

Backgrounder on K-Bro Linen Systems

The new provider of hospital linens in Saskatchewan

Introduction

On December 13, 2013, Saskatchewan's shared health organization 3sHealth announced that it had signed a 10-year contract with K-Bro Linen Systems to provide linen service to twelve Regional Health Authorities and the Saskatchewan Cancer Agency.

The decision to privatize hospital laundry will result in the closure of public regional laundry facilities in six communities and the loss of close to 400 unionized jobs.

3sHealth is claiming the health system "will save approximately \$97.7 million over the next ten years." The breakdown of these "savings" were not disclosed with their news release and are higher than the \$93 million in savings they claimed in May 2013.

On May 29 of this year, 3s Health named K-Bro Linen Inc. its "preferred vendor" for the provision of hospital laundry services in the province in response to 3sHealth's Request for Strategic Partner, a competition that closed August 22, 2012. No word about the successful bidder was released until May 29, when 3sHealth announced the news to unions an hour and a half before notifying the public. 3sHealth stated it would begin negotiations with the Alberta-based corporation on a contract to privately build, operate and own a new laundry facility in Regina.

K-Bro has a long history of benefitting from privatization of public health laundries. K-Bro is using taxpayer dollars to keep wages low and to keep unions out. This backgrounder provides information about the corporation, history on its labour relations, and raises questions about the transparency of the government's decision to privatize laundry.

Corporate Information

K-Bro Linen is the largest provider of laundry and linen services in Canada¹ and has been expanding its operations significantly over the past number of years. It has changed its corporate structure several times, operating for many years as an income fund trust structure and converting back to a publicly-traded corporation in January 2011.

Its headquarters are located in Edmonton, Alberta but it operates eight laundry facilities in Edmonton, Calgary, Vancouver, Victoria, Toronto, Montreal and Quebec City. Its recent acquisitions include:

- 2006: Premier Linen Supply Ltd in Victoria, B.C.
- 2008: *Buanderie HMR Inc* in Quebec City
- 2010: a second processing plant in Vancouver
- 2011: *Les Buanderies Dextraze* in Montreal

In 2012, K-Bro Linens had total revenues over \$126 million. The majority of its revenues come from public health care customers: in its 2013 third quarter financial statement, K-Bro reported that 67.1% of its total revenues came from public health institutions.² In other words, its primary business and profits come in the most part from taxpayer funding.

K-Bro's primary objectives are maximizing profits and shareholder value. Their 2013 first quarter financial report states that "K-Bro's key performance drivers focus on growth, profitability, stability and cost containment in order to maintain dividends and maximize shareholder value."³

Indeed, it does maximize shareholder value. In 2012, K-Bro Linens paid out \$8 million in dividends to its shareholders, according to its 2012 annual financial statement.⁴ A "Total Return Calculator" on K-Bro's website allows investors to calculate returns on investment. For example, \$50,000 invested on December 17, 2012 would yield \$67,705 a year later – a 35.41% return on investment.⁵ K-Bro's 2012 Annual Report shows that the 5-year total shareholder return as of 2012 was 253.8%.⁶

¹ K-Bro Linen Systems. 2012 Annual Report, page 4.

² K-Bro Linen Inc., Q3, 2013 Condensed Consolidated Financial Statements, note 10.

³ K-Bro Linen Inc., Q1, 2013 condensed Consolidated Financial Statements, p.4.

⁴ K-Bro Linen 2012 Annual Report, p.15.

⁵ www.k-brolinen.com. Click on "Investors" tab and then on "Total Return Calculator".

⁶ K-Bro Linen 2012 Annual Report, p.8).

Its President and CEO Linda J. McCurdy's total compensation in 2012 was almost \$1.3 million. Its top five executive officers, including McCurdy, together earned over \$2.9 million in 2012.⁷

K-Bro Linens typically signs long term contracts with its health care clients in the range of seven to ten years. It maintains low wages for its employees and signs long term utility contracts to keep its costs low and profits high. In the announcement of its 10-year agreement with K-Bro, 3sHealth states that there is an option to renew for two additional three-year terms.

K-Bro has been aggressively pursuing new customers for the last number of years. When the Saskatoon Health Region's laundry facility was closed in November 2011, the majority of its linens were sent to the non-profit North Sask Laundry in Prince Albert, creating 29 full-time jobs. Six months later, the Saskatoon Health Region decided to send its laundry to K-Bro Linens in Calgary – 6 ½ hours away. K-Bro Linen highlighted this new contract in its financial report:

“For the three months ended March 31, 2013, K-Bro's revenue increased by 4.9% to \$31.16 million from \$30.2 million in the comparative period. This increase was due to a combination of additional volume from the Saskatoon health Region and organic growth and price increases at existing customers across the plants.”⁸

Poverty wages

The nature of the work of hospital laundry workers is demanding and hazardous. Laundry workers have to sort and clean hospital linens that may be soiled with blood, human waste and infectious substances. At times contaminated instruments are accidentally mixed with the hospital linen. The laundry itself is heavy, especially when wet, and the job tasks involve a lot of repetitive movements.

For such heavy and demanding work, laundry workers deserve to be compensated fairly. Under existing collective agreements covering laundry workers in Saskatchewan, entry level wage rates start at \$15.61 to \$16.20 an hour, depending on the collective agreement. For a full-time worker, \$16.20 an hour would provide an annual salary of less than \$34,000 before taxes and deductions.

⁷ K-Bro Linen Inc., Notice of Annual General Meeting and Management Information Circular, Presented to Annual General Meeting of Shareholders on June 18, 2013, p.17

⁸ K-Bro Linen Inc., Q1, 2013 Management's Discussion and Analysis, p. 5.

Shortly after the laundry privatization announcement in May 2013, unions representing laundry workers received a copy of a letter dated August 2, 2012 with a proposed ten-year collective agreement that K-Bro Linens was presenting to at least one union to accept. The proposed collective agreement had been written before the competition for 3sHealth’s Request for Strategic Partner closed.

K-Bro Linen’s desired wages for its new plant to be built in Regina, unveiled in its proposed 10-year collective agreement, are barely above minimum wage. The entry level hourly wage rate for January 1, 2013 is an appalling \$10.75 an hour – 34% below the starting wage rate in regional hospital laundries. In 2023, the starting wage rate for a K-Bro Laundry worker would rise to \$12.85 an hour if that agreement were in effect.

Below is a sample of hospital laundry worker wage rates in current collective agreements:

Comparison of Hospital Laundry Wages Rates and Proposed K-Bro Linen Wage Rates, Saskatchewan				
Collective Agreement	Effective date	Job Title	Start wage	Top wage
CUPE/SAHO	April 1, 2011	Laundry Services Worker	\$16.20/hour	\$17.35/hour
SEIUWest/SAHO	April 1, 2011	Laundry Services Worker	\$16.20/hour	\$17.35/hour
CUPE/North SK Laundry	Jan 1, 2011	Laundry Aide/Machine Operator Washer Person	\$15.68/hour \$16.54/hour	\$16.69/hour \$17.61/hour
RWDSU/RQHR	April 1, 2012	Laundry Aide Washer Operator	\$15.61/hour \$17.10/hour	\$16.73/hour \$18.32/hour
CUPE 600/Valley View	Oct 1, 2011	Laundry Worker	\$17.78/hour	\$19.99/hour
Proposed K-Bro Linen	Jan 1, 2013	General Help Tunnel Operator	\$10.75/hour \$12.75/hour	\$11.50/hour \$13.50/hour

A search on “jobbay.ca” reveals postings for a number of jobs with K-Bro Linens. The posted wage rate for a laundry worker in the facility in Calgary, which is not unionized, was \$10.35 to \$12.62 an hour, 40 hours per week.⁹

According to its annual report, K-Bro uses the Temporary Foreign Workers program to “mitigate against labour shortages.” Its *Q1, 2013 Management’s Discussion and Analysis* report explains that, “K-Bro is a participant in the temporary foreign worker (“TFW”) program in our facilities where genuine labour shortages exist, predominantly within our Alberta plants.”¹⁰

⁹ Posted on jobbay.ca on April 17, 2013.

¹⁰ K-Bro Linen Inc, Q1, 2013 Management’s Discussion and Analysis, page 3.

Considering that K-Bro is advertizing a starting wage rate of \$10.35 an hour in its Calgary plant, this raises questions whether there are “genuine” labour shortages or whether few job hunters are willing to work at poverty wages for such heavy, demanding and hazardous work.

It also raises the question whether the low wages apparently being offered by K-Bro Linen in Regina will be able to attract workers. This is a risk that has not been considered or costed in the 3sHealth Evaluation of Options for laundry delivery.

Benefitting from Privatization

K-Bro Linen first gained notoriety in the mid-1990s when, under the Conservative government of Ralph Klein in Alberta, laundry services in Calgary were privatized. Laundry workers went on a wild cat strike and garnered national headlines. But the laundry jobs were eventually given to K-Bro Linen.

In 2002 when the Fraser Health Authority contracted its hospital laundry services to K-Bro Linens in Calgary, leading to the loss of 43 unionized laundry jobs, demonstrations took place. Hospital Employees Union president at the time, Fred Muzin and then financial secretary Mary LaPlante were arrested for participating in a blockade of K-Bro laundry trucks¹¹.

In 2003, the Lions Gate Hospital in North Vancouver contracted with K-Bro Linen for laundry services. About 47 hospital laundry workers lost their jobs to K-Bro who subsequently cut the hourly wages in half.

A review of K-Bro’s annual financial reports reveals that the corporation promotes itself as a company that can provide “cost-effective services” to public health care institutions who want to reduce laundry costs. The majority of the cost savings, however, are made on the backs of the workers who have gone from fair to poverty wages through privatization -- or lost their jobs altogether.

¹¹ Robyn Chambers, “Protesters hold up laundry: some HEU members arrested as hospital linen shipped to Alberta,” Chilliwack Times, November 26, 2002.

Labour Relations History

Only about 35% of K-Bro's 1,600 employees are unionized. Collective agreements are in place in Toronto (UFCW and Teamsters), Quebec (UFCW) and Vancouver (Teamsters).

Despite the fact that one-third of its workforce is unionized, K-Bro Linen is vehemently opposed to any further unionization or any possible labour disruption by its unionized employees. In its Annual Information Form filed March 13, 2013, K-Bro states:

"While we believe that our employee relations are satisfactory, any work stoppage resulting from a strike or lockout could have a material adverse effect on K-Bro's business, financial condition and results of operations, including increased labour costs and service disruptions. In addition, significant union representation would require us to negotiate with many of our employees collectively and could adversely affect our results by restricting our ability to maximize the efficiency of our operations...

"K-Bro has also been and could continue to be the target of a unionization campaign by several unions. **We will continue to oppose any unionization campaign.** Unionization campaigns could be materially disruptive to our business and could adversely affect our consolidated results of operations."¹²
[emphasis added]

The strong anti-union position of K-Bro Linen sheds light on why they are attempting to put in a place a 10-year collective agreement with suppressed wages. Rather than risk a genuine union organizing drive, it appears they want to entrench low wages in a lousy contract over ten years. Their bid for provincial laundry was most certainly based on the guarantee of low wages over the long term.

Lack of Transparency

As is the case with most privatization, there is a high degree of secrecy and lack of transparency regarding the K-Bro contract.

In early 2013 CUPE filed an Access to Information request for a copy of the contract between the Saskatoon Health Region and K-Bro Linen but was denied a copy for reasons of commercial secrecy. CUPE has appealed to the Privacy Commissioner the Region's refusal to provide the contract.

¹² K-Bro Linen Inc., Annual Information Form, March 13, 2013, page 21.

Similarly, CUPE has been denied access to critical information regarding the privatization of laundry services. The majority of financial information released to the union has been heavily redacted, making it impossible to assess the financial argument for privatization. The lack of transparency is compounded by the fact that 3sHealth, as a non-profit organization, is not covered by Freedom of Information legislation.

The provincial government and 3sHealth have failed to provide justification for the complete privatization of hospital laundry in Saskatchewan. In fact, the business case prepared for 3sHealth recommended the province build two publicly-owned and operated plants.

Conclusion

The 10-year contract with K-Bro Linens raises a number of critical questions to which the government must respond.

- Did the provincial government select K-Bro Linen as the “preferred vendor” for the provision of health laundry services because of its proposal to slash wages?
- why is the provincial government willing to sacrifice good paying jobs in six communities to ensure maximum profits for an Alberta-based corporation?
- What is the economic impact of the loss of close to 400 fairly-paid jobs in Saskatchewan?
- Was the competition for a “strategic partner” truly fair and transparent? Or was K-Bro Linen promised the contract before the competition closed? Was this contract sole-sourced?
- if the competition for a strategic partner did not close until August 22, 2012, why was a lawyer shopping around a 10-year collective agreement for K-Bro on August 2, 2012 – 20 days before the tender closed?
- Did the provincial government consent to K-Bro Linen’s plans to ignore successorship rights of existing trade unions and impose a low wage collective agreement on the new workforce?
- Will K-Bro Linens pay taxes on its income to the Saskatchewan government?
- What is the cost of the substantial risks transferred to the province in this contract and why were those costs not included in its Evaluation of Options?
- The Evaluation of Options acknowledges that “a single source contract may leave 3sHealth as a “price taker” at the end of the contract.” How will the government protect taxpayers once K-Bro has a monopoly in the province?

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