CUPE

P3 transit projects expose failures of privatization

Public transit makes our communities better places to live and work. We need Canada's public transit systems to keep pace with a growing population, to protect the environment and to improve social and economic equity.

But instead of building new transit systems with transparent and accountable public planning, governments and corporations are turning to privatization schemes through public-private partnerships (P3s). When transit is planned and operated for profit, plans are secretive, it fails to meet community needs, and the public pays the price.

P3s let corporations profit from transit systems while the public gets stuck with unreliable, expensive, and sometimes unsafe service. Recent P3 transit projects—such as the Eglinton Crosstown light rail transit system (LRT) in Toronto, Ottawa's LRT, and the Réseau express métropolitain (REM) in Montreal—have been significantly delayed, gone over budget, and are otherwise failing to meet the public's needs. P3 proponents even admit that they are facing a "public perception" problem.[1]

These P3 failures come at a time when we need to expand our public transit system. As the climate crisis intensifies, electric-powered public transit will help cut greenhouse gas emissions and contribute to greener communities. Residents of communities with high-quality public transit systems own fewer cars, walk and cycle more often, and use public transit up to 10 times more often than residents of car-dependent communities.[2]

Public transit helps people get to work, school, and essential public services, including equity-deserving groups such as remote, low-income, Indigenous, Black and racialized populations; seniors and people with disabilities.[3]

The way forward is to build transit systems that are publicly planned, financed, and operated, not secretive and expensive P3 schemes.

Who is pushing P3s and why?

The most active P3 promoters are members of the Canadian Council for Public-Private Partnerships (CCPPP). These members include lobbyists, consultants, and investment advisors, along with Liberal and Conservative elected representatives.

Promoters claim that P3s allow governments to save money because they are more cost efficient and keep infrastructure financing and debt off the public books.[4] They claim P3s save money for governments because the private sector has an incentive to perform better. Yet nearly every province's experience with private P3 financing shows that P3s always cost more than public borrowing.[5]

Private borrowing has a higher interest rate, making P3 projects more expensive than direct municipal borrowing.

For example, the Toronto-York Spadina Subway Extension completed in 2017 was conventionally built and cost $384 million per kilometre. Yet, all subsequent subway projects in Toronto that are P3s will cost almost twice as much per kilometre.[6]

In addition, the complex P3 model has added costs for lawyers and consultants. Another hidden expense is the cost of public sector monitoring and enforcement over the long life of P3 contracts.

P3 proponents continue to win over governments by promising P3s will deliver better value for taxpayer dollars.[7] The problem with these "value-for-money" assessments is they are backed by calculations from private sector consulting firms who are incredibly biased because they promote and make money from P3s.

The Canadian Centre for Policy Alternatives analyzed nearly 50 value-for-money assessments of P3 projects in Saskatchewan, Alberta, and British Columbia, and found that 98 per cent recommended a P3 model instead of a conventional public build.[8]

P3 transit projects have not delivered better value for money because of cost overruns, major delays from lengthy contract negotiations and design failures, as well as in some cases, infrastructure that is unsafe or unreliable.

The fundamental problem with P3s is that they focus on maximizing profit. Public infrastructure that is designed to make profit gives unprecedented control and decision-making power to private sector investors. The public is left to pay for shortcuts like skipping steps in safety and design, which get made to turn a profit.

Federal underfunding and P3 push

The federal Liberal government continues to advocate for P3s through its crown corporation, the Canada Infrastructure Bank (CIB), which plays an active role in advocating for transit P3s. Created in 2017, the CIB is legally mandated to attract private investment in transit and other public infrastructure. CIB projects are required to be revenue-generating, meaning they must charge user fees to generate a steady stream of revenue for private investors.

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CUPE and other advocates have called for the CIB to be transformed into a source of low-cost loans for municipalities. In 2023, the federal government undertook a five-year review of the CIB that did not scrap the bank's privatization mandate.

The CIB's push for P3s, along with the steep decline in transit ridership during the COVID-19 pandemic and ongoing federal underfunding of public transit, has created pressure on governments to say yes to P3s for transit projects.

In July 2024, the federal government announced a new Canada Public Transit Fund (CPTF) which will provide $30 billion over 10 years for new public transit infrastructure, beginning in 2026. The fund is the largest public transit investment in Canadian history. But the CPTF is supposed to help all transit agencies across Canada, which means every municipality will have to compete for the $3 billion allocated per year.[9] The City of Toronto alone needs $4.3 billion for new subway trains to service existing lines and an additional $1.8 to $2.3 billion each year for the next 15 years to address repairs and buy a zero-emission bus fleet.[10]

The CPTF will help develop much-needed public transit infrastructure. But it cannot be used toward operational costs, and it will not be enough for every municipality to afford new electric-powered forms of transit. At this point, there is no requirement for these new infrastructure projects to be P3s, though Intergovernmental Affairs, Infrastructure and Communities Minister Dominic LeBlanc said there is interest in exploring the role of P3s to attract funding and diversify revenue models and financing options.[11] Clearly, the federal government has not backed down from promoting the CIB and private investors.

P3s don't deliver, "on time and on budget"

The Eglinton Crosstown LRT is a prime example of a P3 project that is late and over budget. The LRT was expected to open in 2020, but even four years after that deadline was not met, Metrolinx refused to provide an opening date for the project as new problems were being discovered in its construction.[12][13] In spring 2024, Metrolinx said there were defects in the LRT's software that needed to be fixed by Crosslinx Transit Solutions, the private consortium building the line, and Alstom, the manufacturer of the trains.[14]

Crosslinx Transit Solutions did not meet the 2020 deadline and missed another completion deadline in September 2022.[15] As of summer 2024, the project still does not have an opening date and Toronto residents are increasingly frustrated with the impacts of long-term construction along the new line.[16] On top of the delays, the LRT project now costs $1 billion more than Crosslinx budgeted in 2018 and Metrolinx will not reveal its total cost, including its west extension plans.[17]

P3 projects in Ottawa and Edmonton were also late and over budget, despite promises from the corporations involved. The consortium behind the Ottawa LRT project, Rideau Transit Group (RTG), gave the city opening dates it knew were unattainable.[18] RTG signed a fixed-price contract, committing the consortium to pay for costs beyond $2.1 billion. Yet Ottawa City Council had to provide millions of dollars in contingency funding to cover unexpected costs for delays and legal claims.[19] On top of that, the system opened over 15 months later than expected.[20]

In another example, Edmonton's Valley Line LRT expansion was originally supposed to open in December 2020, but it was delayed by three years because of low-quality cables which oxidized and cracks in its concrete infrastructure caused by the private consortium's shoddy work.[21]

Costs have also skyrocketed for Montreal's *Réseau express métropolitain* (REM) LRT system, a P3 project which is owned, operated and maintained by CDPQ Infra, a private subsidiary of the *Caisse de dépôt et placement du Québec*. The Caisse is one of Canada's largest pension plan investors.[22] The REM's original $5.5 billion price tag rose by $400 million between April and November 2016 when three stations were added.[23]

By September 2023, the price tag for the REM ballooned to nearly $8 billion.[24] This is partially due to the addition of new stations, as well as construction issues with the Mount Royal Tunnel, labour shortages and sourcing materials.[25]

P3s don't guarantee public safety

The Eglinton Crosstown LRT has faced a litany of safety concerns. Crosslinx constructed tracks outside of the necessary specifications, which could have led to train derailments like the Ottawa LRT has experienced.[26]

Ottawa's LRT has been so plagued with problems that the Ontario government held a public inquiry into the project in 2022. One of the issues the inquiry explored was the many safety concerns.

The inquiry found that the drive to keep project costs low meant cutting corners on design, including shortening the downtown tunnel and the station platforms.[27] RTG, the private consortium that led the P3, went ahead with a rail car design that had never been tested in real-world conditions. This triggered a cascade of malfunctions, including wheel cracks, jammed doors, disconnected power cables, and disabled brakes.[28] Inquiry Commissioner Justice William Hourigan said the P3 model "left the city with little control over RTG's work."[29]

RTG also failed to meet a critical safety benchmark requiring 12 consecutive days of testing without any problems.[30] This failure inevitably led to a two-month shutdown after a train derailed. The Transportation Safety Board of Canada identified incomplete maintenance as the reason another train derailed in September 2021.[31]

Users are fed up with frequent and lengthy disruptions in service.

Safety has been an issue for Montreal's REM as well. The REM has automated driverless trains that must operate away from pedestrians. In a move to maximize profits, REM's rail cars were built on the cheap by French multinational corporation, Alstom, the same corporation behind the Ottawa LRT's flawed vehicle design. Alstom manufactured the rail cars in India, even though they could have been made in Canada.[32]

On the REM's opening day in July 2023, service was interrupted. At times, passengers have been left stranded in rail cars without a driver to help them, sometimes resorting to call 911.[33]

P3s are secretive and unaccountable

The public has been left in the dark about key details of massive P3 LRT projects.

Toronto city councillors and residents also had difficulty getting information from the private consortium building their LRT. For years, Crosslinx has failed to meet targets for construction and safety testing, and neither the consortium nor provincial government representatives have been transparent about their construction plans.[34] At the same time city councillors received pushback from frustrated constituents who have experienced daily traffic delays and whose local businesses have suffered losses.

Reports to Ottawa's city council during the project's construction and testing have not been transparent either. The public inquiry found that former city manager Steve Kanellakos deliberately misled the council about a decision to lower the LRT's safety testing criteria and covered up failed test results caused by subpar components of the LRT construction.[35] Kanellakos informed then Mayor Jim Watson about the trial runs and lowered criteria, but Watson did not pass the information on to the council.

When it came time to vote on the second stage of Ottawa's LRT, city councillors said that they did not have the information they needed to make an informed decision.[36] Likewise, the public has only had access to highly redacted reports on the city website.

In Montreal's case, the Quebec government has allowed the Caisse exceptional power over the REM project, including the ability to plan it without substantial public input.

In 2015, the Caisse won a 99-year deal for the REM which guaranteed a "priority return" of eight per cent.[37] In the same year, the Quebec government passed Bill 38, giving the Caisse an unprecedented role in planning, financing, executing and operating public transit in the province.[38]

Bill 38 exempts the Caisse from laws governing the bodies that oversee Montreal-area public transit. It also allows the Caisse to ignore the concerns of residents in public transit planning. Early in the project, Quebec's environmental review board, the Bureau d'audiences publiques sur l'environnement (BAPE), held a public inquiry into the REM and found that the Caisse failed in its transparency obligations by not disclosing key information to the public inquiry such as contracts, revenue and operating cost projections, and environmental impact studies.[39]

The Caisse held very few public consultations to evaluate community needs. Urban planners expressed concern about noise and other problems associated with high density, and local transit authorities were not included at key stages of the decision-making process.[40]

Keep transit public

Our public transit systems need to benefit communities, not private investors. Transit must be built in the most cost-effective way and contribute to a greener and more socially equitable world. Municipalities can use public procurement for these projects, which has the following advantages:

- It uses public borrowing, which is much cheaper than P3 financing.
- It follows well-established institutional procedures, including public tendering of contracts, which make it more accountable to the public.
- It usually operates within long-standing collective agreements which recognize and respect workers' rights.
- It preserves public ownership of, and decision-making about, public assets.

Public procurement is how major infrastructure projects are usually delivered. But municipalities across Canada need more financial support from higher levels of government to electrify existing transit lines, expand transit systems, and operate them safely.

Municipalities are still feeling federal pressure to agree to new P3 projects through the CIB.[41] CUPE has called for the CIB to be a public source of low-cost loans to help local governments deliver these projects.[42] The federal government should learn from the experiences of European public banks and reclaim the CIB as a bank to meet public needs. A truly public bank would allow municipalities to borrow money at lower interest rates than the private sector and prioritize environmental and affordable projects.

Despite corporations and some governments pushing P3s as the way to build future transit, the evidence clearly shows they are not the solution. Throughout Canada, P3 transit projects have failed to be delivered safely, efficiently, or on time.

Take action

As union members, community members, and concerned residents, we must oppose any further transit privatization. Let's work together to demand our governments invest in essential transit projects and ensure that these projects are operated and maintained by the people, for the people.

- Visit ***cupe.ca/privatization*** to find materials to help educate others about the problems with privatization and the benefits of keeping services public.
- Write to your elected officials, attend municipal council meetings, and contact your CUPE servicing representative for support about how to undertake this work in your community.

Endnotes

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