

CUPE Local 21
Presentation to City of
Regina Executive Council
-Regarding the Waste
Water Treatment Plant

February 13, 2013

INTRODUCTION

CUPE Local 21 represents about 1300 permanent and casual employees of the City of Regina. Although our local has made presentations before council many times before, there are a number of new people on Council, so I will briefly outline the kind of services our members provide.

CUPE Local 21 members provide important front line services to the citizens of Regina in the areas of public works, parks and recreation and community services.

Our members maintain and repair sewer and water lines, collect garbage and upkeep the landfill site. We maintain and repair city streets, alleys, sidewalks and boulevards. We keep Regina's parks and green spaces beautiful. Local 21 members also operate the sewage treatment plant.

We are dedicated employees and proud of the services we provide. We know that our work helps make the city a good place to live, raise a family and enjoy a wide range of recreational services. We believe that public services make a difference to our citizen's quality of life and that they are more cost-effective than private services.

We are here today to speak about the importance of maintaining a publicly-owned and operated wastewater treatment plant.

The new Waste Water Treatment Plant

On Friday, February 8 our union and our members who work at the wastewater treatment plant were notified that the city plans to privatize the new wastewater treatment plant. We were given only a couple of hours notice before the privatization plan was announced publicly.

We are angered by the lack of consultation with our union – which may violate a Letter of Understanding on contracting-out that the city has signed with us – and we are shocked by the lack of public consultation on this issue. Entering into a 30-year contract with a private company to design, build, finance, operate and maintain an important utility for the residents of Regina is a serious decision that will bind future city councils and residents for three decades. This decision deserves extensive public input and debate.

There were many disturbing signs over the last year that the city wanted to privatize the new waste water treatment plant. Last March, council amended its purchasing policy bylaw to add public private partnerships as a possible way to deliver new infrastructure.

We were told not to worry and that it was just another “tool in the toolbox.”

Then in June, Council received a report from its administration claiming that the wastewater treatment plant was large and complex and could not be delivered through traditional financing.

At the June 11, 2012 City Council meeting, CUPE Local 21 urged the City of Regina not to apply to P3 Canada Fund to help finance a new wastewater treatment plant. We argued that, given the disastrous experiences other municipalities have had with P3 sewage treatment plants, the City of Regina would be better off without these federal funds, given the very large strings that came along with them.

Nonetheless, City Council voted unanimously to apply to the P3 Canada Fund. A number of councillors stated that if the City's application was approved, it wouldn't necessarily commit the city to go forward with the P3 model.

It appears that the decision to privatize the sewage treatment plant was pre-determined last March when the purchasing by-law was amended.

We have only had a couple of days to review the city's documents so we are unable to give a detailed response. We will, however, outline our key concerns with this proposal.

P3s cost more

There is a lot of evidence that public private partnerships cost more than traditional ways of funding public infrastructure.

On page nine of the document before you, the administration admits that the cost of financing is higher in the P3 model. In the second paragraph under "financial accountability" it states: "if the City were to pursue a DBFOM, the cost of financing the project would increase (private sector financing is more costly than public sector financing)."

This is because the public sector can borrow at much lower interest rates than the private sector. Even if the interest rate spread is minimal, the additional costs could add up to tens of millions of dollars for a capital project worth over \$200 million over a 30 year period, We ask that the city provide full disclosure of the difference in financing costs and how much more private financing will add to the costs of the project.

The City of Moncton is paying 10% yearly interest rates on its lease terms for its P3 water treatment plant. The city could have borrowed at a rate of 5.85%. Private financing in this case means that Moncton is paying an extra \$14.4 million in debt over 20 years on a \$23 million capital project.

There are also higher transaction costs with a P3 than under traditional public sector financing. A P3 agreement is more complex, requires greater legal documentation and public monitoring. P3 transaction costs are more than twice as high as conventional projects – 3.5% vs 1.7%. Yet these higher transaction costs have not been allocated to the P3 model in the proposal before you.

Risk Transfer

The only way Deloitte and the city administration have tried to make this privatization sound like a good deal, is by assigning millions of dollars to “risk transfer.” The Deloitte *Summary of Delivery Model Assessment* lists ten of the largest quantified project risks, but does not provide any evidence or material on how they determine a dollar value for these risks.

In the report from administration, the table on page 11 identifies \$265 million in financing costs and risk transfer. This is an extremely high amount – larger than the total capital cost of \$224.3 million for the construction of the treatment plant.

We would like to know the break down for financing costs and risk transfer out of this \$265 million, and how the risk transfer costs were determined.

The British Association of Chartered Certified Accountants reviewed the global experience of P3s and concluded that “value for money is difficult to establish convincingly, owing to the higher costs associated with private finance and the high premium payable for risk transfer.”

The public sector retains risk

Ultimately, governments are responsible for providing public services. If a P3 operator fails or backs out of a project because profits aren’t high enough, all the risks revert to the public sector.

In 2004, Hamilton City Council voted to take back the operation and maintenance of its water and wastewater treatment plants after the private US company failed to deliver. This P3 was marred by secrecy, staff cuts of 50% and the release of untreated sewage into the Hamilton Harbour. The private company refused to take responsibility and the local government paid for clean up costs. In this case, there was no risk transfer to the private sector.

A more recent example is the collapse of the privately operated gas plants in Ontario. The private sector was paying 14% in borrowing costs, and when they walked away from the project, the government of Ontario had to assume all the costs of the project which increased from \$60 million to \$200 million.

Completing projects on time

We have noted that the administration has reported that timelines to have the wastewater treatment plant built would be fastest under the CMAR-DB model. On page 10 of the report before you, the administration states “the strategic analysis concluded that CMAR-DB would likely be the quickest method of procurement to initiate.”

We believe that this is good reason for members of executive committee to consider the CMAR-DB model. Many P3 projects are not completed on time and often go over budget.

Innovation and Competition

On page 10 the administration claims that a P3 model would provide the most potential for innovation and that the “competitive procurement process of the P3 will further enhance opportunities for innovation.”

We do not believe that this is at all accurate. There are few companies who have the financial capacity to take on a project of this size, which limits true competition. It is likely that a large multinational company from the United States or Europe that has a monopoly on private water projects would bid on this project. Do residents of Regina want their wastewater plant controlled by a large private company like Veolia or US Filter?

Impact of a P3 on the workers

Naturally we are very concerned about the rights and working conditions of the staff of the wastewater treatment plant who are members of our local.

We were shocked to learn that the city plans to transfer the operation of the existing wastewater treatment plant to the private company and “change the employment relationship” within months of the City entering into a contract with the company and before the new plant is built.

There has not been proper consultation with our union on the privatization of their jobs. Our Letter of Understanding with you -- an agreement that was mutually agreed to by both parties -- is that the city must give proper notice before making any decision on contracting-out and offer to meet to discuss any concerns related to contracting out of city work. Our members are being handed over to a private employer without any consultation or opportunity to discuss alternatives.

The City claims that its contract will require the private company to honour all obligations under our collective agreement and protect the job security and benefits of the existing workers.

This is small comfort for the workers who will be in a smaller bargaining unit and will have to eventually renegotiate the terms of their collective agreement with a large and powerful multinational company. The private company could force concessions on the workers and push for wage rollbacks in order to increase their profits.

Need for full public debate and accountability

The report before executive committee states that the 30 year estimated life cycle cost of the new wastewater treatment plant is \$984.5 million.

Why are you pushing through a project worth almost \$1 billion over 30 years without full public consultation? The city must consult broadly with the residents of Regina and provide them with the exact costing of a privately financed and operated plant. Residents have been paying an additional 9% in utility costs per year since 2008 for this project. They need to know how this privatization proposal will impact them.

It is not sufficient to post dozens of documents on a city webpage a few days before executive committee deals with such a major decision.

We urge you to postpone your decision and hold public meetings on this issue immediately.

Contrary to the polling that the city conducted in December, we believe that the public overwhelmingly supports the public operation of water and wastewater. A recent poll conducted by Viewpoints Research shows that over 64 percent of Saskatchewan residents think it's better for a city to build and operate public infrastructure itself. Only 26 percent supported the P3 approach.

In 2011, a plan to build a water treatment plant in Abbotsford through a P3 was defeated in a referendum by 74 percent of residents. The mayor, who was a strong proponent of P3s, was also defeated in the election.

The Council of the Resort Municipality of Whistler also recently voted against using a P3 to upgrade its wastewater treatment plant. The public and council were concerned when they learned that the private company was going to realize cost savings in part by trucking sewage through ecologically-sensitive watersheds.

As previously noted, our union has made several presentations to Council outlining the numerous risks of public private partnerships or P3s. The experience in many other municipalities is that

P3s cost more, they do not transfer risk to the private sector, they do not deliver capital projects on time and on budget, and they undermine democratic oversight and accountability.

Water and wastewater is integral to our lives and the public overwhelmingly wants water services to be delivered publicly.

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