RESEARCH BRANCH

REPORT

P3 Schools

Public Interest vs Public Profit$

CUPE On the front line

Canadian Union of Public Employees

TEN REASONS WHY COMMUNITIES, NOT COMPANIES, SHOULD OWN AND OPERATE SCHOOLS

1. P3 schools cost more than publicly owned and operated schools.

2. P3 schools put profits ahead of the needs of students and communities.

3. Privately owned and operated schools threaten the wages and working conditions of school board employees.

4. Elected trustees will have no control over school construction and upkeep.

5. Public private partnerships in schools encourage governments to enter into risky long-term arrangements for short-term gain.

6. Privately owned and operated public schools foster the corporate takeover of education.

7. Schools are one of our most important public assets. They are a public investment that allows the community to determine how they are used.

8. Privately owned and operated school mean lower paid, less secure jobs for the community.

9. Corporate contracts and trade agreements might make it impossible to reverse the decision to privatize the ownership and operation of public schools.

10. Polls show that Canadians want government to run schools, not private companies.

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Introduction

Next time you drive by a school, ask yourself – who owns that building? Then ask yourself, who should own it - the community or a for-profit company?

Historically, schools were funded by individuals, churches, and by local fundraising. As Canadian and provincial economies grew, the responsibility to fund school construction and renovation shifted to public sources. Public sector financing methods were developed, such as property taxes, provincial capital grants, long-term debentures, bonds and capital reserves. Underlying this development was the recognition that because the whole community benefited from public education, the community should share the costs.

Schools were seen as places where children of all backgrounds could have the opportunity to improve their situation and learn to become good citizens. As well, publicly funded education aimed to meet the economic needs of the community, and employers profited from a well-educated workforce. However, a new trend in school financing has emerged in response to:

- cash-strapped schools boards trying to meet emerging needs in the face of unprecedented funding cuts by provincial governments;
- governments' reluctance to show debt on their books;
- the ideology that business can run anything better than the public sector.

P3 schools are a form of privatization. P3 arrangements are a way for governments to fool taxpayers into thinking they are saving money. In reality, what is happening is that publicly delivered services are being handed over to the private sector. This raises some fundamental questions:

- Should someone make profit from operating a public school?
- Should schools be located where they serve business interests or the community?
- Should someone make a profit from little kids who want to play after-school sports?

The P3 option has been tried and discarded in Nova Scotia. Yet, in B.C., with the BC government's penchant for privatization, it may still be considering P3s as a way to fund new schools. Our evidence and experience show P3 schools are a bad idea, and one that should be challenged if, and when it is raised.

P3 schools represent not just a change in funding, but an ideological shift that really should be examined in the context of experiences so far. CUPE's experience shows that P3 schools cost taxpayers more; create concerns about quality, accountability and control; open the door to conflicts of interest; impact negatively on the local economy; and they are risky. This Research Report will present the evidence for these claims, and offer alternatives to funding new school construction.

> The traditional public school method: private companies design and build the school, but public school boards own and operate the school. The province sets budgets, standards and arranges for financing.

What are P3 schools?

P3 schools are a way to finance new school construction by negotiating a contract with a private company. Traditionally, school boards have involved private companies in the design and building of schools. What's different with a P3 is that it allows the private company to own and operate schools. However, unlike school boards, private companies seek to make profit from owning and operating schools and these costs are passed on to taxpayers.

P3 schools are also called `lease-back' schools because a private corporation can build, own and sometimes operate a school, and then lease (or rent) the school back to the public school board. The lease can be from 20-35 years, after which time the public school board is supposed to buy the school back from the private company.

Building a school involves different stages: finance, design, build, own, operate. P3 partnerships can involve any or all of these stages. For example, a P3 school could be built as a DBOT, meaning that the private company Designs, Builds and Owns the school, and then Transfers ownership back to the board or provincial government at the end of the contract. Or it could be a BOOT, in which the private company Builds, Owns and Operates the school, before Transferring ownership back to the public sector at the end of the contract. *[Other models are also possible. See Appendix 5 for an overview of all the different kinds of P3 arrangements.]*

Like leasing a car, even after you've made all the payments, you still don't own the car. P3 leases mean that the public school board or province pays for the cost of the brand new school through leasing fees, but at the end of the lease, is still required to buy the school all over again.

If this trend continues, it will not be communities that determine (through accountable and elected political leaders) whether a needed school is built or needed renovations take place. Instead, profit potential, tax breaks and business plans will determine where schools exist, where they don't, and the state in which they're kept.

Why do P3s cost more?

1) It's More Expensive for Private Sector to Borrow Money

It is more expensive for the private sector to borrow money than it is for the public sector. The public sector can borrow money more cheaply because it has a better credit rating. Why? Because governments tend to be more stable and long lasting than private companies, and the lender is more likely to be paid back by a public institution than a private company. In a P3 school, the added cost of private sector financing is passed on to the tenant (government or school board) as part of the lease arrangements.

- The Evergreen Park School in Moncton, New Brunswick will cost nearly $900,000 more than a publicly financed and owned project at the end of its lease. The New Brunswick Auditor General's 1998 report cited expensive borrowing costs because of a high interest rate that cost about $400,000. The Auditor General of New Brunswick calculated that the capital costs were, in total, 11 per cent higher than if Evergreen Park had been a public school.

2) P3s Require More Administration

Another reason P3s cost more is that they require more services than traditional public sector financing methods. School boards must pay more, sometimes a lot more, in legal and accounting fees, and to bring together the legal, accounting, engineering and finance expertise needed to complete the project.

- Nova Scotia's education ministry acknowledged that it had to hire ten extra staff just to evaluate the responses it received to its Request for Proposals to build 31 new schools in the province.

The private company - often a consortium of several companies – must also assemble a skilled team to put together their proposal. These costs, which can be substantial, are recovered by factored them into the lease price.

3) Leasing is More Expensive

As consumers, we know that leasing is more expensive than paying for something up front. This is true of P3 schools, as well. Experience shows that in the end, taxpayers will pay more for schools acquired through a P3 arrangement.

- In 2000, Edmonton's Carma Developers proposed to build a P3 school in Terwillegar Towne and lease it to the government for 20 years. The lease would have been $390,000 annually for the first five years, rising to $490,000 for each of the final 15 years. The total cost to the government would have been $9.3 million. The cost to build the school originally was $5.3 million. The government rejected the deal *(Source: Thomson, 2003).*

- In the assessment of the P3 O'Connell Drive Elementary School Lease in Nova Scotia, the Auditor General found that the present value to the province for the use of the school for its full economic life would be $8.3 million compared to $8.0 million if the province owned the school and financed it themselves. So, the cost on this small project would be $300,000 greater under a P3 (*Source: Nova Scotia Office of the Auditor General, Special Report on the O'Connell Drive Elementary School Lease, July 23, 1998).*

- In the case of the P3 Evergreen Park School, the New Brunswick Auditor General found that the capital cost would have been approximately $775,000 less if the Province had done the work itself. Moreover, the Department of Finance over calculated the operational cost savings from the P3 by saying the savings would be in the order of $64,000. The Auditor General found the operational costs would be approximately the same under either option (*Source: New Brunswick Office of the Auditor General, 1998 Auditor General's Report*).

- In Leeland Station, Virginia, U.S.A., the Stafford School Board turned down a proposal for a P3 school since the private company's construction quote was too high at $15.1 million. The most recent public school built in the area cost approximately $12 million (*Source: Hannon, Free Lance Star, May 26, 2004).*

- School boards generally only pay GST on operating expenses. However, public school boards are required to pay GST on all P3 lease payments. This is an extra cost on top of the lease payment for the school board (*Source: Brown, 2003*).

- In addition to paying lease payments, school boards are on the hook for property taxes. In the case of the P3 Evergreen Park School, the Auditor General of New Brunswick ruled that the government was responsible for paying "any and all" property tax (*Source: 1998 Nova Scotia Auditor General*).

Taxpayers face another major cost at the end of a lease. Either a board has paid out the value of the property (or more) through lease payments and still has to buy the property at full market value, or the property reverts to the board just as major renovations and retrofits are needed. In either scenario, the public would be looking at a major outlay of money at the end of the lease. If the Board chooses not to purchase the school, it will have paid for the cost of construction and maintenance and have nothing to show for it.

4) Profit drives costs up

Private companies use P3s to make profit. Profit is often achieved by cutting construction costs, reducing staff and services, and introducing user fees. Here are some examples:

- The Calgary Board of Education had to pay more than $100,000 in yearly maintenance and upgrade costs for the P3 Hamptons primary school in northwest Calgary in 1999 due to low-quality, high maintenance mechanical systems. The Hamptons school was built below standard and had many construction problems only three years after being built (*Source: Myers, The Calgary Herald, Dec. 11, 2003).*

- The athletic field at Ridgecliffe Middle School, a Halifax-area P3 school, sat uncompleted and unusable after the school opened. There was even an abandoned refrigerator that sat dumped in the middle of the field. Former Nova Scotia Education Minister Jane Purves admitted, "there are an awful lot of loose ends and problems with the P3 process" (*Source: cupe.ca/www/ARP2002Halifax/4450*).

P3 investors make more profits when the P3 school is rented out to community groups after-school hours at high rents.

- In September 2001, P3 school owner Scotia Learning Centres increased most of its rental rates for gymnasiums and other facilities such as audiovisual rooms. For instance, costs for the Bedford minor basketball association more than doubled from \$20 an hour to \$50 an hour in 2001 – this would amount to an extra \$30,000 to fund gym space for practices and games. Recreation

Nova Scotia says that it is “very concerned” and wrote to the Nova Scotia provincial government warning that “accessibility to affordable recreation options will be greatly reduced as groups hike their program fees to offset rising facility costs, exacerbating an already bad situation for low income families” (*Source: cupe.ca/www.ARP2002Halifax/4450*).

- An arbitrator ruled in January 2003, that Scotia Learning could determine what happened to the building after school hours including the amount of user fees. The province of Nova Scotia lost the argument that community groups should not have to pay extra to rent schools because the “terms of the lease make the building available to the province 3,500 hours a year” and most schools only use half that. (*Source: Shaker, Our Schools/Our Selves, Spring, 2003.)*

Also, Scotia Learning is permitted to carry less liability insurance than school boards – which means that groups renting schools must buy extra insurance. (*Source: Shaker, 2003).*

P3s – What's in it for Government?

Buying a car or property is cheaper than renting or leasing. The same is true for schools. So why would governments choose a more costly alternative?

1) P3s allow governments to 'hide' debt

Governments are under increased public pressure to reduce debt. But governments and those who pressure governments to reduce debt often fail to remind the public that government debt is usually a reflection of a public asset. For example, if a government borrows, say 12 million dollars to build a new school, when the debt is paid off, the government owns the school – it has borrowed money, paid back the debt and interest, and has a school building to show for it.

But increasingly governments don't want to appear to be in debt, so they seek ways to acquire the facilities the public demands, without having debt appear on their books.

Governments separate their budgets into 'capital' and 'operating' accounts. Capital accounts reflect the costs of purchasing things like schools and skating rinks – this appears in the books as debt. Operating costs reflect what it costs to run services like schools and skating rinks.

Changes in accounting practices (introduced by The Canadian Institute of Chartered Accountants) now require governments to reflect the full cost of a capital asset – such as a school – in the year in which the asset is acquired. Unable to account for the full cost of new schools without driving up the appearance of debt, many governments are looking at P3 schemes as a way to try to keep the cost of new projects off their capital budget books and into their operating expenses.

- The Nova Scotia Auditor General, in the summer of 1998, found the province attempting to hide debt by claiming a P3 school as an operating expense. The Auditor General said that the school's lease should "be treated as a capital lease" because taxpayers still shoulder most of the risk.

- A former employee of the BC Ministry of Finance, who asked to remain anonymous because he still works for government, argues that BC's P3 experience was "a notable lack of success…In BC, the real reason behind P3s was to get debt off the books so it didn't show up on the public accounts" *(Source: Zwarun, Journal of Commerce, March 3, 2003).*

2) P3s can help governments get re-elected

It's popular these days for provincial politicians to offer tax cuts to voters, regardless of the impact on their ability to fund important programs such as education, health care, child care and social assistance. P3 schools suit the needs of government who are trying to fool voters into thinking money is being saved.

- The New Brunswick government argued that the Evergreen Park school, financed through Mutual Life Assurance Company of Canada, would save taxpayers $184,000 by signing a P3 contract. The province's Auditor General, however, suggested that the government had overestimated some costs to make the P3 seem more attractive than it actually was.

- Some provincial governments like B.C. and Alberta have sold schools to private companies in P3 deals so that they can increase their chances of being re-elected by cutting taxes, and appearing to be debt-free.

- In Nova Scotia, the Liberal government wanted to provide voters with new, state-of-the-art mega-schools and demonstrate to business interests that it could reduce the deficit by under-funding schools. Just days before the election in March 1998, the government signed a lease agreement with a developer to build an elementary school and invited proposals to build another 31 P3 schools. Financing these projects over the long term would cost taxpayers more.

3) P3s allow governments to 'reward' their friends

Some governments and school boards are interested in rewarding their corporate friends who support them in election campaigns. By opening public services to private companies, governments provide a ripe opportunity for relatively secure, long-term investments.

- In England, contracts valued at over 35.6 million pounds were awarded mainly to 20 large companies, eight of which either made a donation to the British Tory party or had a Tory MP as an advisor or company director *(Source: Privatization News, No. 39, September 1996)*.

- Here in Canada, Medical Diagnostic Services (MDS), a for-profit health lab corporation, is one of the largest corporate donors of Alberta's Premier Klein. The MDS venture capital fund was a key financial backer of the Calgary private hospital *(Source: cupe.ca/arp/09/11.asp).*

- In Hamilton, Ontario, the P3 water company Philip was a major contributor to candidates in municipal elections. Philip ranked 10th in total contributions to candidates in 1994, shortly before they received the P3 contract for Hamilton water treatment *(Source: Loxley, Salim J. "An Analysis of a Public-Private Sector Partnership: The Hamilton-Wentworth-Philips Utilities Management Corporation P3", September 1999:18).*

- For several years, the Nova Scotia Auditor General criticized the government for not conducting a cost-benefit comparison of P3 financing before stampeding ahead with new deals *(see Appendix 2).*

4) P3s support the government's agenda

Government policies reflect their ideologies.

- Some governments ideologically favour smaller government. They believe that if the private sector is willing to own and operate schools, then they should. However, a Vector poll in July 2003 found that 71% of the Canadians who answered want government to run schools, not private companies.

- Politicians and corporate supporters of P3s argue that taxes are already too high and the public will certainly not accept higher taxes. However, the polls show that Canadians don't mind paying taxes for cherished public services, like education.

- Government announcements of P3 schools usually state, "There is no choice." They claim there is no public money to build new schools. What they don't say is that it is their ideological choice not to use the traditional ways of funding infrastructure because they don't like the appearance of debt on their books. Ironically, taxpayers still pay for these schools through lease payments, and indeed, actually pay more in the long run than if the schools were built in the public sector.

P3s - What's in it for School Boards?

School boards face the same pressure governments do to balance their books and avoid debt. After years of funding cuts, selling off schools to private companies is a very tempting cash windfall for some boards of education.

- A failed proposal by a private developer to buy 38 existing schools, build four new ones and lease all 42 back to the Metropolitan Toronto Separate School Board would have been worth millions of dollars to the Board.
- The Ontario funding formula forces school boards to close existing schools in order to qualify for funding for new schools. This creates huge pressures as Boards try to balance needs over jurisdictions that are sometimes as large as some provinces!

P3s - What's in it for Private Companies?

P3s allow private companies access to long term, relatively secure investments and enable them to make profit from providing public services.

1) Profit Profit Profit

There is nothing inherently wrong with profit except when it comes at the expense of taxpayers, and quality education services for our children. Private companies trying to make a profit in the education system do things more cheaply by cutting corners and by charging more for services.

- In Alberta, shoddy work completed at the P3 Hamptons Primary School in Calgary included unsafe roof damage that can cause accidents. Residential downspouts were used instead of industrial ones and there are unsafe steep slopes near the school (*Source: Robertson, CCPA, 2002*).

To make a profit, private owners of a school charge more in lease fees than they pay to buy, build and operate the school.

- After reviewing the P3 contract for the Evergreen Park School in Moncton, the New Brunswick Auditor General found that at the end of the lease the company will have recovered 88.9% of their investment through lease payments plus own both the land and the building.

- In a recent arbitrator's ruling in Nova Scotia, the P3 company Scotia Learning successfully argued that it was entitled to a 35 percent share of the proceeds from cafeteria food and vending machine sales (35 percent of $50,000 a year). The ruling also awarded Scotia Learning a share of the students' sale of chocolate bars! (*Source: cupe.ca/www/News/1525*).

Operating the school creates other opportunities for generating profits. Cutting corners on preventive maintenance and routine cleaning, reducing staff salaries and benefits, and charging user fees for community use of the school are all ways that the P3 school landlords cut costs and increase profits accordingly.

And what happens to the profits generated by corporations investing in public education? We don't know. Sometimes profit goes towards increasing individual wealth. Sometimes profit goes to expanding the company's growth. What we do know is that we have seldom seen profit reinvested in schools to improve quality of services and programs for children.

2) Federal Tax Breaks

One of the financial benefits available to a private company that builds and owns a school is a tax break called the Capital Cost Allowance. This federal tax break allows the company to write off up to 100% of the cost of the facility. For taxpayers, this is a hidden cost of P3 schools, since it means the taxpayer pays twice – through lease-payments and through increased federal taxes – while the company gets a big tax break. [*See Appendix 1 for more information*.]

3) Children as Consumers

Some supporters of public education believe that corporations have a further long-term interest in having a presence in schools.

Students are a captive audience while at school, and corporations are willing to pay well for in-school advertisements, promotional materials, partnerships and sponsorships, as part of their "cradle to grave" marketing schemes. Marketing research proves the importance of brand recognition and developing life long consumers at an early age.

- "I find it impossible to believe that private enterprise is solely attracted by lease arrangements that represent peanuts compared with their other profit ventures. I suspect the main attraction is the access to children and the opportunity to influence them as consumers." (*Source: Acadia University Professor David MacKinnon, Halifax Sunday Herald, May 3, 1998*)

P3 Schools Create Problems

As well as costing more to build and operate, experience shows that P3s create other problems too:

1) Quality of Service declines

- An independent pilot project in the Edmonton Public School Board compared the quality of work done by in-house custodial staff (CUPE Local 474 members) to the work done by contractors. The project found that schools were cleaner, safer and more secure when staffed by in-house staff. All the work was brought back in-house (*Source: Custodial Pilot Project, CUPE Local 474 and Edmonton Public School Board, 1997*).

- In July 2004, CUPE 474 had to file a complaint with Alberta Environment and file a grievance when the school board hired a private company to do carpet cleaning. The private company dumped toxic carpet cleaning chemicals on the front lawn and sidewalk of the school. The company also charged the school twice the amount that it would have cost if the school used their in-house carpet-cleaning unit.

> In Glasgow, Scotland where there are 29 P3 schools, constructed and managed by Amey and IT firm Mitel worth about $400 million, many services have been lost, including six swimming pools and smaller and fewer classrooms (Mehra, Natalie. "First hospitals…next schools: Why education workers should look more closely at P3s" *(Source: Education Forum, Spring, 2003).*

2) Accountability suffers

When ownership and operation of schools is handed over to private companies the question of who is responsible for what, can become confused. In a given school, the province could be responsible for curriculum, the board for hiring teachers, the parent council for extracurricular programs, and a multinational company based in the U.S. for the building itself and custodial/maintenance and administrative services. The result is that vague lines of accountability and a lot of "passing of the buck" are common in P3 schools.

- A visitor to the P3 Sherwood Park school in Sydney, N.S. discovered that the principal did not know who was responsible for what – even who was responsible for lights and heat!

- Who should provide garbage cans was debated at the P3 Evergreen

Park School in Moncton, N.B. A complicated system was worked out where the private company provided garbage cans in the halls, and the school district provided garbage cans in the classroom.

- At the P3 Pictou Elementary school in the Chignecto-Central Regional School Board in Nova Scotia, Scotia Learning has still not fixed the school's soccer field in four years. Grass won't grow properly on the field, which is rocky and uneven (*Source: The Evening News, New Glasgow, "Field out for the count, again" August 31, 2004).*

- In January 2001, students and staff at the P3 O'Connell drive Elementary School in Porter's Lake, Nova Scotia, were still unable to drink the water a year after arsenic was found in the school's well water. A water filtration system had been installed, but the school board wanted to know where the legal responsibility for supplying clean water was – with the company or the province – before filtering the water. *(Source: Robertson, CCPA, 2002).*

- In an Inverness County community in Cape Breton (Terre Noire), parents are telling the private consortium, Ashford Investments that owns the P3 school, to fix the water quality problems. Water problems have plagued the school since it opened in October 2000 so students have been drinking bottled water. The P3 school (Cape Breton Highlands Education Centre and Academy) is both a Grade Primary to 8 school and a high school under one roof *(Source: King, Nancy "Parents give developer until April to fix water" Cape Breton Post, 2003 and Shaker, 2003)*.

- School boards are often responsible for technology maintenance and upgrades, including technology staff and the training of teachers *(Source: Robertson, 2002).* However, the Nova Scotia arbitrator decided that Scotia (Learning), a P3 company, must pay for the cost of fixing computers (maintenance) and providing technicians. The company was not deemed responsible for providing computers for new classrooms added to P3 schools *(Source: Nova Scotia Arbitration in Shaker, 2003).*

- At P3 Jubilee Elementary school in the Cape Breton Victoria Regional School Board in Sydney Mines, there are serious flooding problems and problems with the fencing. The problems have been considerable since the school opened in the spring of 2000, says local school board member, Wes Stubbert. The school was built by P3 company Ashord Investments *(Cape Breton Post "School board member raises concerns" August 19, 2004).*

- Strait Regional School Board CEO Ken Meech, in Cape Breton, argues that the P3 Ashford Investments company should continue to pay the $75,000 in annual insurance premiums that are needed. There is a dispute over who should pay these premiums (*Source: Cape*

Breton Post "Strait board, consortium remain at odds over who will pay insurance premiums" November 15, 2003).

- Ashford Investments, one of the three private companies that built P3 schools in Nova Scotia, is trying to takeover the cleaning and maintenance part of the P3 agreement that involves CUPE jobs. They want to privatize the cleaning so they can generate profits from the operation of the school as well. Members of CUPE 955 clean and maintain Ashford's schools through a 20-year agreement between the Strait Regional School Board and Ashford. Ashford wants to renege on the agreement, and both the school board and the union are fighting to keep the cleaning agreement in place.

  CUPE 3890, who work at the P3 schools in Chignecto-Central Regional School Board in Nova Scotia are also affected. CUPE 955 is proposing to resolve the problem by having current employees maintained as Board employees and to have Ashford pay a fee for service to the school board for the work being done in Ashford-owned buildings.

> Even those in the CD Howe Institute argue that the Britain P3 school experience "has not always been encouraging because speed of delivery in the early projects brought sacrifices to construction quality" *(Source: Poschmann, Finn "Private Means to Public Ends: The Future of P3s". CD Howe Institute, No. 183, June 2003).*

3) Openness is replaced with more secrecy

Normally school board budgeting processes are open and available to public scrutiny. However, that changes with P3 schools.

By law, the terms of contracts with private companies are often confidential, to protect the 'business interests' of the corporation. With P3 schools, rules of commercial confidentiality come into play, since competition can be affected. Even though public funding is being used, governments and school boards have to sign confidentiality agreements.

- The private corporation Greenarm, for the P3 Evergreen Park School in Moncton, has refused to disclose the revenues from its Evergreen Park P3 school.

- Agreements signed with Ashford prohibit the release of information without the company's approval. Only lease information required by law can be made available on a regular basis.

> In England, privatization remains unevaluated 12 years after its introduction. The Public Accounts Committee's 2003 Report outlines the complex and secretive nature of privatization, which shields both private companies and the government from proper evaluation *(unison.org.uk/acrobat/B1428.pdf, July 2004).*

4) Potential for Conflict of Interest Increases

Private companies have influenced decisions to build a new P3 school even when enough public schools exist.

- In Pictou County, N.S., two large P3 schools were built to replace six community schools, despite public protests that the decision making process was flawed and undemocratic. The board allowed debate only on its final proposal to build two mega-schools at a cost of $40 million. Parents complained that individual schools were not reviewed and that the case for consolidation had not been made.

Who decides where a school is located? Traditionally school location takes into account community needs. However, when developers get to choose site location, their priorities are different.

- Community outrage and a concerted CUPE campaign forced the Nova Scotia Conservative government to acknowledge the potential for serious conflict of interest that existed in the school site selection process. Parents occupied an area school and the office of Conservative leader John Hamm for several weeks in opposition to P3 schools. Subsequently, Nova Scotia's deputy minister of education announced that school boards and community representatives would decide where a new school should be built, eliminating private developers from the equation.

> P3 Schools: A Public Private Partnership or a Lease-Back is no "partnership" – private companies are more like "parasites" *(Robertson, Heather-jane. "Why P3 Schools are D4 Schools or How Private-Public-Partnerships Lead to Disillusionment, Dirty Dealings and Debt". CCPA British Columbia, May 29, 2002.)*

5) Cost overruns suck up public resources

- In Nova Scotia, P3 school schemes were abandoned in June 2000, after a newly-elected Conservative government announced that the cost of 38 new P3 schools grew by another $32 million beyond the original high price, due to further changes after contracts were signed. 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. *(Source: Government of Nova Scotia, Department of Education, New Plan for School Construction, News Release, June 21, 2000).*

> Commonwealth representatives of civil society and people's organizations through the Commonwealth Foundation argue, "private sector participation in essential service delivery…can exacerbate budgetary problems…" *(Source: Civil Society Statement on the Provision of Essential Services Prepared for the Commonwealth Finance Ministers Meeting, 16-18 September 2003. Commonwealth Foundation, Marlborough House, Pall Mall, London, U.K.*)

6) Unionized workers lose and the economy suffers

Corporations are involved in P3 schools to make a profit. They will always look for ways to cut costs in order to ensure the highest possible return on their investment. Cutting costs can take the form of lay-offs, downward pressure on the wages and benefits of CUPE members and other school workers, loss of bargaining unit positions, unmanageable workloads, employees being moved from job to job or place to place, "sped up" work methods, and weakened occupational health and safety standards.

- In New Brunswick, Greenarm hired four to five people to do day cleaning and operational tasks, at low wages at their P3 school. Consequently, there are now very high turnover rates. Low wages at the Greenarm P3 Evergreen Park school puts downward pressure on the wages and working conditions of CUPE members in all of New Brunswick.

- CUPE 3890 members, who work at the P3 schools in Chignecto-Central Regional School Board in Nova Scotia are currently faced with layoffs or wage cuts.

When unionized workers are replaced with contract workers, accountability and security suffers. Learning is naturally enhanced when children feel safe at school. Contract jobs are lower paid, and there is often a high turnover, which means that contractors can't recognize when strangers enter the schools grounds. Not having full time custodians at every school increases the risk that unauthorized strangers may threaten students, staff or property.

- A U.S. study called "Threat Assessment in Schools" argues that every student should be "personally known" by at least one staff member *(Source: U.S. Dept. of Education and the Secret Service, http://www.ed.gov).*

Collective bargaining is affected when workers are not able to negotiate with who is holding the purse strings. Trying to negotiate with a board of education that does not own or operate the building they work in, reduces the scope of issues that can be negotiated, and blurs the lines of accountability between the company and the board. It can lead to labour disruptions and strikes.

Some CUPE locals have signed collective agreements that protect their work but the problem is that P3 contracts are very long – usually 20-30 years and collective agreements are only 2-4 years long. [*For information on collective agreement language see Appendix 3*.]

When unionized jobs are lost, the economy suffers. When "spending power" is reduced, local businesses and the whole community feels the impact. Stores close and businesses go bankrupt when workers don't have money to spend in the community.

Layoffs mean higher Employment Insurance costs and less income tax being paid to the federal government. Municipalities have to deal with spiraling social assistance costs and lower property tax revenues as people lose homes or call off plans to renovate or build new homes. The taxpayer is hit by added costs such as increasing property taxes, and new and larger user fees to make up the difference in revenue for the government.

> The English think-tank "Catalyst" studied how P3 projects try to save money. They found that the only way private companies save money is by severely reducing workers' pay, benefits and working conditions (*Source: Sachdev, Sanjiv "Paying the cost? P3s and the Public Service Workforce" Catalyst, London, England, June 2004*)

7) Risk is hard to predict

Supporters of P3s claim that one of the benefits is that the private corporation shares the risks involved with the project. What they don't always tell you is that the corporation will want a lease that minimizes their risk. In Nova Scotia, New Brunswick and PEI, P3 school deals have failed and faltered over the question of who will take on the financial risk.

- The leases signed by the Nova Scotia government contain provisions that many would consider risky to the public. One is the highpriced purchase option at the end of the leases – about $4 million each. Second, the leases leave the province on the hook for all structural repairs and replacement of furniture.

- The Nova Scotia Auditor General found that some risk was transferred to the private sector but "the majority of the risk remains with the Province". Risks associated with capital improvements, operating costs and technology upgrades all remained with the Province. The Auditor General noted that the major risk transferred to the private sector is in residual value and that risk is minimized because the private sector will have recovered 88.9% of the investment in the property at the end of the lease term (*Source: Nova Scotia Office of the Auditor General, Auditor General's Reports, 1997, 1998 and 1999*).

- "Developers – natural partners for P3s – are often the lead risk takers, well equipped to manage design and construction risk. They do have the expertise in gauging the marketplace and determining the levels of risk associated with their selected markets – residential, industrial, office lease etc. However, these instincts about risk don't necessarily translate well to projecting revenues for schools, convention centres, hospitals, and other 'single use' public facilities." (*Source: John Hiebert, PQS, GSC, President of TASK Construction Management in Burnaby, is a former President of the Canadian Institute of Quantity Surveyors.)*

- P3s also carry the risk that corporate ownership might well change during the life of the contract, raising concerns about confidentiality of student and staff records. Phil Browne, a non-profit Ottawa-based developer argues: "A P3 style non-profit housing project in Lowertown (Ottawa) over a decade ago illustrated this when the private sector partner, a shell corporation with no other assets, went bankrupt, leaving a local non-profit housing provider and the CMHC Mortgage Insurance Fund holding the bag".

- P3 schools are often huge mega-schools, which creates its own kind of risk. Studies show that larger schools can lead to more student violence. An American education publication argues that smaller schools mean less student violence as students have a "sense of belonging instead of alienation" *(Source: Mitchell, Stacy. "Jack and the Giant School", The New Rules, Vol.2, No. 1, Summer 2000)*. Smaller schools with adequate staffing help prevent safety problems.

- For-profit companies themselves can be risky. A recent series of high-profile company failures in Scotland has meant P3 schools are unfinished and sub-contractors remain unpaid (*Source: unison.org.uk/education/higher/news_view.asp?did=1270*).

- In England, Ballast PLC ceased trading in October 2003 and abandoned the London P3 Tower Hamlets schools project leaving schools incomplete (*Source: UNISON, "PFI: Against the public interest-Why a `license to print money' can also be a recipe for disaster" July 2004*).

> Fr. Michael Ryan from Sacred Heart Parish in Parkhill, Ontario in a recent letter to a CUPE member says that contracting out means that for many occupations "salaries which were barely adequate to stay above the poverty line, even with union contracts, are now well below that level" and that privatization is "simply a modern way of reducing human labour to a "commodity"" *(2004)*.

8) Commercialism creeps in

Experience shows that commercialism is likely to increase in P3 schools. Commercialism includes exclusive agreements (like vending machines that only sell Coke products), sponsorship of programs and activities, incentive programs, electronic marketing, for-profit management of schools, sponsored educational materials and appropriation of space.

- In the U.S. as privatization increased between 1980 and 1999, commercial activity in schools increased 303%! (*Source: Kennedy, American School and University, February 1, 2000)*

- "ZapMe!" provides funding for school computer labs in the U.S. As part of the package, they include software that allows them to track the sites each student visits by age, sex and zip code. This information can be used to target marketing campaigns aimed at students. Ralph Nadar calls ZapMe! "a corporate predator that spies on children" (*Source: Kennedy 2000)*

- In the U.S., many companies use the schools they own to set up profitable operations like McDonald's, Tim Horton's, for-profit daycare and private education companies.

- In Ontario, electronic equipment is being supplied through companies such as the Youth News Network (YNN), which gets high schools to sign contracts for free equipment in exchange for mandatory viewing of its "news" programming and commercials. Six Canadian provinces and territories banned YNN, but the Ontario government refused to do so.

9) Trade Implications are uncertain

Free trade negotiations have implications for the privatization of education services in Canada.

- New Zealand, Australia and the United States have proposed extending the General Agreement on Trade and Services (GATS) to include coverage of education services. Canada is seeking to increase access to international markets for Canadian education and training services. However, it is unclear how long we can both increase our education exports without sacrificing the integrity of our public education system by formally including it in GATS. GATS may make it impossible for governments to regulate education, and may result in rules that make education totally opened up to the private marketplace. "Increased commercialization and privatization [of education] leads to greater GATS coverage, both directly and indirectly" (*Source: Grieshaber-Otto, Jim and Matthew Sanger* *Perilous Lessons: The Impact of the WTO Services Agreement (GATS) on Canada's Public Education System*, *CCPA, 2002, p. 84*).

> "Obviously, from a development point of view we like to have schools built in our communities. We're looking at ways to gain a competitive advantage, and schools are just one example of that. Developers stand to gain by selling more houses to people eager to have a community school."(*Allan Norris,President of Carma Developers, Ltd., Calgary Herald, March 13, 1996*)

10) Maintenance is deferred

Deferred maintenance is a problem throughout Canada's public education system, but it is particularly troublesome in Nova Scotia where there are many P3 schools. There is pressure to cut corners to save money and to defer maintenance, especially if the company will not own the school at the end of the lease. In 2002, the Auditor General of Nova Scotia declared that there is a "serious deferred maintenance problem" estimated at $500 million.

Maintenance concerns were also a part of the reason why Auguston Traditional Elementary School near Abbotsford, BC was abandoned as a P3 and brought back into the public system.

Deferred maintenance is more than a problem for protecting the public's investment in public buildings, it affects learning. Studies have shown that children's learning is strongly affected by their physical environment. For example, a study done by the Ontario Association of School Business Officials (OASBO) in 1993, concluded that the condition of physical facilities has a direct impact on learning. Students are likely to judge the importance or relevance of their educational experience by how well facilities are maintained — deteriorating or dirty facilities send a strong message that what is going on here is not very important. Researchers maintain that there is a strong correlation between building conditions and student achievement.

11) The Community loses control of where schools are located

A significant negative impact on the community is the loss of control over where schools are built. Once governments leave the decision up to private contractors, corporate goals (especially corporate profit) and not community goals dictate the location of schools. Private companies prefer new schools to be built or refurbished where the school can suit their needs.

A former Edmonton public school trustee Larry Phillips explains that putting schools near stores is good for a store since, he says, it “is a great way for a (grocery) store to get around the zoning and get a prime location” *(Source: cupe.ca/www/arp2002).*

A real-estate partnership between a grocery store and a school in west Edmonton was cancelled after it was criticized as compromising the school’s academic mandate. Sobeys West (a grocery store company) would have contributed $3.2 million towards construction of the P3 school in order to have their grocery store (IGA) next to the school *(Source: Grieshaber-Otto, Jim and Matthew Sanger, 2002: 57).*

In Abbotsford, BC, a 2001 study of the potential P3 Auguston Traditional Elementary School conducted for the conservative Society for the Advancement of Excellence in Education (SAEE) argued that P3 schools help “accelerate real estate sales in the development” (*Source: Editor, Edmonton Journal, February 2, 2003*). The developer, Beautiworld, had been lobbying the BC government to put a school in their new development. Finally, Beautiworld put in $500,000 towards the construction costs of the school. In the end, however, only 20 Auguston children enrolled in the school, while more than 200 came from other schools or neighbouring districts. If the school location had been based on student population, instead of the interests of a private company, the location would have been different and more appropriate for the majority of students. Even the Alberta School Boards Association is concerned that P3 schools will mean that school boards will lose control where schools are built (*Source: Daily Commercial News, January 24, 2003*).

- In Nova Scotia, community schools closed and districts were amalgamated to form regional P3 mega-schools, leaving rural residents to face long bus rides and the demolition of structurally sound buildings that served as community hub (*Source: cupe.ca/www/arp2000*). Some parents now work in towns more than 100km from the school their children attend. Some commutes to school are an hour long in the Strait district school board.

Traditionally, schools have been a focal point for the community. Schools are public places that are used as voting stations, disaster shelters, blood donor clinics, and meeting places for groups like Scouts and Girl Guides. Also, when the school is not in the community it makes it hard for parents to attend school events like parent teacher meetings, and their children's concerts.

> A drop in share value for the U.S. education company Edison, meant that this company moved its offices into one of its private schools, reducing classroom space significantly *(Source: Mehra, 2003).*

12) Communities lose access to schools after hours

P3 schools usually mean loss of after-school use for students and the community.

- In the P3 Horton High School lease (Nova Scotia), the school board's use of the school is capped at 3,000 hours annually.

- For the P3 Evergreen Park school in Moncton, New Brunswick, the technology retraining company, an "Evergreen" partner, has authority over the school from 6pm to 7am six nights a week. The public has to pay for wear and tear on the building and equipment maintenance even when it is only allowed to use the school one night a week.

13) Community values that sustain fairness can be eroded

When the public education system was introduced, it was viewed as a way to equalize opportunities for all children in the community. However, private ownership of public schools can undermine the equality and fairness that publicly funded services value and help create more of a two-tier education system.

- In Cape Breton, a P3 school was built in a mainly white community. The Horton school has an orchard, two soccer fields, air conditioning, and two sets of shades for the windows. The community may have preferred one soccer field and more textbooks but private control takes those kinds of decisions away from communities. In contrast the public school in the predominantly black community in Kentville, had to have a bake sale to buy drapes for the bare windows (*Source: Robertson, 2002*).

- The private builder of a school in Annapolis Valley, N.S. asked the municipality for $200,000 for a soccer field. Yet, in the Education Minister's riding, the private builder included 2 soccer fields without requesting funds from the municipality. An MLA comments, "If municipal taxpayers must now pay to bring schools up to an acceptable standards, there will simply be no equality of opportunity across the province." *(Source: News Release – P3 Process: Private Partners Want More Public Money" March, 1999)*

14) There's no going back!

The decision to hand schools over to the private sector cannot easily be reversed if things go wrong.

- The terms of P3 arrangements can last as long as 35 years. How can governments and school boards commit to a contract that extends well beyond their mandate? Signing long-term lease agreements ties students, workers and parents to the fortunes of the corporate owners for decades.

- It can be very difficult and costly for a school board to prove that a company has not met the terms of its contract. And the longer the school is in the hands of the company, the more dependent the board will be on the staff, equipment and experience of the company.

- Experience shows that when a school board contracts out cleaning services or bussing, it gives up its equipment, and when it wants to bring the work back in-house, it can require a large capital outlay that most boards are unwilling or unable to achieve.

- As well, provincial, federal and international negotiations on trade agreements such as the WTO Services Agreement (GATS), Free Trade Area of the Americas (FTAA) and the North American Free Trade Agreement (NAFTA) are giving corporations even more power to privatize public services. It is likely that once a service has been privatized, it will not be possible to bring it back in-house (*Source: Sinclair, Scott GATS: How the World Trade Organization's New Services' Negotiations Threaten Democracy, CCPA, 2001*).

Once public assets are sold, they can't be retrieved. Sometimes governments sell land in a P3 arrangement in order to raise quick capital. Land is an asset that has long-term value. Once sold, the public loses the asset and the cash become a short-term solution to long term funding problems.

- In some cases, governments sell land at less than market value as part of a P3 arrangement. The New Brunswick government sold the Greenarm Corporation a parcel of land for $275,000 for the P3 Evergreen Park School in Moncton. The New Brunswick Auditor General's 1998 report cited that the province has to pay another $421,000 over the 25-year deal to lease back the land it sold the Greenarm Corporation

"Another way to look at this transaction is to question the sale of the land in the first place. Had the Province chosen to construct the Evergreen School on its own, it would not have had to pay for the land. In leasing the land back at a rate of 9.065%, the Province is actually paying a nominal figure of $421, 015,38 in interest payments over 25 years."(*Source: Salim J. Loxley, "An Analysis of a Public-Private Sector-Partnership: The Evergreen Park School, Moncton, N.B."*)

What are the alternatives?

By promoting P3s, many school boards and provincial governments have made an ideological choice about funding new schools and renovations.

But there are viable alternatives.

CUPE challenges the claim that governments should not be borrowing, and have no access to capital. In fact, the pension funds of CUPE members represent hundreds of billions of dollars of investment capital, some of which could be harnessed for investment in critical infrastructure.

While in fact, workers' pension plans have been used to finance P3s which we oppose (most notably Borealis a subsidiary corporation of OMERS - Ontario Municipal Employees Retirement System). Workers' pension funds can and have played a positive, passive role in infrastructure renewal when they have been used to support public investment such as purchasing government bonds.

"Pooling" borrowing power in institutions such as the BC Municipal Finance Authority allows local governments, both big and small, access to loans at cheaper rates. The Ontario government uses pooling to finance school construction through the Ontario School Board Financing Corporation, through which private investors underwrite the debt. The school boards funding formula facilitates this by guaranteeing funding for capital construction over 20 years for boards that qualify.

In the past, school boards have issued bonds to cover the cost of renovations and construction.) Real Return Bonds are bonds with returns that are linked to future rates of inflation. While governments have been reluctant to offer them, they are an excellent mechanism for channeling money specifically to infrastructure projects, which are inherently long-term. Some existing bonds are attached to P3 projects (such as Ontario's Highway 407 and the PEI Confederation Bridge), but this feature could be reversed, with a requirement added that the proceeds of such bonds can only be used to finance infrastructure that will remain public.

CUPE opposes P3s because we believe proven methods of public investment work better. We believe that:

- governments should seek revenues through the most progressive and fairest mechanisms possible;
- public borrowing and debt can be easily and equitably sustained by spreading the cost of capital expenditure over a longer period of time;
- workers' pension funds are an untapped source of patient, long-term loan capital.

The fact that public sector finance and management has been repeatedly shown to be more efficient, cost effective and accountable than privately run enterprises, is a strong argument for keeping vital public infrastructure in public hands. The existing “deficit” – resulting from years of underinvestment – must not be used as an excuse for selling off our collectively owned assets to the highest corporate bidder. To do so is reckless, inefficient, and undemocratic.

Fighting back

You can help stop P3 schools in your community. There are examples in Canada, such as in Nova Scotia, and Saskatchewan where CUPE and the community have stopped P3 schools.

- Parents occupied an area school and the office of Conservative leader John Hamm for several weeks in opposition to P3 schools. Subsequently, Nova Scotia’s deputy minister of education announced that school boards and community representatives would decide where a new school should be built, eliminating private developers from the equation.
- The Saskatoon school boards were considering a P3 school. They were met with a quick and coordinated response from support staff and caretakers at both the public and Catholic boards. The four CUPE locals organized an unprecedented joint meeting of the two boards to stop the P3 plans from taking shape.

While the city needs new school facilities, CUPE members showed that P3 schools were no answer to an infrastructure funding shortage. There was no shortage of evidence – lease-back school problems in Nova Scotia and New Brunswick showed the financial failings of P3 schools, as well as the impact on students and the community. The April 2001 presentation made its mark and the P3 school plans were cancelled.

See the Actions! Section for more ideas for fightback.

Conclusion

CUPE members across the country are concerned about the movement towards private companies owning and operating public schools. The P3 model is not only a threat to CUPE school board jobs and the wages and working conditions of members in the school board sector; it is a threat to our public education system as schools, a valuable public asset, wind up in private hands.

P3 schools pit public interest against private profit. It is up to parents, politicians and taxpayers to ensure the public debate about P3 schools is informed by the experiences to date, because the choices made today will affect communities for many years to come.

Actions!

Experience shows that P3 schools can be stopped dead in their tracks with fast action and effective organization. Here are some ideas about what you can do to fight the introduction of P3 schools:

Some of the key things that locals and community groups can do include:

- Inform members of the problems with P3 schools [see Resources section of this document].
- Establish a committee to fight privatization of education and contracting out of jobs.
- Develop a plan to find answers on P3 schools [see 'Questions' section of this document].
- Keep your ear to the ground and monitor the decisions of school boards and provincial ministries of education.
- Conduct lunchtime "study sessions" on P3 schools.
- Recruit workplace communicators who will pass on information to members about P3 schools and gather responses.
- Develop a flyer to distribute at shopping centres that highlights the risk of P3 schools in your community.
- Reach out to teachers and other education workers as well as parents and trustees to raise awareness and bring together opposition to P3 schools.
- Ask questions at a school board meeting about whether P3 schools are being considered for your community.
- Develop a political action agenda, find out how political parties view P3 schools.

- Organize workplace actions to involve members and send a message to school boards and provincial governments to demonstrate opposition to P3 schools.

- Host an event in the community to expose the risks of P3 schools.

- Share information – and build alliances – with other CUPE locals and potential community allies.

Questions to ask about P3 Schools

On Quality of Education

- Why should public schools be run for profit?
- What guarantees are there that the quality or level of services will not be reduced?
- Will the school become a regional “mega” school, replacing community schools?
- Will the school design treat students’ needs as the highest priority?
- Will the corporation expose students to increased corporate advertising or influence?
- What would happen to the school if the private contractor declared bankruptcy or if it were merged or sold?
- Will there be a decrease in school staff?

On the Impact on Communities

- How will decisions about the location of the school be made?
- Will community access to the school be limited or altered?
- Will after-hours access of school facilities be reduced?
- Will there be increased fees for after hours use of school facilities?
- Have the potential economic costs to the community through job loss, closure of facilities or purchase of materials and supplies from outside the community been considered?

On the Impact on Workers

- Will the P3 school keep the same number of staff?
- Will the work of the staff be kept in-house or will it be contracted out?
- Will the private contractor honour the existing collective agreement(s)?
- Will the union be negotiating with the private contractor?

- What is the labour relations record of the private contractor?

On Efficiency and Cost Savings

- Where will the cost savings come from?
- Does the private contractor claim to provide service at a lower cost than the public sector?
- How does it claim to accomplish this? Through new technology, restructuring, cheaper financing, less expensive inputs, economies of scale?
- Are these claims reasonable or is the contractor low-balling cost estimates to win the contract?
- Are they underestimating some costs and failing to include hidden costs?
- What profit levels are projected by the private company?
- What will it cost the school board to tender and review Requests for Proposals (RFPs)?
- Is the school board still responsible for paying property taxes?

On Financial Risk

- Who will own the school?
- What would it cost to build the school without a P3?
- What will the lease payments cost per year?
- Will the school board have to pay GST on the lease payments?
- Will the lease be a capital lease or an operating lease?
- Have other financing options been explored?
- What guarantees exist against cost overruns?
- Who is responsible for structural repairs?

- Is the private investment or financing guaranteed by the public sector?
- Is the private contractor guaranteed a minimum amount of revenue by the public sector?
- How long is the lease?
- What happens when the lease is up?
- What is the history of the corporation? Are they a Canadian company? Have they done this before? Can they provide a recommendation from past projects? Have they been charged with any fraud or threatened bankruptcy? Is the corporation publicly traded?

On Accountability

- With whom should parents raise concerns about the building after it is completed?
- Who is responsible for ensuring that the standards of cleanliness and building maintenance are met?
- Is the private contractor liable for health and environmental problems?
- Can we see copies of the P3 agreement?

These questions can help generate debate about the P3 project. It will be a signal that you are aware of some of the concerns and want specific answers to what have been recognized as potential problems.

Resources

CUPE has produced a range of materials to assist members to understand what P3 schools are, how they threaten jobs and the quality of education, and how we can stop them. They are all available form the CUPE website or by contacting the Research Branch at National Office.

- *Public Risk, Private Profit: Why Lease Back Schools are Bad for K-12 Education. website address: cupe.ca/www/SchoolBoards/4291*
- *Contracting out School Board Cafeteria Services, website address: cupe.ca/www/SchoolBoards/5349*
- *Contracting In Custodial Services in Edmonton, website address: cupe.ca/www/SchoolBoards/5333*
- *New Ways of Winning Against Privatization and Contracting Out*, website address: cupe.ca/www/nww.
- *P3 Alerts*, website address: cupe.ca/www/p3alerts.
- *Fighting Privatization*, website address: cupe.ca/www/fightingprivatization
- General P3 Information, website address: cupe.ca/www/publicprivatepartnerships.
- General Privatization Information, website address: cupe.ca/www/privatization.
- Contracting Out, website address: cupe.ca/www/contractingout.

Appendix 1: P3s and Capital Leases, Operating Lease Capital Cost Allowance

There are two kinds of lease arrangements for schools: capital leases and operating leases. The kind of lease that is agreed to is very important, because it determines which partner benefits, and which takes on the risks of the lease.

In general, governments want to sign an operating lease for a school because it allows them to keep the capital cost of the school off their books and leave them with the least amount of financial risk. Corporations, on the other hand, want to sign a capital lease to keep their costs lower, enhance their profit potential and leave the government partner with most of the risk.

In Nova Scotia, the conflict between the objectives of the province on one hand and the consortia building new schools on the other, meant that the province had great difficulty getting the kind of leases they wanted with their corporate friends.

Capital leases are accounted for in the same way as a capital expense, which means the public sector has to show the total cost up-front.

Governments don’t like to do this because it appears as a large debt in the public accounts. Capital leases are like installment financing with the school belonging to the Board at the end of the lease. Such arrangements are not eligible for the federal capital cost allowance (CCA).

Operating leases can be off balance sheet with the possibility to buy back the school at the end of the lease usually at market value. In these arrangements, the private company can claim the CCA for tax benefits.

Capital Leases

- “on book” (which means they appear as debt for government accounting).
- Board/province keeps a good portion of the risks and benefits of ownership.
- Board/province owns the school at end of lease or can buy the school under a bargain purchase option.
- Total cost of school expensed up front when lease signed.
- Lease payments cover most of the value of the property (90%) over the term of the lease.
- Corporate owner is not eligible for a Capital Cost Allowance (CCA).

Operating Leases

- “off book” (which means they do not appear as government debt).
- Corporate owner takes on the risks and benefits of ownership.
- Corporation/consortium owns the school at end of lease. Board/province must buy at full market value.
- Cost expensed as expenditures as lease payments take place.
- Lease payments cover less than 90% of the value of the property over the term of the lease.
- Corporate owner is eligible for Capital Cost Allowance (CAA).

According to current accounting practice, (as defined by the Canadian Institute of Chartered Accountants) most P3 schools have to be expensed as a capital lease. Of course, provincial governments want to sign operating leases, to keep the cost of new schools off their books. However, operating leases create their own problems for governments or boards. If they want the school at the end of the lease, they have to pay full market value. Evergreen school in Moncton is an example of an operating lease in which the private company, Greenarm will own the school at the end of the lease.

In other words, accounting procedures alone mean that most P3s would not have up-front financial benefits for public sector bodies.

"The requirement for an operating lease precludes consideration of certain lease provisions which might have been advantageous to the Province in obtaining value-for-money." In other words, a lease can't be accounted for as an operating lease if there's a bargain purchase option at the end of the lease, but such a provision might be best for the province (*Source: Nova Scotia Auditor General, 1997 Annual Report, pp. 82 & 88*).

The capital cost allowance (CCA)

The CCA is a federal tax measure that allows corporations to depreciate capital assets for tax purposes at a faster rate than the allowed by standard corporate accounting. The federal government introduced the CCA to encourage new private investment in capital projects. However, needed schools cannot truly be considered "new investment" when they would have been built through traditional public sector financing in any case.

Many argue that it has never achieved this objective; it is just another tax break for wealthy corporations. The accelerated depreciation allowed under the CCA enables corporations to defer billions of dollars in taxes – billions of dollars of potential federal revenue.

The CCA is one of the major financial incentives for private companies that want to build and own schools but they are only eligible to claim it if they sign an operating lease with their public partner. Proponents of P3 schools argue that the CCA helps the owner keep lease costs low. In fact, corporations are just as likely to use the tax break, financed by the Canadian public, to increase their profit margin or shareholder returns.

Appendix 2: Faulty Cost / Benefit Analysis

Often private sector analysis is flawed, providing an overly optimistic view of the benefits of P3s. Corruption occurs when private companies undervalue assets at the time of original sale (to private companies) or overvaluing them when the government purchases at the end of the lease.

In the proposal to build Nova Scotia P3 Horton high school in Greenwich, King's County, the government assumed a public sector bond rate higher than any long-term bond issued by the province. When the Horton High School costs are re-calculated using the rate of government bonds issued two days after the Horton lease was announced, the P3 school ends up costing $4.3 million more than it would have cost as a public venture.

Similar calculations for the O'Connell Drive school in Porters Lake bring the cost of that P3 to $888,000 more than the traditional method.

The Liberal government at the time acknowledged that if they chose to buy out or renew the lease at the end of the initial 20-year term, they would pay "slightly more" for the school than if they had built it themselves.

"Slightly more" ranges from $200,000 to $430,000. Multiplied by 56 schools, this amount to a significant – and unnecessary – misuse of public funds. A government spokesperson justified the additional cost saying: "It's like leasing a car. You pay a little more, but that's because you have the option to continue, walk away or buy."

Economist John Loxley argues that if the cost of the building is already paid off at the end of the term, walking away is the same as giving the building away. While this might be reasonable if the building is beyond repair, the Nova Scotia government is providing for full maintenance of what should be public assets.

The consulting firm KPMG, contracted by Nova Scotia to study the benefits or otherwise of the P3 process in school construction, could not, in an extensive report determine whether it was cheaper to build P3 schools, or cheaper to stick with the government-funded and-built projects.

Appendix 3: Collective Agreement Language

Here are some examples of collective agreement language to stop P3s:

CUPE 1022 The Hastings and Prince Edward District School Board, September 1, 2002 to August 31, 2004.

"6.05 Lease-back Schools
The Board agrees that it will not enter into any lease agreement to construct a new school, that would include, as part of the lease arrangement, the performance of services of the nature currently performed by employees in the classifications covered by this agreement in any of the Board's schools or buildings".

Ontario School Board Coordinating Committee (OSBCC)
Co-ordinated Bargaining Proposal 2003

Job Security/Anti Privatization Language

In order to provide job security for the members of the bargaining unit, the employer agrees that all work or services performed by bargaining unit employees shall not be sub-contracted, transferred, leased, assigned, conveyed, or privatized, in whole or in part to any other plant, person, company or non bargaining unit employee.

Lease-Back Schools

During the term of this Collective Agreement the Board will not enter into any contracts with contractors for the performance of caretaking services in any of its present and future schools and buildings operated by the Board.

Appendix 4: Private Finance Initiative (PFI): Privatization in Australia and United Kingdom:

Canadians can look to the Private Finance Initiative (PFI) in the United Kingdom and Australia for examples of how private sector financing of schools unfolds.

PFI allows the private sector to put up the money for projects like schools, hospitals, roads and bridges, and then make their money back (plus profits) by owning and operating the service. PFI has meant the privatization of public services.

PFI was introduced in 1992 supposedly as an addition to public funding. Instead, it fast became a substitute for public funding leading directly to cuts of billions of pounds for infrastructure investment from subsequent budgets. The public sector is now in the dangerous position of being dependent on the whims of private capital to finance public projects.

The British government likes PFI because it gives the impression that additional investment can be provided without increasing public spending or borrowing. PFI is being used to pave the way for tax cuts that will benefit the wealthy.

PFI projects are usually undertaken by a consortium of companies, typically consisting of a construction company, a finance company and a service company, among others. In the U.K., ServiceMaster (major custodial/maintenance contractor in Canada) and Hambros (consultant for the PEI pilot lease-back school) are two of the companies involved in PFI.

PFI shows us the problems we may face with P3s in Canada:

- PFI schemes have been complicated to set up, resulting in projects being delayed.
- The government has been forced to introduce more and more guarantees to private companies to get them to buy into PFI. The public sector bears the risk of projects, with the government basically underwriting any private sector risk with taxpayer money. As well, companies are free to pull out of consortia at any stage of a project.
- PFI costs more than public procurement and the costs of PFI contracts have gone up dramatically. These added costs are passed on to taxpayers during the life of the contract.

- PFI is distorting the allocation of resources. Schools are being built to enhance corporate profit rather than to meet student need.

- The public loses control over public assets under PFI. When problems arise, publicly elected bodies can avoid responsibility and the private company is only responsible to corporate headquarters and/or shareholders – not the community. Companies in the consortium can be bought and sold many times over the period of the contract. And the public is tied into the contract for an incredibly long period of time. This severely limits the policy options of future governments.

- No in-house bid for services is allowed and often no public sector comparison is made. So, we don't know if the project is costing less, the same or much more than it would if it was kept in the public sector.

- The size of PFI schemes limits bidding to the largest companies, which restricts competition.

A specific PFI example in the education sector is the Mitchell Brook Primary School in north London. An excerpt from an article by Francis Beckett sums up the problems:

> "Rain pours through the rotting window frames, despite the paper that staff have stuffed into the gaps. In winter, the boiler frequently wheezes to a standstill. The tiny playground is pitted with holes, causing frequent injuries. The library is like a prison cell, and its few books old and tattered. The nursery teacher buys her equipment from car boot sales. The teachers have brightened up the place with some leftover cans of lime-green paint, donated by a local church, but in many places the damp mocks their efforts." (*Source: Beckett. New Statesman, 2002*).

Mitchell Brook is not a PFI school, but a public school that feels the effects of PFI financing. Mitchell Brook had a £72,000 debt to Brent Council (area school council) for a new roof. It was recently told that it must repay the debt over five years from its regular operational funding, since Brent Council needs money to help pay for the new PFI schools. Any new money Mitchell Brook receives goes to paying off the debt and not to maintenance or new repairs.

As well, as a result of increased costs due to privatization, Brent Council has announced that the new PFI schools will not be receiving any money for routine repairs.

Through the PFI initiative, the construction company that financed the building decides on what the priority is for the school for 25 years. The school council has its hands tied when it comes to spending money on school maintenance and upkeep.

Elsewhere in the UK, the government has had to bailout Railtrack, the company that once ran Britain's railway network using a P3 scheme. This caused the journal *The Economist* to argue that there can never truly be a transfer of risk with P3 or privatization schemes, since the "Government cannot afford to let them fail".

In Australia, the same problem existed. The government had to bailout the Robina hospital due to the private partner walking away after only a few years of running the project.

In Australia, P3s and privatization have meant job loss, lower wages and poor working conditions and loss of benefits, such as maternity leave. For instance, the privatization of Telstra Communications meant that workers access to maternity leave was severely restricted.

(Sources: The Public Services Privatization Research Unit (PSPRU) (1997) Beckett, Francis. "Private profit, public squalor" New Statesman. London: July 15, 2002. Vol. 15, Iss. 715; pg. 23, 1 pgs CPSU (Australian Public Sector Union)
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Appendix 5: **Definitions of Some P3 Models***

*(*Note that the language used in these definitions reflects a pro-PPP bias*.)

Contribution Contract. The private sector agrees to contribute to the construction of a public facility in exchange for acceleration of the project.

Operation and Maintenance Contract (O&M). A private operator, under contract, operates a publicly owned facility for a specified term. Municipal garbage collection is often done this way.

Design Build (DB). The private sector designs and builds a facility to meet public sector performance specifications – often for a fixed price so risk of cost overruns is transferred to the private sector which has the ability to employ the techniques it wishes provided it meets the performance specifications.

Design Build Major Maintenance. The proposed DB facility will be the operating responsibility of the public sector, with certain maintenance responsibilities given to the private sector under contract.

Design Build Operate (DBO) (Super Turnkey). Design Build contract for construction followed up with an operating and maintenance contract. The facility remains publicly owned throughout.

Lease Develop Operate (LDO). A private operator, under long-term lease, expands and operates an existing public facility. The expanded facility remains publicly owned and is transferred back to the public sector at the end of the lease term.

Build Lease Operate Transfer (BLOT). The private sector designs, finances and constructs a few facility on public land under a long-term lease and operates the facility during the term of the lease. The private owner transfers the new facility to the public sector at the end of the lease term.

Build Transfer Operate (BTO). A private developer designs, finances and constructs a facility which, upon completion, is transferred to public ownership. The public sector then leases the facility back to the private sector who operates it in order to get a reasonable return for construction and operation while avoiding liability/complexity of private ownership.

Build Own Transfer (BOT). A private developer receives a franchise to finance, design, build and operate a facility (and to charge user fees) for a specified period after which ownership is transferred back to the public sector.

Build Own Operate Transfer (BOOT). Same as the BOT model except an agreement is made to transfer the facility to the public sector at some future date.

Build Own Operate (BOO). The private sector finances, builds, owns and operates a facility in perpetuity. The public constraints are stated in original transfer document and in ongoing regulatory authority.

Transfer to Quasi-Public Authority. Transfer of a public sector to a quasi-public authority under contract that the authority will perform public services utilizing private procedures and financing.

Buy Build Operate (BBO). Same as Transfer to Quasi-Public Authority except existing public facility is transferred to the private sector, which usually upgrades and owns and operates in perpetuity. Some public control is exercised through the franchise contract at the time of transfer.

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