



Submission to the Provincial Treasurer For This Year's Budget

Submitted February 28, 2008

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Introduction

The P.E.I. Federation of Labour represents directly approximately 10,000 Islanders who are members of organized labour in this province. These members are from all across Prince Edward Island and work in both the public and private sector in a wide range of occupations. We are as diverse as the Island's workforce and our concerns range from the young and old as we seek to represent the concerns of our members' families including their children and grandchildren, as well as our own retired members. We are the only central labour body in this province and we are a chartered body of the Canadian Labour Congress which represents over 3 million workers in Canada.

Our organization was born in 1964 and its constitution gives us the mandate and responsibility to represent the interests of all workers in this province. There is no other comparable group or institution mandated to carry out this role. Our concerns and mandate are focussed most simply on the welfare of workers within this province.

In response to your call for public input into the 2008-2009 provincial budget, the PEI Federation of Labour would like to submit the following items for you to consider when you are writing up this year's budget

Private/Public Partnerships (P3's)

Private/Public Partnerships (P3's)

The PEI federation of Labour would like to express its outright disappointment and deep concern with a recent statement made by you during the recent Capital budget release for 2008-09 that the Province is considering private/public partnerships (P3's) in the construction of new long-term care and youth addictions facilities.

While we realize that the federal government is putting more and more pressure on provincial and municipal governments to consider P3's in order to secure federal monies, however we urge this government to ignore this pressure and unlike the current federal government put the best interest of the citizens of PEI above the padding of corporate bottom lines. **P3's are not in the best interest of Islanders.**

The Reality of P3's

Study after study and experience after experience have shown that Public-Private Partnerships do not save money, cost more, make public institutions less able to manage public initiatives themselves and reduce flexibility, transparency and accountability of governments.

Here are some of the Harsh Realities:

- P3s are promoted as a way to keep debt off the public books but, while P3s may hide debt, they never reduce it – just the opposite. Higher borrowing costs and the need to generate profit, make private financing more expensive. Even private firms acknowledge that no organization can negotiate better rates than the government. In fact, A report Public-Private Partnerships and Municipalities: Beyond Principles, a Brief Overview of Practices produced by the Institut National de la Recherche scientifique at the request of the Federation of Canadian Municipalities as one of their key findings states “that to make infrastructure investments, municipal governments can easily borrow almost all the funds they need at very favourable rates. Indeed this fact is so clear, it is rarely challenged. To leave the responsibility of financing to the private partner is a poor solution to a non-existent problem, when traditional municipal financing is simple, relatively easy and, above all, much less costly than the private-sector equivalent. Nevertheless, the truth is that some people have an interest in making us think that there is a problem ... because they have solutions to sell.”
- The large firms that negotiate P3 contracts with government generally reserve a profit margin of 10 to 20%, and often higher. How can P3's save taxpayers money when so much of the public funds reserved for the project is diverted from the

- project directly into the pockets of distant, wealthy shareholders.
- P3s compromise democratic accountability and transparency, while the public partner shoulders the risk of bad deals that go on behind closed doors. The terms of P3 contracts and negotiations are typically kept secret in line with standards for private sector commercial confidentiality. Public policies and procedures that require public consultation and transparency are seen as obstacles to P3s.
- Auditors and auditors general consistently raise concerns about potential mismanagement of public funds with P3s due to P3 accounting practices and the extent to which they obscure and hide real public liabilities.
- In recent reports, organizations such as the World Bank and, more locally, the CD Howe Institute, that support privatization, cannot point to any outright successes in terms of public benefit. This was confirmed here on PEI when the Province decided not to go P3 with the Prince County Hospital after it determined that the cost of building it would be higher than if the government built it itself.
- P3's offer no evidence of improved service levels.
- Lawyers, accountants and other consultants, detailed proposal processes, drafting, negotiating and renegotiating complex agreements, are all expenses incurred by the public partner that add up before the shovel hits the ground.
- Once a P3 is up and running, legal and forensic advice, audits, termination payments, monitoring and negotiation, are additional costs rarely factored in to the costing of a P3 deal.

Examples of When P3's Go Wrong

When P3 business ventures fail the taxpayer absorbs any additional costs because the public partner is ultimately responsible for providing a public service. Provincial and Municipal governments are left carrying the cost of debt incurred at private sector borrowing rates. Listed below are but a few examples where P3's went wrong.

- In the Report Doing the Math (Why P3 's for Alberta Schools Don't Add Up) released in December 2007, the author found that using the conservative assumptions used in his analysis that for every two schools financed using the P3 model, an additional school could be built if they were all financed using conventional public sector financing.
- In the case of the Brampton Hospital in Ontario, a group of multinational corporations built the hospital in return for a contract that pays them not only large profits for putting up the money for the building, but also gives them a guaranteed 25-year contract to take over the hospital support services and lands to run them for profit. In the end, for almost double the original cost (\$350 to \$650 million) the hospital has 3/4 of the promised beds (608 to 479) and was completed a year late .

- In June 2000 Nova Scotia cancelled its P3 school project—50 schools for \$350 million—when it became too expensive. However, the 38 schools that had already been built under this initiative cost Nova Scotia taxpayers \$32 million more than had been estimated. When the province reverted to traditional public sector methods for future school construction it did so at an estimated \$2 million savings per school. Since 2000, stories of problems with the schools have been circulating---spraying of pesticides on school grounds in spite of health concerns, delayed building repairs, private builders—not local preferences—determining where new schools would be built, and increased fees for community groups wishing to rent school facilities.
- In the case of the Evergreen school in Moncton, the provincial auditor’s reports showed that this school cost nearly \$900,000 more than a publicly financed and owned project. The 1998 report suggests the government overestimated some costs to make the P3 seem more attractive than it actually was.
- With the Royal Ottawa Hospital, in London, the cost of relocating three hospitals on a single site went from 770 million to 1.7 billion dollars.
- With the Abbotsford Regional Hospital and Cancer Centre, BC, to date the government has spent over \$7 million in administrative costs to pursue projected savings that were initially estimated at \$3 million over the length of the 30+ year contract. Construction costs have increased from \$210 million to \$355 million, and the annual operating lease for the private sector contractor has doubled from \$20 million to \$41 million. Legal and consultant costs for this deal are budgeted at \$24.5 million which will be paid by the public.
- The City of Guelph, Ontario invested \$10.5 million of public money and then guaranteed a \$9 million loan to a private company (Nustadia Developments) to build a P3 arena mall complex called The Guelph Sports and Entertainment Centre. Still early in the 35-year deal, the company realized they were in trouble when revenue turned out to be lower than expected. After having already subsidized the project with almost \$20 million in capital funding, the City was now forced to cover private partner’s portion of the debt as well. In the summer of 2001, the City began to pay Nustadia’s \$750,000 mortgage payments and all federal and corporate taxes associated with the project.
- The City of Cranbrook, BC tried a P3 to keep the debt incurred from building a 4250-seat arena off-book. The private partner had trouble securing financing, construction was late getting started, there were cost overruns that the City had to absorb and the City’s borrowing power was reduced substantially as a result of the long-term lease. Ownership changed hands several times and when the project failed the City found itself with the highest debt level in the province. The tax increase to residents of Cranbrook alone for this project was 7% and fees increased considerably from what was charged at the city-owned rinks.

In the end we hope that this government will look at all the failures of P3's and realize that all public Provincial projects are most effectively and efficiently done when they are funded from public funds, owned by the province, and run and maintained within the Public system. It is the Provincial government's responsibility to provide Islanders with the public facilities and services that most effectively and efficiently service the citizens of PEI. This cannot be done when corporate profit becomes the main goal and the driver in the decision making process.

Therefore the PEI Federation of Labour urges the Province to ignore the pressure being put on them to choose the P3 option in the construction of new long-term care and youth addictions facilities and find away to bring these projects together through the Public system.

Harmonized Sales Tax

Harmonized Sales Tax

The PEI Federation of Labour would like to express its happiness in the Provincial government's recent decision to reject the implementation of the Harmonized Sales Tax (HST) on PEI.

The main problem with the HST is the same now as when the province first rejected this concept approximately 11 years ago. By removing the tax exempt status from so many of the items that are essential in all Islanders' day to day lives. The HST would have brought major hardships to many Islanders especially to those that can least afford it.

As we have seen recently with the troubles many are having with the increased minimum requirements for home delivery of heating oil and the recent substantial increases in heating oil and electricity rates, there are many Islanders who are having problems making ends meet. What would have happened if this government had implemented the HST and all of sudden Islanders are faced with an extra 8% increase in:

- their home heating oil bill
- their electricity bill
- their clothing and footwear bill
- and if applicable their costs for baby and educational supplies and textbooks.

The pipedream that consumers on PEI would have seen a tax reduction from the HST is simply that a pipedream.

This was reinforced on January 23, 2008, when the Saskatchewan government announced they were rejecting the federal proposal for a harmonized sales tax because it would be too big a hit for consumers. They concluded that the HST would end up costing Saskatchewan residents \$400 million and that the incentive from the federal government, in the neighborhood of \$180 million, was "no where nearly enough" to cushion the impact and make the change. This was not Saskatchewan's first time dealing with the HST in 1991, the province briefly implemented harmonization. However, the move was so unpopular when the provincial government changed power a few months later the HST immediately killed it.

Plain and Simple the HST is a bad tax for the general public because it unfairly shifts a large tax-burden from businesses to consumers. Economists estimate that harmonization in the five provinces (British Columbia, Saskatchewan, Manitoba, Ontario and Prince Edward Island) that run a separate provincial sales tax system (Alberta has no provincial sales tax) would result in a whopping \$7.5-billion shift in taxes from businesses to consumers.

The PEI Federation of Labour was also very concerned over the impact the switch to the HST would have on jobs at the Department of the Provincial Treasury. If the switch to the HST occurred, it would cause the PST to be moved from being provincially administrated to being absorbed into the federal system, we were very concerned that this could have resulted in significant job losses in the Department of the Provincial Treasury.

At a time when PEI is already struggling to keep University Graduates and highly skilled workers here on the Island, the elimination of any good, relatively stable and well paid jobs would have had a more detrimental affect to our Island economy than any of the benefits that the HST would have provided.

In the end, we are glad that this government has put public interest first and realized that the HST would have had major detrimental affects on Island consumers especially low income Islanders. On PEI where 26.4% of our workforce (15,000 Islanders) earn less than \$10/hr, the HST would have been a major hardship. There were no savings to be had for Island Consumers. We are very glad that the provincial government has realized this.

| Some of the Essential Goods Exempt from Provincial Sales Tax (PST) | |
|---|---|
| Category | Details |
| Baby Goods | bibs, blankets, bottles, harness, mobiles, oil, powder, sheets, teethers, non-disposable diapers, mattresses, nipples, pillows, rattles, and soothers |
| Classroom Supplies | clipboards, construction paper, crayons, drawing books, drawing instruments, drawing paper, erasers, foolscap, glue sticks, graph paper, highlighters, ink, loose-leaf paper, marker pens, music manuscript paper, paste, pencil cases/boxes, pencils, pens, pocket calculators, ring binders, rulers, scissors, scrapbooks, scribblers, sketch books, and workbooks |

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| <p align="center">Food and Beverages</p> | <p align="center">food or beverages for human consumption including sweetening agents, seasonings and other ingredients mixed with or used in the preparation of such food or beverages.</p> |
| <p align="center">Fuel and Energy</p> | <p align="center">Gasoline; diesel, stove, and fuel oils, firewood; electricity; Natural, manufactured and propane gas</p> |
| <p align="center">Safety Equipment and Apparel</p> | <p align="center">safety boots, hard hats, goggles, face shields, protective clothing and similar items required in the workplace</p> |
| <p align="center">Clothing Including Fabrics and Accessories and Footwear</p> | <p>- "Clothing" means all items designed to be worn on the body but does not include protective items such as helmets, hockey pants, shoulder pads, shin pads, hockey gloves, baseball gloves, golf gloves and other protective items of a similar nature and does not include watches, jewellery, purses, umbrellas and similar items.</p> <p>- "Footwear" does not include cleated sports footwear such as baseball cleats, golf shoes, soccer boots, or bowling shoes, curling boots, ski boots, skates, waders and footwear of a similar nature.</p> |
| <p align="center">Other Essentials</p> | <p>-Funeral caskets -Newspapers -Textbooks prescribed by any school, college, university or trade school in the province</p> |

Conclusion

When you are making the final decisions regarding your budget for this year, we hope that you will consider the important role that taxes play in our society. We pay taxes to support the public infrastructure, programs and services that play such an important role in the everyday lives of all Islanders. That is why we are so concerned by the constant tax cuts being trotted out on both the Federal and Provincial levels and the unfairness that is being shown in their implementation with businesses and those with the largest incomes seeing the brunt of the positive impact of these cuts.

In fact a recent study from the Canadian Centre for Policy Alternatives showed that the top 1% of Canadians in family earnings were paying 30.5% of their income in federal, provincial and municipal taxes in 2005 while the poorest 10% of Canadians, with incomes of \$13,523 or less, paid 30.7%. In the report they found that, Provincial tax cuts are the key culprit for the increasingly regressive nature of Canada's tax system but the problem has been exacerbated at the federal level with billions of dollars worth of post-2000 tax cuts.

The Recent spree of Federal and Provincial tax cuts have had little to no impact on the pocketbooks of the average Islander but they have had a major impact on the Public Services that Islanders so rely on. These impacts have come in the form of increased privatisation, crumbling infrastructure, reduced services, the loss of relatively well paid public service jobs and increased workload for the public employees still working.

In the end, what the PEI Federation of Labour wants to see is this Government look at ways to ensure our taxation system abides by the principles of the "progressive taxation system" it is supposed to be where citizens contribute to the collective pot according to their ability to pay. To continue to give tax breaks in the unfair manner that they have been given without regard to the continued well being and expansion of our Public Services must stop. Your government's decision to reject the HST was a step forward for PEI. It is our hope that this budget will continue in that direction.