

Op-Ed: Sask. should put P3 schools on hold

By Herve Langlois June 30, 2014 Regina Leader-Post



The province is planning to use P3s to finance the construction of 18 schools (nine joint schools) in Saskatchewan.

Photograph by: Postmedia , Postmedia files

The Alberta government's decision to abandon the P3 approach to finance new school construction should cause the Brad Wall government to push the "pause" button on its plans to use P3s to finance the construction of 18 schools (nine joint schools) in Saskatchewan.

The traditional method of school financing has worked well. The local board of education decided when a school was needed and applied for provincial funding. With approvals, the board planned the school, issued debentures, called for tenders, awarded a contract, oversaw the construction and celebrated the school opening.

The province reviewed the architectural plans, provided final approvals once tenders were received, and funded the debt retirement.

While the Ministry of Education set the rules, the local board was responsible for the management of these projects. When issues arose, such as higher-than-expected costs,

negotiations between the province and the board ensued. The issues were usually quickly resolved.

Once built, the board managed the school, provided access to community groups, made repairs and renovated buildings. The system was not perfect, and needs often outstripped available funds. That aside, lines of authority and responsibility were clear. Trustees were held accountable for their decisions. The schools were in public hands.

Severe backlogs in school construction were due to inadequate provincial funding, not the method of financing.

The adoption of P3 funding methods will cost more, introduce unnecessary complexities in the management of schools and, perhaps, put at risk community access to privately owned school facilities.

Consider the following:

1. The P3 model will cost more in the long term. Given its credit rating, the province can borrow funds more cheaply than any contractor. Given the bundling of 18 schools into one project, few bids will be submitted (Alberta had one only), allowing for higher margins.

Under private ownership, maintenance, repair and renovation costs will not be subject to a public tendering process, thus eliminating competitive pricing. Likely, different operational standards will evolve between board owned and privately owned schools within the same school division. If not fixed, changing interest rates over 30 years could materially affect budgets.

The P3 model will cost more.

These costs will limit the ability of future governments to deal with demands of the day.

2. The bundling of 18 schools in numerous school divisions is a boondoggle in the making. The boards in Saskatoon recently announced the Willowgrove schools will not be opening on schedule this fall. This project involves only two schools with two school divisions. It is not difficult to imagine what will happen with 18 schools being built at the same time.

3. Smaller local firms will be unable to bid on such a large project.

4. Boards of education will face more complex school management issues under a P3 system. Because boards no longer have taxing authority, virtually all financial decisions will be made at the provincial level. Endless negotiations among the private owner, the board, and the province will ensue. Additional P3 projects may be undertaken, resulting in multiple private owners within a school division, thereby adding to the complexity. Provincial political factors will add more uncertainty.

5. Who will decide which community groups get access to privately owned schools, and when? Will trustees be able to deny access to individuals or groups they deem possibly injurious to the welfare of their students? Will the private owner impose criteria on who can rent a facility?

6. Toward the end of 30 years, schools will need significant renovation and repair. Who will pay?

P3 proponents argue that a contract signed today can anticipate 30 years of change. Not likely. Rapid technological change alone will have major cost impacts.

The province is planning to replicate designs in several schools; a good idea. Saskatoon Public Schools did that 30 years ago and enjoyed significant savings. These savings were attained using the traditional funding method and are unrelated to the P3 method.

The Wall government's plan to use P3 is "Buy now, pay more later." Will the 30-year payments be an unfunded liability, not shown in annual provincial balance sheets?

The government has two choices: 1) Use traditional financing methods, borrow the required funds at very favourable interest rates, and be transparent by showing the full cost of these projects in financial reports; or 2) Use P3 financing, incur much higher financing costs, increase managerial complexities, and hide true costs using off-balance sheet accounting.

P3 methodology is appropriate in projects such as toll bridges or roads, not for schools. Now is the time to step back and give the traditional method of funding school construction a serious second look. Good governance requires nothing less.

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