Presentation to City of Winnipeg EPC
January 17, 2007
"Ross Eadie's State of the City Address"

To start, I must say yes and no to the current capital budget. Don't let the newspaper articles throw you off. I am intelligent and business savvy.

1. What are my credentials to make a presentation?

My credentials in regard to the topic at hand are reasonable. I am a top award winning Business Administration graduate who has an ability to consider the whole picture, vision if you want to be specific. I won top awards because of assistance from others, a good memory, and an ability to learn quickly.

My biggest credential today though is my situation as a resident tax payer, one of many in a similar position as mine.

2. What is the current state or environment of the City of Winnipeg?

The current state of the city seems to be the mayor is only concerned about certain factions of business, not resident tax payers and community. While there is money for community centre projects, there is a general disregard for the financial situations of resident owners and true understanding of community.

The Mayor protected businesses from paying more than a 15 percent increase in taxes last year. As a result of re-assessment, this resident and many others paid tax increases of 25 percent and more because the re-assessment is not fair. People in expensive homes paid $500.00 less last year while poorer people paid $400.00 tax increases.

The mayor didn't protect us!

Actually the Mayor's first budget insulted me by charging me a 50 cent per month administrative fee on my TIP payment which I signed onto to assist the city in saving interest costs. The bank could have continued collecting my monthly tax installment and made interest from borrowing it out. While the 50 cents is not very much money, the sheer disregard to the original concept of the TIP program demonstrated the current environment of the City.

Now I am okay with the extra money I am paying, from I don't know where this year, as long as my property taxes are going into good public services. I know my school division is spending the money wisely, but the City of Winnipeg is going to pay extra profits to private sector businesses which frankly don't need it.

The big construction companies will make money on building the projects being proposed in this capital budget whether or not PPP's are used. The City of Winnipeg is in a much better debt situation than the period in which the Charleswood Bridge was built.

3. Why does business need to make more off us residents who can't afford it?

The Mayor is about to cut business taxes so they will not have to pay the extra profits from PPP's, but I will still be paying my extra along with the other residents. More than likely some residents will experience job loss or lower wages. They will not be happy paying the extra cost for greed.

4. Can you help me understand the rush for this capital budget to be passed without more public input or scrutiny by stakeholders?

The Winnipeg public has been told this capital budget must be rushed through City Council because of the rising construction costs. These costs are uncontrollable by efforts in Manitoba when Alberta and China are driving up material costs. If anything, this additional construction will contribute to the supply and demand mechanisms in this province. Why the extra demand will probably cause problems with the cost of the new West Kildonan High School. Oh no, can you say change order!

One thing the education system does is only tender during certain times of the year. this may help in the current construction environment.

5. What can the private sector do better for the Winnipeg public?

The heavy construction expert Chris Lawrenc says the private sector can build it better, faster, and cheaper. It is true if conditions are right, they can do that, but there are extra overhead costs the City must incur to ensure City needs are met by the private sector. Any benefit the City might experience gets used for this overhead. Consider the quoteof 1.6 million dollars of indirect costs for the Charlswood Bridge.

It is also true that if the private sector finances and owns the asset, the City will pay way more financing costs through the passing on of higher interest rates and lease costs that have significant profit margins built in.

On a side note: did you know the Manitoba Heavy Construction Association has finance businesses as members of their organization?

6. Is there public accountability?

this side note brings me to the lack of accountability PPP's seem to promote. In preparing the Charleswood Bridge Report there was no release of any maintenance information that would allow the public and City to consider the true pros or cons of PPP's.

7. Why is the current political leadership taking us down this unaccountable road?

Yes, why? I have done my research. From this research, my recommendations for the City of Winnipeg in regard to this mostly good capital budget are as follows:

A. Use the City's excellent credit rating to finance all the projects slated for PPP's.
B. Ensure the City owns the assets, none of this leasing stuff allowed.
C. If it really works, engage the private sector into design build projects with public accountability as a significant part of the agreement and built in financial incentives for innovation.

8. Does business thrive on incentive?

It is true business will usually do something good if there is incentive, but the incentive does not have to promote greed.

I am calling on business to be a fair partner!

And hey, why don't we tie in business tax reduction for the private sector by allowing non-construction benefiting businesses to decide the merits of PPP'S? If the PPP's actually save money, the City of Winnipeg can use the cost savings to reduce their business taxes. Let the true business savvy apply their business intelligence to this PPP proposal, or are the PPP projects a done deal? They already know the budgeted dollars, don't they?

Civic Cost over-runs: Are PPPs the Solution?

By

John Loxley, 5/10/2006

In response to the news that the City's water treatment plant is $65 million or about 30 per cent over budget, the Mayor, argued (*WFP*, May 11, 2006) that a public-private partnership (PPP) arrangement would have brought the project in on budget and should be the model for the planned sewage system overhaul. He's now proposing to build police stations using the PPP approach (Winnipeg Free Press, October 5, 2006). Citizens of Winnipeg should be leery of such easy prescriptions, given the track record of PPPs in Canada and elsewhere.

Labour shortages and associated increased wages are a problem for the whole construction sector, as are the rising costs of construction materials and especially those linked to oil products. It is private contractors working for the City that are incurring these higher costs and billing the City for them. The City does not do its own contracting.

These cost increases would not have been avoided by alternative approaches to construction. For instance, design-build approaches, a common feature of PPPs, including the Charleswood Bridge, put the onus on the contractor to bring in a project on budget, but contractors build expected cost increases into their bids. Unexpected and unbudgeted cost increases in a design-build project result in a lower quality product being delivered, or in the private contractor going bankrupt or, more likely, as numerous instances around the world show (the most graphic being the Channel Tunnel), in the private contractor being bailed out by the public sector. One way or the other, the taxpayer ends up paying for cost increases.

Many engineers and architects are also less than enthusiastic about design-build arrangements because they lose some of their independence and objectivity in project design, being answerable to the contractor rather than the ultimate client.

But it seems the Mayor is not just calling for design-build approaches. He appears to believe that problems with the capital budget justify handing over day-to-day operations of water and waste utilities to the private sector.

He would like to see the sewer upgrades (and police Stations) owned by the private sector and leased back to the City. The most common form of PPP in Canada has, in fact, been one in which the private partner finances, builds and operates a facility--- a bridge, a road, a sewage plant, a water treatment plant, etc.--- and leases it back to government. The benefits to government are said to be lower debt and lower capital spending, easing compliance with balanced budget legislation where this exists, and saving on operating expenses.

In reality, and without exception to my knowledge, the implied cost of borrowing built into PPP leases is higher than the public sector's own direct cost of borrowing. For example, the Charleswood Bridge cost tax payers an extra $1.4 million in present value terms on a contact of $11.6 million.

Consultants have also complained about the high 'hidden' costs of bidding on PPPs, in terms of preparing and evaluating requests for quotation and requests for proposals. Such costs have been estimated at $1.6 million for the Charleswood Bridge (over 10% of the project cost), costs to consultants alone being 6.7 times as high as those incurred in a normal design-bid-build project. These additional costs, together with higher lease costs, have to be factored into the viability of the PPP option when assessing capital costs. In theory, they should be offset by the transfer of different types of risk from the public to the private sector, but this may or may not happen in practice.

Such projects do not reduce public sector debt as the leases have a value today that is exactly the equivalent to debt, regardless of accounting conventions. They are, at best, an expensive way of 'cooking the books', as more government auditors are now revealing. The City of Winnipeg has a strong AA bond rating and can borrow cheaply, relative to the private sector. Its outstanding debt is also low and falling debt. It can afford to borrow to build more capital assets.

Winnipeggers should be particularly cautious about handing over the operations of water or sewage treatment to a private, for-profit, company. Profits can result only from higher charges for water or water treatment or from spending less on operations. The first is a form of taxation; the latter usually means pay cuts or layoffs that lead to reduced levels of service. It was lay-offs that characterized the Hamilton-Wentworth water and waste facility when it was handed over to the private sector.

This exposed the public to higher risks of service disruption and environmental pollution. There were other problems with that PPP. Regional civil servants involved in the privatization deal joined the private partner in senior management positions, and the private partner claimed a portion of savings in costs that resulted from purely public sector initiatives. Eventually, the Hamilton Wentworth facility was so controversial that it was taken back into public hands.

The Moncton water treatment plant, another PPP, is considered a huge success. Certainly it delivers quality water. But it does so at a price. The Mayor of that city likes to claim they saved almost $10 million or about 30% by accepting the private bid for the plant. But this was based on a public sector plant that was not comparable, using older technology and having a capacity that was one-third larger. Furthermore, it is claimed that the plant is debt free and, certainly, it doesn't show up in the books of the City. In fact, hidden in the cost of water to the citizens of Moncton is a capital cost component which is a) significantly higher than Moncton's cost of borrowing and b) provides a return to equity of around 25 per cent per annum to the private partner! The whole project is, therefore, debt financed, and is much more expensive than it appears to be. The consumers of water are meeting these entire costs.

Another common feature of PPPs ought to concern Canadians. They lead, uniformly, for reasons of 'competition', to the privatization of information previously within the public realm. This, inevitably, reduces accountability for how public monies are spent. In this connection, we still do not know what the maintenance budget is for the Charleswood Bridge, despite numerous requests.

None of this is to argue that public procurement cannot be improved and be brought in on time and at cost. A thorough examination of the cost over runs of the water treatment plant is needed to show which ones were avoidable and to suggest ways of avoiding them in future. In the meantime, the claimed superiority of the PPP approach needs to be subjected to a close and critical examination.

John Loxley is a Professor in the Department of Economics, University of Manitoba and is currently completing a book on the Economics and Finance of PPPs.