

# Finance Watch

MAKING SCHOOL FINANCE ACCESSIBLE

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## Inside this issue:

Capital spending on BC schools 1

About the publisher 2

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**Next issue:**  
**May, 2007**

## Capital idea: changing how we build schools

School capital spending is not normally a hot button provincial issue. However, recent changes in policy, context and direction are combining to bring significant new challenges to this area of public school finance.

This is because the province is anxious to rationalize when and how it spends on new school construction, and has already taken important steps in this direction. With an announced intent to use a 'public-private partnership' (P3) model for vetting new projects costing more than \$20 million, it has also signaled an interest in changing the way new schools get financed and operated.

### Falling enrolment and surplus space

Changes affecting capital funding take place against a backdrop of continued decline in BC's school-aged population. All things considered, this decline works to lessen the social and political priority given to bricks and mortar spending in public K-12.

Falling enrolment has led to increased surplus school space throughout the province. It has also brought increased Ministry efforts to oblige districts to rationalize space usage. This, in turn, is having an indirect impact on financing for new schools.

### Three components

BC currently spends between \$200 and \$300 million per year on school capital initiatives, about half what it was ten years ago. While this spending falls under different Ministry initiatives, there are currently three major components in the capital spending envelope.

- **Capital projects:** This seg-

ment goes to acquire sites, build new schools, or to do major renovations or replacements of existing facilities. It has been highly variable in recent years. In 2007/08, BC plans to spend \$90 million in this area, an amount slightly down from the previous two years.

- **Annual Facilities Grant:**

This segment goes on spending intended to extend the useful life of existing school assets. This year and next will see annual provincial commitments of \$110 million. Now, the Ministry of Education has other plans for AFG monies, including allowing districts to contribute them to new school construction, something the fund was never intended for.

- **Seismic mitigation:** A total of \$1.5 billion was committed two years ago over a 15 year period to help make our schools safe. Results of this initiative have been slow in coming but some progress has recently been reported. This year, some \$70 million was committed but next year the figure will fall to \$16.5 million. A major problem has been the escalation of construction costs and the fact that committed funds will go nowhere near as far as originally expected.

### The larger picture

There is of course a larger context to the problems facing school capital spending in this province. First on the list is robust economic growth in BC, and the province's proximity to Alberta's hot economy. The draw on skilled trades workers is creating labour shortages. Add this to aging provincial infrastructure, increased transportation-related spending (such as

**"With the current push to shed assets, where will we be on this issue in 2015 when BC enrolment is forecast to grow again"**

the Canada Line and the Gateway project), and of course the Olympic Games. The end product is a rapid run-up in construction costs and higher sticker prices for all capital projects, including those in the public school sector.

Second on the list is a reality of major competition for capital dollars across BC's public sector. This spring's budget detailed a sprawling list of capital spending needs totaling several billion dollars with BC Hydro, highways, post-secondary education and health care topping the list, in addition to the 2010 festivities.

Third is the P3 announcement made by the premier last October. Speaking to the Union of BC Municipalities convention, Premier Campbell announced that school projects involving more than \$20 million in provincial money would first have to be considered for P3 financing. This announcement adds a new twist. P3s reflect an intention to seek outside investment so debt can be kept 'off-book.' However, BC's Office of

*(Continued on page 2)*



(Continued from page 1)

the Auditor General may take a different view on this by refusing anything less than a full reporting of the province's capital spending costs. To date, at least one project – Prince George's replacement for Duchess Park Secondary – has been discussed publicly as a candidate for P3 development. P3 experience elsewhere in this country as well as around the world suggests that P3s may be a good way to reward friends with lucrative contracts but they are an ideologically-driven policy choice that has little to do with saving money.

In any event, these developments place added stress on BC's K-12 capital spending commitments.

### BC's strategy

Just what the province's response is to these developments is still a matter for speculation. However, available evidence points to the following,

- *Maintain capital spending at a comparatively low level.* As noted, BC spent almost twice as much annually in the late 90s. Falling enrolment and surplus space within schools provide a convenient rationale for significantly reduced commitments now.
- *Tighten up the capital approval process.* Smaller budgetary allocations have the Ministry of Education funding only the most pressing requirements.
- *Oblige districts to streamline space use.* Before capital projects can be approved, school boards must adhere to more stringent space use guidelines for existing facilities. This has provided a direct inducement for school level programs and grade offerings to be re-organized and, in some cases, for schools to be closed.
- *Provide inducements for districts to shed surplus assets.* Victoria has, of late, clarified rules governing who get to keep the proceeds of asset sales. This provides an incentive for districts to place closed facilities or land on the market block.
- *Get districts to pony up their own funds for capital projects.* Boards typically lack regular access to money for this purpose. The only real source is historical reserves, the Annual Facilities Grant or the sale of surplus schools. Any or all of these funds might now be used to top up levels of provincial capital funding. In some cases, the addition of district money can be used to upgrade new facilities to a more enhanced level in terms of design or features.

### Where will the strategy take us?

Cost-driven rationalization of school organization and programs reduces choice, innovation and experimentation in our schools. There is really no other way to put it.



Divesting capital assets will generate short-term cash flow for those districts in a position to benefit from rising real estate values. This runs the risk of creating district haves and have-nots. The haves will be districts with valuable assets to sell or those able to strike deals with private developers.

That being said, P3 school finance, with attendant higher costs, increased risk and loss of school ownership, will take BC down a trail already razed in countries like the UK or the US where school privateers got lucrative long-term payments, and public authorities got stuck with contracts for costly and often substandard facilities. In some cases, public access to P3-built facilities has itself been encumbered by the very fact that facilities are privately-owned.

Joint use plans for school facilities with outside groups is another likely outcome. This is not necessarily a bad idea. There are many social policy areas where children, families and communities could benefit from joint use. However, when viewed through the province's P3 lens, there is real worry regarding the possible penetration of corporate interests into our public system.

We might also consider where we as a province will be if we shed today's surplus schools when school system expansion could be on the agenda in less than a decade.

The last time BC faced a major drop in enrolment (1977 to 1987) many districts held on to surplus schools and were able to bring them back into service in a post-Expo '86 flush of renewed enrolment growth. Extra costs associated with new site acquisition were reduced as a result. With the current push to shed surplus assets, where will we be on this issue in 2015 when BC enrolment is forecast to grow once again?



### About the publisher

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