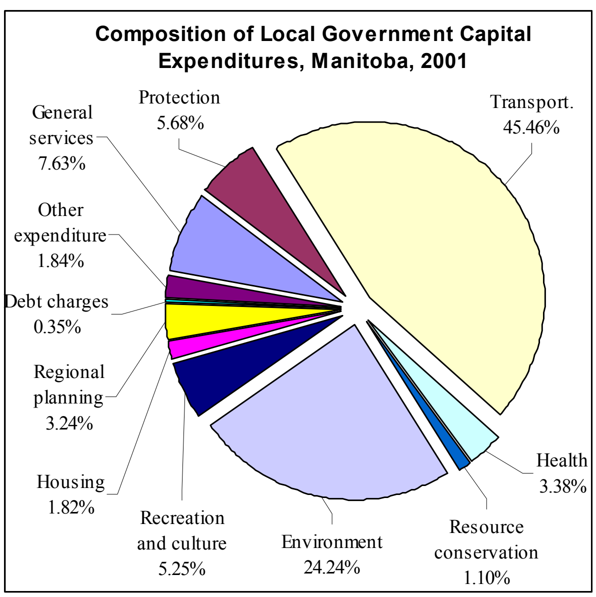
Figure 1: Composition of Local Government Capital Expenditures by Province, 2001[54]

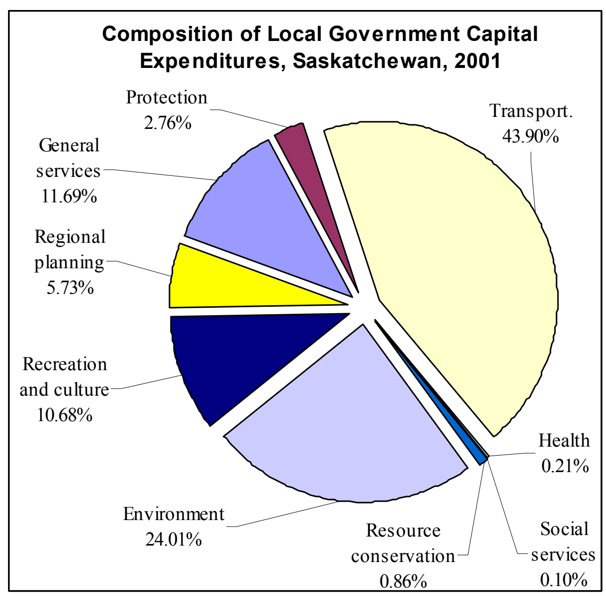


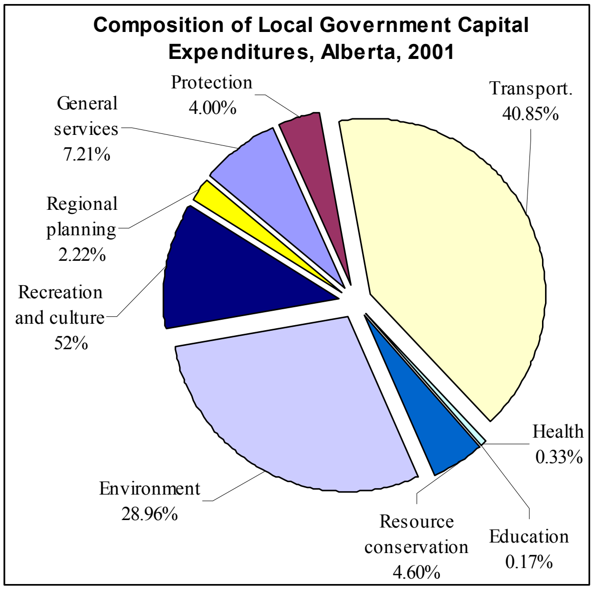
[54] Enid Slack, p. 5,6

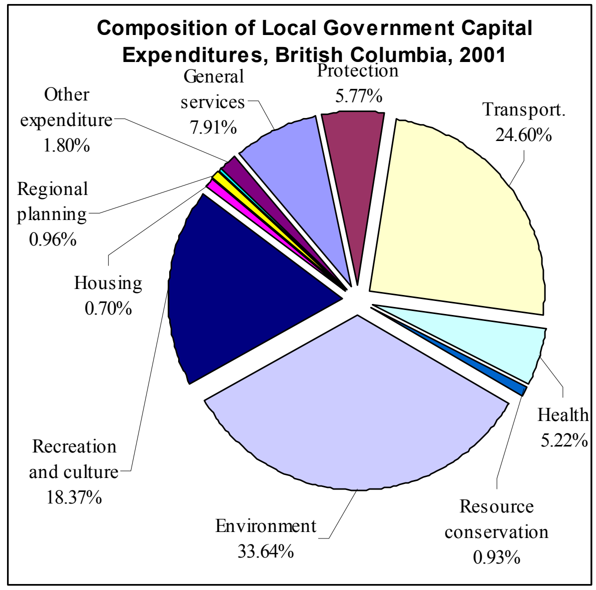

Composition of Local Government Capital Expenditures, Quebec, 2001
Protection 4.13%
General services 7.90%
Other expenditure 0.17%
Regional planning 1.89%
Housing 1.92%
Recreation and culture 11.73%
Environment 25.59%
Resource conservation 3.91%
Education 0.35%
Social services 0.14%
Health 0.54%
Transport. 41.72%

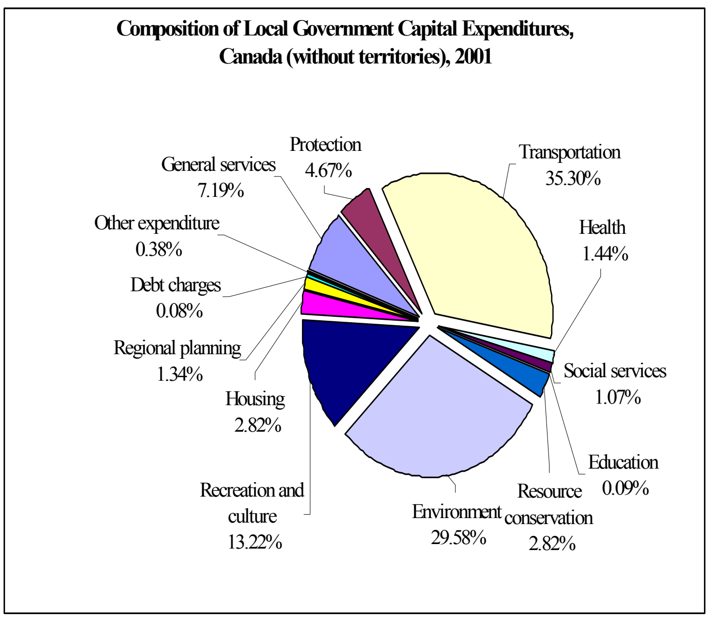

Composition of Local Government Capital Expenditures, Ontario, 2001
Resource conservation 2.92%
Environment 29.52%
Social services 2.42%
Health 0.90%
Transport. 33.89%
Recreation and culture 13.22%
Housing 5.28%
Regional planning 0.66%
Debt charges 0.16%
General services 6.27%
Protection 4.76%


Composition of Local Government Capital Expenditures, Manitoba, 2001
Protection 5.68%
General services 7.63%
Other expenditure 1.84%
Debt charges 0.35%
Regional planning 3.24%
Housing 1.82%
Recreation and culture 5.25%
Environment 24.24%
Resource conservation 1.10%
Health 3.38%
Transport. 45.46%


Composition of Local Government Capital Expenditures, Saskatchewan, 2001
Protection 2.76%
General services 11.69%
Regional planning 5.73%
Recreation and culture 10.68%
Environment 24.01%
Resource conservation 0.86%
Social services 0.10%
Health 0.21%
Transport. 43.90%







Source: Derived from Statistics Canada Public Institutions Division. Financial Management Systems (FMS) data.

Figure 1 shows the breakdown of local capital expenditures by individual function for Canada and each of the provinces for 2001. Transportation (roads and transit) accounts for the largest share of capital expenditures (35.3%), followed by environment (water, sewers, and solid waste) at almost 30%, then recreation and culture at only 13.2%. The remaining capital expenditures are divided among general services (administration), protection (fire and police), housing, resource conservation, and small expenditure items. The pattern of expenditure was similar in municipalities across Canada. However, in Newfoundland and British Columbia, capital expenditures were highest in 2001 in the area of environment (water, sewers and waste).

HOW DO CITIES PAY FOR CAPITAL EXPENDITURES?

Capital expenditures are financed in the following ways:

- municipalities "own funds" (revenue funds, reserves and reserve funds);
- federal and provincial grants;
- borrowing.

Municipalities have generally seen a decline in grants from senior levels of government in recent years. However, it is also clear that they have reduced their borrowing costs over the last decade. Municipalities have in fact, considerable capacity to borrow in most provinces, except Newfoundland. In general, municipalities have been relying on contributions from their own funds, which include property taxes, user fees, and development charges, in order to finance their capital expenditures.[55]

Current Methods of Paying for Municipal Capital Expenditures in Canada

a) Property Taxes

Property taxes are the main source of revenue for municipalities in Canada. In 2001, property taxes accounted for over 42% of total local revenue.[56] In a report on Winnipeg's proposed New Deal, economist Hugh Mackenzie re-phrased Winston Churchill's famous quote about democracy: "property taxes may be the worst option except for all the others".[57]

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[55] Enid Slack, p. 11
[56] Enid Slack, p. 12
[57] Riding Off in All Directions, An Examination of Winnipeg's New Deal, by Hugh Mackenzie, a Canadian Centre for Policy Alternatives(Manitoba) publication, February 2004

Property taxes are levied on residential, commercial and industrial properties and the base of the property tax is the assessed value of real property. How is value assessed in most communities? It is the estimate of the "market value" of the property – "the price that would be struck between a willing buyer and a willing seller in an arms length transaction".[58] There may be one rate or a series of rates by type of property and the rate is applied to the assessed value of property to determine the amount of taxes payable. Property taxes are used for the following:

- municipal operating expenditures;
- to finance debt costs arising from previous capital expenditures;
- to finance future capital projects (whereby a portion of the taxes is placed in reserves for future capital expenditures – "reserve funds").

Many argue that property taxes are imperfect. They are often not based on ability to pay, so do not necessarily represent progressive taxation. In many cases taxpayers are house-rich and cash-poor, whether they be young families or seniors on fixed incomes, and pay a disproportionate share of property taxes. However, there is in fact a rough correlation between wealth and property value - and hence ability to pay. Most provinces have introduced property tax relief schemes to relieve the burden on low-income residents. Despite their problems, property taxes are effective because they are stable - real property is immovable, unable to shift location in response to the tax and therefore easy to collect. However, while there has traditionally been a direct connection between the types of services funded at the local level and the benefits received by property owners, this has become less and less true in recent years as new responsibilities have been downloaded onto local government by federal and provincial governments.

The public distaste for property tax increases has been manipulated in Canada and is not easy to counter. The problem is, firstly, that property taxes are an easy target; they are a very visible tax because taxpayers are required to pay them directly to local governments in a lump sum or in installments (unlike income tax which is withheld at the source).

Secondly, they do not grow at the same pace as the economy. [59] So, to increase tax revenues, municipalities often have to increase the tax rate, a politically difficult act. Income and sales tax revenues increase automatically as the economy grows, even without any increase in the tax rate.

In general, property taxes are not as appropriate for financing infrastructure with a long expected life, but more appropriate for operating demands like fire, police, parks, and other property-related services.

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[58] Enid Slack, p. 12
[59] Hugh Mackenzie, P. 3

b) Special Assessments

Special assessments (and local improvement charges, also sometimes called “development cost charges”) are made on commercial and industrial properties to pay for additions or improvements to existing capital facilities that border on those properties. The base for these assessments is usually frontage. These have been used widely by municipalities in Canada to finance capital expenditure such as paving or repaving of streets, installation or replacement of water-mains and sewers, construction of sidewalks, and street lighting. It seems appropriate for developers to pay such charges, given the burden their developments often place on municipalities for services.

c) User Fees

In 2001, user fees accounted for approximately 23% of local government revenues in Canada. They are traditionally derived from parking fees or used to pay for water and transit but are increasingly being used for recreation and other services too. Some say user fees ensure that citizens value what the public sector supplies at a marginal cost. However, although budgetary pressures have obviously pushed many communities into charging user fees, there are accessibility issues for many citizens. From additional fees for recreation programs in public facilities in many communities, to user fees in the area of water consumption or electricity, it is working people who pay an inordinate proportion of such fees.

Water metering, for example, has become a huge area of debate. The Quebec water watch group Eau Secours, insists that because social inequality is structural, one cannot make things equal through user fees like water metering. In their view, citizens understand that they are not the ones who take the most water. Most affected are those who do not have the big cars to wash, the huge gardens to water, or three bathrooms, including a Jacuzzi. Eau Secours believes that, although it’s not a perfect solution, a special tax for water should be included within property taxes – because the bigger the house, the more water its inhabitants are using in most cases.[60]

There is a strongly subjective and political element to the application of user fees. For example, most Canadian governments have made the decision to socialize the provision of roads and highways and hence do not generally charge tolls or fees for access to roads. On the other hand, it is widely accepted that fares should be charged for public transit. This practice belies the importance most political leaders claim to attach to public transit.

[60] Notes from a conversation with Andre Bouthillier, President of “Eau Secours”, a Montreal based group working on water issues.

d) "Green Taxes" or Consumption Taxes

Taxes which are linked to environmental issues in some way are called "green taxes" – taxing "bads" not "goods". They are designed to serve two purposes. They both raise money and at the same time, in theory, they change the behaviour of taxpayers for their benefit (e.g. a tax on garbage bags may lead to people recycling more and the fuel tax may lead to people taking transit instead of using cars). However, low-income families are inevitably hit hardest. For example, a low income family driving an older model car would feel the effects of the fuel tax and would not have the same ability to trade up for a more fuel efficient model. A high-income family, on the other hand, would pay more gas tax, but may simply decide it is worth it.[61]

Consumption taxes are essentially regressive taxes – they are not based on ability to pay. Low-income families may spend less money but they spend a higher proportion of their income on these taxes. CUPE cannot support this method of taxation, because the union supports progressive rather than regressive taxation. This means taxation based on the ability to pay.

However, imposing ecological or "green taxes" have been effective in some European countries. David Suzuki documents how "ecological tax shifting" has been used to address climate change through carbon taxes in Denmark, Norway, Sweden, Switzerland, the United Kingdom and the Netherlands. Norway, for example has reduced greenhouse gas emissions from some industrial sectors by more than 20%.[62]

e) Other Taxes

Municipalities also utilize a variety of other tax sources, such as hotel room taxes. The federal government has recently promised to remit G.S.T. to municipalities, which is a positive step that should be extended to other local government entities such as school boards and public hospitals. Canadian municipalities continue to patiently await fulfillment of promises that a portion of the federal fuel tax will be provided too.

f) Federal and Provincial Grants

Grants from federal and provincial governments are another source of revenue for cities to pay for municipal infrastructure. In 2001, about 17% of local government revenues came from transfers from senior levels of government.

Cities and communities depend on provincial governments for the bulk of grants. There are both conditional grants and unconditional grants. Conditional grants usually have to be spent on specific categories. Unconditional grants can be spent on any expenditure category or they can be used to reduce property taxes.

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[61] Hugh Mackenzie, Ibid, p.4
[62] David Suzuki Foundation, p. 38

Manitoba is the only province in which a set percentage of income tax revenues are passed on to municipalities. In Manitoba, two percentage points of personal provincial income tax and one percentage point of provincial corporate income tax is provided to municipalities. This is a very progressive policy which should be emulated elsewhere.

Federal grants come under the Infrastructure Canada program. In 2000 the federal government continued its support for infrastructure, but through a new vehicle, committing $2.65 billion over 6 years for clean air and water, transportation, and affordable housing. The program requires financial contributions from both provincial and local governments. Different variants of this kind of tri-partite funding system have been in place right through the 1990s.

The first priority for the current program includes water systems, sewage treatment plants, water metering equipment and retrofitting buildings for energy and efficiency purposes. The second includes investment in community infrastructure, such as cultural and recreational facilities, infrastructure supporting tourism, local transportation, high-speed internet access for public institutions, rural and remote telecommunications, and affordable housing.[63] In the February 2004 Throne Speech, the current Liberal government announced an acceleration plan for this program as part of their New Deal for cities. ("The government will move to quickly commit funds within the existing infrastructure programs").[64]

However, there is a major problem with these infrastructure programs at present. CUPE and several municipalities are opposed to the language which exists in each of the federal-provincial agreements except that with Quebec. This language prohibits municipalities from using their own employees to deliver federally funded infrastructure because ineligible costs under this program include:

> "(a) services or works normally provided by an Applicant or any other agency of an Applicant to implement a Project;
>
> (b) the salaries and other employment benefits of any employees, overhead costs as well as other direct or indirect operating or administrative costs of an Applicant, and more specifically these costs as related to planning, engineering, architecture supervision, management and other services provided by an Applicant's permanent staff".[65]

This stipulation limits flexibility for municipalities, and in a number of cases, leads to inefficiencies like contracting out of asphalt work in communities that have their own asphalt plants!

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63 Enid Slack, p. 16
64 Speech From the Throne, February 2, 2004
65 CUPE Briefing Notes for meeting with Infrastructure Canada, February 2004

The Green Municipal Investment Fund is a $200 million fund and exists alongside a Green Municipal Enabling Fund of $50 million both designed to support the implementation of innovative environmental projects. The focus is on energy and energy services, water, solid waste management, sustainable transportation and integrated community projects.

Grant funding is not a very stable or predictable revenue source for municipalities. When the grants disappear, they are left having to make up the difference by resorting to increasing property taxes, user fees, or other revenues. Often too, conditional transfers require municipalities to spend their grants according to provincial or federal guidelines, which means decisions are made and funds are spent on projects which may or may not be a priority for that community.

g) Development Charges

These charges usually consist of a one-time levy on developers to finance the growth-related capital costs involved in new development, or redevelopment. At present, municipalities in British Columbia, Alberta, Ontario, Quebec and the Northwest Territories levy development charges.[66] Development charges are an effective way of taking revenue back from developers in exchange for the services they require from the municipalities.

h) Borrowing

Public borrowing remains one of the most fiscally responsible and socially responsible policy options available to governments. Governments can borrow money at cheaper rates than corporations and developers. Municipalities, unlike federal and provincial governments, can only borrow to make capital expenditures and not to meet operational requirements. Provincial rules dictate that municipalities cannot run a deficit in their operating budgets and they are limited in terms of how much they can borrow while waiting for tax revenues to be collected.[67]

However, borrowing for capital investments allows municipalities to plan for the future. If one builds a project today and the project is being paid for over the next 25 years, through repayment of principal and interest, the costs and benefits are spread over those 25 years. Those who benefit from the facility are the present users as well as those using it over the next 25 years. Everyone pays the costs through property taxes, water and sewer bills and possibly user fees.[68]

[66] Enid Slack, p.18
[67] Enid Slack, p. 20
[68] Enid Slack, p.20

Current revenues (property taxes and user fees) do not usually provide enough money to fund large investments on a “pay-as-you-go” basis (i.e. without borrowing). The pattern of capital expenditures is usually “lumpy” - and a municipality might need millions of dollars one year to finance an infrastructure project and then the need declines for a few years. That is why borrowing is necessary, but municipalities are sometimes hesitant because potential revenues are dedicated to debt repayment instead of being available for other immediate uses.

In order for Canada to make tackle its infrastructure deficit in a meaningful way, t is clear that Canadian municipalities are in urgent need of new, reliable and progressive sources of revenue. Unfortunately, in the absence of such new revenue, there is increasing pressure to privatize public assets.

PUBLIC PRIVATE PARTNERSHIPS (P3S) – A FORM OF PRIVATIZATION

Increasingly, municipal staff and elected leaders across the country are hearing a consistent ideological message – private financing and operation of public infrastructure is necessary and “partnerships“ are the way to go. The current push towards public-private partnerships (PPPs or P3s) is pervasive.

P3s are ventures where the private sector delivers public services. These P3s may involve private sector involvement in financing, designing, building, operating and owning public services, facilities and infrastructure.

P3s are a form of privatization. In the past, corporations have often designed and constructed public infrastructure including roads, bridges, schools and hospitals and will continue to do so. What then is the difference?

With most P3s the private sector lends money to build a project and the public sector leases it back by providing regular payments for the life of the contract. These long-term schemes are a troubling form of privatization. Instead of operations and maintenance contracts for two to three years, corporations or consortia establish very long-term contracts (10 – 40 years) that include the financing, leasing and ownership of public services and infrastructure.

Unlike design and build contracts, P3s threaten public control over vital public services such as health care, education, water and electricity, through allowing the private sector to determine the quality and quantity of service delivery and in some cases the cost to the user of the service. It is this shift of control from the public to the private sector that qualifies P3s as a form of privatization.

There are strong forces driving privatization within the current federal Liberal government. As soon as he took over the reins of government, Paul Martin appointed a Parliamentary Secretary to promote P3s, John McKay, who has been making bold statements about privatizing much of what is now in the public realm. The federal government has also been promoting and supporting the Canadian Council for Public – Private Partnerships (CCPPP) for the past several years. Federal infrastructure programs are supporting P3s and the contracting out of new municipal services by tying federal money to private sector involvement.

P3s are also increasingly at threat at the provincial level. For example, the provincial Liberal government of B.C. is pushing for P3s in all areas of public service and has set up a government agency called "Partnerships B.C.". The majority of infrastructure development in B.C. is being turned over to this new entity and its mandate is to seek out further privatization opportunities. The Ontario Liberal government has broken its election promise to abandon P3 hospitals and is actively looking to P3s for a wide range of other services. The Conservative government of Alberta has pledged to expand P3s radically and several other provinces, including. New Brunswick and more recently, Quebec, have declared their keen willingness to privatize public services.

Balanced budget legislation has created self-induced financing pressures on governments. Some governments claim to enter into P3s in order to keep debt off the books, but, increasingly P3 financing is being revealed as a form of debt by many provincial Auditor-Generals (for example, with regard to the Fredricton to Moncton toll highway P3, the Auditor General of New Brunswick said: "…the Province's commitment to make lease payments over a thirty year period is not substantially different from a commitment to make debt payments to bondholders for thirty years." And, with regard to P3 schools the Auditor General of Nova Scotia said: "…the entire cost of assets acquired under capital leases will still need to be reflected in the Province's net direct debt.")[69]

[69] Report of the Auditor General of New Brunswick, 1998. page 178 and "Education – Public Private Partnerships (P3s) for School Construction – Follow Up Review" by the Auditor General of Nova Scotia, 1999. page 65.

There are Major Problems with P3 Financing

1. P3s increase costs. It costs the private sector more to finance construction. Generally, governments can borrow at lower rates of interest than the private sector and governments do have the ability to directly finance infrastructure.

2. P3s hide but do not reduce public debt. They are not a neutral financing mechanism – private financing is debt financing. It is a source of borrowing which has to be repaid – either out of the public purse or by giving the private sector a chance to raise user fees through, for example, toll roads.

3. Corporations have to make a profit for their shareholders and this results in higher costs for the public.

There are Many Problems with P3 Operations as Well

1. Public service expertise is often needed, but missing when a P3 is used. When the Ontario Tory government partnered with Accenture (then Andersen Consulting) in 1997 for a revised welfare system, the corporation needed and used the expertise of the Ministry of Community and Social Services employees (but paid them as government employees while Accenture "consultants" were being paid up to $180 per hour).[70] The administration of social assistance is unique and requires the expertise of public servants committed to a system suited to the needs of individuals and society.

2. P3s invariably result in reduced quality of service. Reduction in staff means reduction in service. For example, when Hamilton-Wentworth Regional Government contracted with Phillips Utility Municipal Corporation (PUMC) in 1994, the workforce was cut in half within a few years. Maintenance and service began to decline and in 1996, 180 million litres of untreated sewage spilled into Hamilton Harbour. In the U.S. where privatization of cleaning and housekeeping services in health care is more widespread than in Canada, cuts in cleaning and infection control standards contributed to 103,000 patient deaths in 2000.[71]

   Five years after one of the Halifax P3 schools was built, children are still drinking bottled water after arsenic was discovered in the school's well-water.

3. High turnover is common with P3s. Because private sector support services pay lower wages than public sector support services, private sector employees are more likely to leave their jobs. High turnover in turn reduces quality of service.

[70] "Private Means to Public Ends: The Future of P3s", by Finn Poschmann, C.D. Howe Institute, June 2003
[71] "Infection epidemic carves deadly path: Poor hygiene, overwhelmed workers contribute to thousands of deaths", by M.J. Berens, Chicago Tribune. July 21, 2000

4. Reduced wages are the norm in P3 operations. Private contractors usually pay their workers much less than public employers. This has a negative effect on the whole community.

Problems with P3 Accountability

1. Reduced transparency. P3s privatize information that should be kept clearly within the public realm. This is a major problem as the public is often denied access to vital information on the grounds of commercial confidentiality.

2. Reduced public control. When private managers take over, the aim is to cut costs, even at the expense of services. In Nova Scotia, Learning Centres decided where schools should be located with some devastating results for the community, including arsenic in the water in one school. Public control of public resources is essential.

Public-private partnerships are being promoted across Canada, in the U.S. and in many other countries – despite having an "atrocious history" according to economist John Loxley. Auditors-General are consistently raising concerns with P3s in both Canada and abroad. In recent reports, even organizations such as the World Bank and more locally, the C.D. Howe Institute, while supporting the principle of P3s, cannot point to any outright successes in terms of public benefit.

A recent Ipsos-Reid poll shows that an overwhelming majority (84%) of Canadians want their public services delivered by public sector workers accountable to elected representatives and the public, rather than by corporations accountable to their shareholders. The polling shows that women in particular are more likely to oppose privatization. It is women who are hit hardest when services are privatized. Women are the ones most likely to lose their jobs through privatization as stable public sector jobs that pay enough to support a family are replaced by low-wage, part-time work with private contractors. As well, they suffer service cuts and fee hikes and are often expected to fill the void at home and in the community.

Canadians in general are skeptical of P3s. When asked whether Canada should re-build its public infrastructure – hospitals, schools, highways and water systems – through direct public investment or through P3s, 75 per cent say keep it public. Whether we look at the sorry history of P3 schools in Nova Scotia, Highway 407 in Ontario or looming P3 hospitals across the country, we see the politicians ducking their responsibility, the corporations reaping windfall profits and the public left holding the bag. Canadians don't want this. Instead what they are calling for is direct public investment – the cheapest and most responsible way to rebuild strong public services, which in turn are the cornerstone to strong communities.[72]

[72] Ipsos-Reid Poll, March 2004

The Case Against P3s and for Public Borrowing

Auditors Generals of Ontario, Nova Scotia and New Brunswick, and the National Audit Office in the U.K. have expressed concerns with specific P3s. In particular, they are concerned about the comparisons that are used to justify the choices of P3s as cheaper alternatives to public ownership. In New Brunswick,, the Evergreen Park school in Moncton, was leased by the government from a private company, Greenarm corporation of Fredericton. The Auditor General reported that the province could have built the building at a lower cost than Greenarm. The Province also transferred land at less than market value once the lease costs are allowed for. The cost of private borrowing at 9.065% was well in excess of the Province's costs of 8.787 %, raising effective capital costs again. The Province estimated present value savings of $185,000, whereas the Auditor General estimated additional present value costs of $900,000. [73]

Lewis Auerbach who formerly served as Director in the Audit Operations Branch of the Auditor General of Canada has addressed the problems this way.

> "Governments can decide not to make funds available, or to make them available for some kinds of projects and not for others. In other words, the constraints that lead to the choices are self-imposed. It is a choice especially difficult to comprehend when it leads to higher, rather than lower cost to taxpayers".[74]

In February 2004, the Toronto Health Coalition submission to the Ontario Budget Consultations, prepared by economist Armine Yalnyzian, of the Canadian Centre for Policy Alternatives (CCPA), clearly presented the case against private financing.

> "The first rule of thumb is that the cheapest source of finance is through public borrowing. The implicit political rule that goes along with this is that taxpayers should not be paying more to developers for their efforts to raise capital when governments can do it more easily and definitely at lower cost".[75]

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[73] CUPE research on Evergreen Park School P3

[74] Issues Raised by Public Private Partnerships in Ontario's Hospital Sector, by Lewis Auerback, written for CUPE, 2002

[75] Toronto Health Coalition Submission to the Ontario Pre-Budget Consultations, February 11, 2004

The Toronto Health Coalition submission used the example of the William Osler Hospital to demonstrate the difference between public and private borrowing:

> "It is estimated that the cost of building the hospital is about $1 billion. The Ontario Hospital Association estimates that the capital needs of the hospital sector currently sit at between $7 and $9 billion.
>
> A government floats bonds for its major capital needs. The current 21-year yield-rate of an Ontario bond is about 5.56% a year.
>
> A private investor would want to get a premium for raising the money for the government from the capital market. I have assumed they will not get much more than ¼ of a percentage point on top of the government long-term rate as a "risk premium", because the government will implicitly or explicitly guarantee the loan, as it must in such a sensitive area of public policy…
>
> However, the public sector borrows all the money it needs. The private sector puts down some amount of equity in order to borrow.
>
> Whereas typically the equity (like a down-payment to get a mortgage) would range between 15-20% of borrowing needs, I am assuming a much lower equity rate of 10% down. However the private financier would need a higher rate of return on his/her equity than ¼ of a percentage point. Typically P3s yield between 15-20% rates of return on equity, in North America and in the UK. Again I am assuming this government will bargain for a better deal for Ontario's taxpayers, and limit the returns to 10% per annum on this equity.
>
> So far we have been talking about P3s in a way that separates borrowing and revenue. But you have a revenue problem, so we need to talk about the connection between borrowing and taxes. The attached table lays out the links".

THE DIFFERENCE BETWEEN PUBLIC AND P3 BORROWING					
	Ontario Government Borrows @ 5.5%	Private Sector Borrows 90% @ 5.75%	Private Sector Puts up 10% Equity Capital at 10%	Average Cost of Private Sector Deal	Additional Costs of Private Financing over Public Financing
Costs Per Year to Borrow (New Taxes or Reduced Spending on Other Program Areas)					
$1 Billion	$55,000,000	$51,750,000	$10,000,000	$61,750,000	$6,750,000
$7 Billion	$385,000,000	$362,250,000	$70,000,000	$432,250,000	$47,250,000
$9 Billion	$495,000,000	$465,750,000	$90,000,000	$555,750,000	$60,750,000
Borrowing Costs over 30 Years					
$1 Billion	$1,650,000,000	$1,552,500,000	$300,000,000	$1,852,500,000	$202,500,000
$7 Billion	$11,550,000,000	$10,867,500,000	$2,100,000,000	$12,967,500,000	$1,417,500,000
$9 Billion	$14,850,000,000	$13,972,500,000	$2,700,000,000	$16,672,500,000	$1,822,500,000
What could you do with the difference between P3 and public financing?					
Average cost of 1 registered nurse: $60,000 - $7 million could buy 117 nurses a year.					
Average cost of 1 four–year nursing program: $35,000 - $28 million could buy 800 new nurses in four years.					
* based on 2004 CCRA preliminary estimates of number of Ontario taxpayers in 2002 tax year = 5,783,120					

To use P3 financing on just one billion dollar project would therefore cost Ontario taxpayers almost $7 million a year over and above what they would be paying in new borrowing costs if the government provided the financing. The Toronto Health Coalition estimates that if all emerging capital needs (for expanding facilities and upgrading them) in Ontario were financed using P3s, the additional annual costs for Ontario taxpayers would range between $47.2 million and $60.8 million a year.

The Ontario Hospital Association has identified a list of needed future hospitals. If P3 financing is used for these new Ontario hospitals, the total unnecessary expense to Ontario's taxpayers, over the life of these agreements (up to 30 years) would range from over $200 million just to finance one billion-dollar project, to between $1.4 and $1.8 billion for the province as a whole. [76]

Public borrowing, therefore, is clearly a far more fiscally and socially responsible choice.

[76] Toronto Health Coalition Submission, p. 5, 6

HOW HAVE PENSION FUNDS BEEN USED TO FINANCE PUBLIC INFRASTRUCTURE?

Currently, nearly every major P3 has some sort of pension plan partner, including many CUPE member plans, for example the Ontario Municipal Employees Retirement System (OMERS).

OMERS is not a joint trusteed plan. In 1998, OMERS created a subsidiary company, Borealis, for the prime purpose of investing in P3s. Until February of 2004, the Canada Pension Plan Investment Board was also a joint owner of Borealis. OMERS has recently taken back sole ownership and direct control of Borealis. However, this share buy-back deal between OMERS and Borealis cost the pension fund nearly $100 million in the past 12 months. The cost included $46 million in asset-management fees paid to the firm last year. In February 2004, OMERS also paid $49.9 million to buy out other Borealis share-holders (including $15 million for three Borealis managers!) in order to bring the operations of the company back under the pension fund's direct control.

Borealis (now OMERS directly) is providing the financing for both of the planned Ontario hospital P3s - the William Osler Hospital in Brampton and the Royal Ottawa Hospital. It was also one of the four consortia originally short-listed for the Abbotsford hospital P3 and provided financing for the Nova Scotia P3 schools. It is very disturbing to see CUPE members' pension contributions invested in the privatization of healthcare and education.

<u>Canada Pension Plan (CPP)</u>

Until 1998 all CPP surplus funds were invested in provincial government bonds, the provinces were able to borrow at federal government rates – lower than borrowing through the direct market. In this way, much of the public infrastructure in Canada was built with the help of capital invested by the CPP. [77]

Although since the mid-1980s the market value of pension fund assets has increased by almost 600% (to reach almost $600 billion in 2000), governments have become more ever more conservative when it comes to investments by pension funds.

A return to public financing for public infrastructure will be more cost effective than the current strategy.

Pension funds must start to channel their infrastructure investments through public investment vehicles. [78]

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[77] Globe and Mail, May 13, 2004
[78] <u>The Role of Pension Funds in Financing Investment in Public Infrastructure</u>, written for CUPE by Monica Townson, October 2003, P. 9

Pension fund capital is in a strong position today. The top 100 pension funds in Canada in 2003 were worth about $475 billion. [79] The CPP holds assets of approximately $56 billion and the value of these are expected to rise to $80 billion by 2007 and $160 billion by 2013. [80]

Many of the larger funds are looking for investment opportunities in all kinds of areas, including shopping centres, hockey, real estate and foreign securities (limited to 30% of the book value of the fund portfolio). Most pension plan members in Canada are public sector workers and some of the largest pension funds are public sector funds. These public sector funds have hundreds of billions of dollars available to invest. [81] [82]

The asset mix held by these pension funds varies from year to year. However, about one-third of their total assets are invested in Canadian bonds. In 1990, public sector pension funds invested just over 52% of their assets in bonds (compared with 36% for private sector funds). By 2000, public and private sector funds held only 26.5% of their assets in bonds. Public sector funds have now become much more like the private sector funds in the way they allocate their assets to different types of investments.

The Canada Pension Plan Investment Fund

The 1996/97 review of the CPP has had consequences for how investment funds from the CPP may or may not be used in the future as a source of funding for public infrastructure. In January 1998, federal and provincial finance ministers, who administer the plan, decided to raise contribution rates significantly over a six-year period. The goal was to reach a combined employer-employee rate of 9.9% of contributory earnings (compared with a combined rate of 5.6% in 1996). The objective was to generate surplus funds (equivalent to five years worth of benefits) and to establish a CPP investment board to invest these funds in the capital market. Starting in 2004 the investment board will be responsible for long-term bonds and cash portions of the CPP portfolio as well as investing contribution revenue not immediately needed to pay current benefits. In March, 2003, the fixed income securities were about 69% of total assets, of which $31 billion was invested in federal and provincial government bonds and $7.1 billion in interest-bearing cash deposits. [83]

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[79] Monica Townson, p. 19
[80] Jim MacDonald, quoted in Monica Townson, p. 18
[81] Canada Pension Plan Investment Board, 2003
[82] Pension funds with assets of $10 billion or more include: the Ontario Teachers' Pension Plan Board, with market value assets of $65 billion; the Quebec Government and Public Employees Retirement Plan, with $49.4 billion; Ontario Municipal Employees Retirement System (OMERS) with $29.5 billion; Hospitals of Ontario Pension Plan (HOOPP) with $16 billion and the B.C. Municipal Pension Fund with $14.5 billion; the Teachers' Superannuation Plan (RRE, Quebec) with $12.9 billion; the Ontario Pension Board with $11.5 billion; the B.C. Public Service Pension Fund with $11.4 billion; the Canadian National Railways with $11.1 billion; the BCE Master Trust Fund with $10.6 billion; and the B.C. Teachers Pension Fund with $10.2 billion. (The Quebec figures include government debt which appears in Quebec's public accounts in accordance with the plan's presentation basis)
[83] Monica Townson, p. 19

Now, however, the CPP Investment Board is suggesting that, “government bonds do not produce the level of real returns required by the Canada Pension Plan. To achieve higher returns than bonds, we must acquire assets that have greater risk”.[84]

In the 1997 – 1998 report of the CPP, the government predicted that the new investment policy could secure an average long-run rate of return of 3.8% above the rate of inflation compared with 2.5% if the old policy remained intact. However, the fund has been earning high rates of return on long-term provincial government bonds because they were purchased in the early 1980s when interest rates were high. Their weighted average rate of return is 11.36%.[85]

Although the board says that bonds will continue to form an important part of CPP assets for the foreseeable future, it also intends to expand its real return assets to include infrastructure (“pipelines, electrical utilities, roads, bridges, schools and hospitals”. [86] The CPP Investment Board has, in the recent past been a part owner with OMERS of Borealis which leads us to believe that their future infrastructure investments will involve public private partnerships.

A recent report in Public Works Financing (the “International Business Guide to P3s in Infrastructure Finance “) cited a new CPP investment ($100 million) into the Macquarie Essential Assets Partnership, the “first infrastructure investment for the Cdn $64.4 billion fund”. [87]

At a World Bank conference in 2003, John McNaughton, President and CEO of the CPP Investment Board, said:

> “We are not a captive source of credit for governments. We do not have to buy government debt unless we decide to build a bond portfolio. And even then only if the terms are attractive and in keeping with our legislated and fiduciary duties. We are not required to make loans to state-owned firms. Nor do we have social investment requirements. In short, we do not invest according to any public policy objective other than to keep the public pension promise. This alone is a worthy social objective that deserves a focused investment mandate undiluted or distracted by other public policy goals and social causes”. [88]

He also emphasized that “governments have no say on our asset mix policy. Nor do they choose to”.

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[84] Monica Townson, p. 24
[85] Canada Pension Plan Investment Board, 2003
[86] Monica Townson, p. 25
[87] Canada Pension Plan Investment Board, 2003
[88] Public Works Financing, January 2004

Targeted Investments for Infrastructure Funding

Pension funds can play a positive role in helping to finance public infrastructure if properly used. They can provide a good rate of return for pension plan members and at the same time assure governments of capital at a reasonable rate. But it is generally considered the fiduciary duty of pension trustees to achieve the best possible return for the fund in order to be able to pay all the promised benefits. Are these two objectives compatible in this new environment? Can pension funds target their investments to achieve a particular social or economic objective?

In 1984, union trustees for the British coal miners' pension fund insisted that the fund not invest in energy industries in direct competition with coal. The Court of Queen's Bench ruled against the union trustees. However, in the case of the New York City teachers plan, the court found that investing at less than the going return on investments in the market is acceptable if it protects the members' interests in maintaining a job up until retirement. [89]

Some believe that the British coalminers' case (the Scargill case) has played too large a role in influencing other pension trustees in Britain and Canada and that the maximum rate of return is not a standard for all plans (e.g. the Ontario Public Service Employees' Union Pension Trust has an investment policy to achieve "reasonable rates of return". [90]

In 2000, an index was created by Michael Jantzi Research Associates in Toronto, to measure the stock market performance of sixty Canadian companies that pass a broadly-based set of social and environmental screens. Since it was created, it has generally out-performed the TSE 300 index. [91]

How Can Plan Members Influence Investment Decisions?

There is growing public awareness that pensions are deferred wages and that pension funds belong to the workers who are members of the pension plans. But how much control do members have over these funds? Generally, pensions trustees and their investment advisers have a great deal of autonomy from plan beneficiaries, unless there is joint trusteeship, with unions being equally represented on the board of trustees. Joint trusteeship is a necessary and important reform for most pension plans. In the public sector, governments need to make joint trusteeship a priority. [92]

CUPE has achieved joint trusteeship in a growing number of plans. The Hospital Employees' Pension Plan (HEPP), the Hospitals of Ontario Pension Plan (HOOPP), the British Columbia Municipal Workers' Plan, The City of Winnipeg Municipal Employees Plan, the CUPE Hospital Workers Jointly Trusteed Plan, the New Brunswick Nursing

[89] John McNaughton Quoted in Monica Townson, p. 25
[90] Monica Townson, p. 28
[91] Isla Carmichael and Jack Quarter, editors Money on the Line: Workers Capital in Canada, 2003, p. 61
[92] Monica Townson, p. 28

Home Workers' Plan, and the Saskatchewan Hospital Employees' Plan (SHEPP). CUPE is the sole union trustee for two plans, the Nursing Homes and Related Industries Pension Plan (NHRIPP) and the Multi-Sector Pension Plan (MSPP).

Examples of Targeted Infrastructure Funding

Some unions in the private sector have been able to influence investment decisions through collective bargaining. In 1993, the CAW in its negotiations with Chrysler Canada, obtained an agreement on an over $2 million pension asset allocation to co-operative and non-profit housing development in Ontario, subject to government fiscal partnership.

In 1965, the AFL-CIO Housing Investment Trust was established with unions pooling their funds and designating pension fund assets for investment in affordable housing stock and at the same time their aim was to create jobs for union members in the building trades. This trust uses union contractors exclusively and has funded hundreds of affordable housing projects and other real estate projects.

In 1980 in British Columbia, Concert Properties (formerly Greystone Properties Limited), was formed when 26 jointly-trusteed private sector union pension funds pooled a small portion of their funds and formed a real estate development company to provide rental housing. Although it is unfortunate that Concert Properties has supported P3s it uses only union labour and is now the largest developer of rental housing in western Canada.[93]

How to Encourage Funding of Public Infrastructure by Pension Funds

Although it is difficult to counter the current ideological trend towards private market solutions, pension funds need to be encouraged to invest in public infrastructure.

Working in our favour are reports such as the World Bank report on private participation in infrastructure in developing countries, which clearly documents the failure of the experiment in privatization in many developing countries.[94] The British government's venture into privatization of public infrastructure has seen disastrous results for health care, water, electricity and railways. The All-Party House of Commons Transport Committee in the U.K. recently condemned the results of privatization. Members of Parliament recommended re-building a new public rail agency. Unfortunately, we need to learn from the negative, real world results of privatization to inform a range of positive alternatives. And, according to Managing Director Dr. Anne Krueger, the International Monetary Fund will shortly issue a report calling on the British government to include

[93] Unions and Pension Investments, a paper presented by Bob Baldwin at a Canadian Labour Congress conference on Jobs and the Economy, Ottawa, February, 1998
[94] Monica Townson, p. 32

some 100 billion pounds in hidden P3 borrowing within open public accounts Privatization is not at all inevitable.

POSSIBLE ALTERNATIVES FOR FUNDING INFRASTRUCTURE

In contrast to the numerous problems that follow privatization of infrastructure financing, there are many good, progressive alternatives available for funding of Canadian infrastructure. In choosing infrastructure alternatives, policy makers should bear principles such as democratic control, public ownership and ability to pay in mind. Some good options include:

a) Pooling of Municipal Debt

Municipal financing authorities should be established in provinces in which they do not currently exist.

As the cost of borrowing is high for individual municipalities, especially smaller municipalities, pooling of municipal debt is one way to lower costs of borrowing. Local governments can issue bonds. These bonds are purchased by a bond bank – usually an independent authority established by provincial statute. The bank then pools the issues and sells the larger, combined issue on the national bond market at a lower cost than can some individual municipalities.[95]

There are municipal financing authorities established in most provinces. These include:

- The Municipal Financing Authority in B.C.
- The Municipal Capital Borrowing Authority Board, N.B.
- Municipal Finance Corporation in N.S.
- The Newfoundland Municipal Financing Corporation
- The Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA)

In some cases, larger cities (like Winnipeg, Regina, Saskatoon, Edmonton, Calgary and Vancouver) issue their own debt rather than using the provincial agencies.

Municipal finance authorities issue bonds for municipal units as well as for schools, hospitals, utilities and other municipal bodies. Usually loans are directly guaranteed by the provincial governments and administration costs are picked up by the provincial government. (They can sometimes be covered from earnings on reserve funds, by participants or by a combination). The advantage to pooling local government debt issues is that borrowing costs are lowered substantially – reflecting the reduced cost of capital and also lower administration costs.

[95] Private Participation in Infrastructure in Developing Countries: Trends, Impacts and Policy Lessons, by Clive Harris, Washington, World Bank, 2003

An Ontario study looking at a hypothetical municipal finance borrowing corporation or authority (prior to the OMEIFA) concluded that it would lower costs significantly to municipalities compared to the actual cost of capital for municipal issues in Ontario. Especially for small municipal units, which are un-rated and borrow for a longer time period, this method appears to create significant savings.

b) Government Bonds

Governments ought to be issuing special bonds to fund infrastructure projects. Federal, provincial and municipal bonds are generally considered very low-risk because they are issued and guaranteed by the government. Lenders can be quite sure they will be repaid in full. However, the interest paid on government bonds is fixed for the term of the bond, so they are not the favourite of some speculators. Ironically, loans for public infrastructure may offer a lower rate of return for institutional investors than public-private partnerships, which must borrow at higher rates.

c) Real Return Bonds

A real return bond adjusts interest rates for inflation so that the return on investment will match any increases in prices over the life of the bond. Incredibly, although these should be an effective way of encouraging pension funds to invest in public infrastructure, they are not currently available in meaningful amounts, according to the CPP Investment Board. Governments in Canada are so fixated on paying down debt that they seldom use this alternative. The total amount of outstanding federal issues of real return bonds is about $14 billion (approximately 4.5% of the total supply of Government of Canada marketable bonds currently outstanding).

Some critics say the disadvantages of real return bonds are that they do not have fixed and known payouts, their tax status is complicated and they are illiquid, but the reality is that real return bonds in Canada have performed better than many realize. [96]

d) A Democratically Accountable and Dedicated Infrastructure Fund

The federal government could create a democratically accountable pool of funds to be directed at renewal of public infrastructure based on environmental principles, perhaps a Green Infrastructure Fund for pension funds. Such a fund would issue bonds, not just provide funding for green infrastructure (as the current government Green Funds are set up to do).

Governments could offer attractive interest rates and effective marketing could make them appealing to pension funds. Bonds issued by such a fund would generate other monies, which the federal government could then use to distribute to junior levels of government for investment in green infrastructure. Provincial governments could do the same. As economist Monica Townson has explained:

[96] Enid Slack, p. 21

"It could be viewed as a way of organizing the debt that is generated from public infrastructure investment and renewal, which may assist not only in attracting investment capital from public sector pension funds in particular but also in drawing attention to the positive commitments that actually are undertaken by governments that use it". [97]

e) Tax-Exempt Bonds

Another idea is to initiate tax-exempt bonds offering preferential tax treatment to bond issues which are directed at funding public infrastructure. Here is how they could work:

- assuming the interest rate on bonds is 5%, a $1000 bond yields $50 in interest;
- if a taxpayer's marginal tax rate is 40% (federal and provincial combined), the taxes normally due for that interest revenue would be $20, hence the after-tax interest would be $30;
- the effective interest rate is 3%;
- so, if a municipality could issue a tax-exempt bond, it could save two basis points by paying only 3% interest through providing the same after-tax return to the investor. [98]

For municipalities, issuing tax-exempt bonds means that they can borrow funds at a lower interest rate than regular bonds because investors are willing to receive a lower interest rate if it is not taxable.

In the U.S., tax-exempt bonds have been used by municipalities for a long time. Following September 11, 2001, New York State developed incentives to rebuild New York which included triple tax exempt bonds and taxable reconstruction bonds which could be purchased by public employee pension funds.

The new tax-exempt Ontario opportunity bonds went on sale in April 2003, but because the federal government did not agree to participate, bondholders only benefit from lower provincial taxes. The proceeds from these bonds are available for municipalities to borrow at reduced interest rates to finance local infrastructure. More than 50% of the interest costs on loans from OMEIFA to municipalities are expected to be subsidized by the provincial government. As well, the province committed more than $1 billion as an initial capital infusion to OMEIFA plus an additional $120 million for water and sewer projects through the Ontario Clean Water Agency.

The main drawback of tax-exempt bonds is that they are regressive because people with higher incomes benefit more than those with lower incomes from this tax incentive.

[97] Monica Townson, P. 38
[98] Enid Slack, P. 22

f) Subsidies from Senior Levels of Government

In 1993 the United States Commission to Promote Investment in America's Infrastructure recommended that the government actively overcome the pension barriers that existed. Here in Canada, we could go much further and set up some form of federal subsidy to encourage lower levels of government to issue debt instruments as a way of funding public infrastructure.[99]

g) Crown Corporations to Channel Public Investments in Infrastructure

Canada Mortgage and Housing Corporation (CMHC) is a crown corporation, wholly owned by the federal government, which issues bond and mortgage-backed securities and uses its borrowing proceeds to provide mortgage loan financing to social housing project sponsors. Its bond issues are fully guaranteed by the federal government and in fact, offer a higher yield than Government of Canada bonds. CMHC bonds are available to individuals and institutional investors. It administered loans to municipalities in previous years for projects related to municipal water and sewage systems, neighbourhood improvements and urban renewal.

An infrastructure corporation, structured as a wholly owned crown corporation similar to CMHC, could be created by the federal government. Because investment decisions of such an entity would be so crucial, it is important that the Board of Directors be accountable to Parliament.

h) Public Interest Companies (PICs)

PICs are a new form of organization being debated and discussed by UNISON, the largest public sector union in the U.K. They are a new concept for delivering public services, as they would exist solely to provide a special public benefit. PICs would be set up to raise finance on the money market but could not pay variable dividends to shareholders (unlike public limited companies). They would be independent from government, allowing them to be entrepreneurial and responsive to their users. However, there is no existing legal form of PICs yet. The Public Benefit Corporations (the standard charity structure in the U.S.) are used for public service delivery and they have many features of the PICs.

Canadian communities reflect the inequalities, which exist in the country as a whole. The widening gap between rich and poor is threatening our social fabric. At the same time, crumbling urban infrastructure and chronic under-funding of public services means a poorer quality of life for all communities. It is past time for a new deal that improves democratic control, protects our quality of life, supports quality public services and rebuilds our cities and communities.

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[99] Monica Townson, P. 39