

The INFRASTRUCTURE CHALLENGE

OVERCOMING CANADA'S INFRASTRUCTURE DEFICIT IS GOING TO REQUIRE A HISTORIC COMMITMENT

by **ANDREW BROOKS**

For something that is widely acknowledged to be a public benefit, infrastructure investment has become a hot political topic in Canada. Few politicians openly disagree with the idea of investing to maintain and upgrade the country's infrastructure, and they're also willing to make what sound like sizeable investments. To take one example, last April the Ontario government announced a 10-year, \$130 billion

infrastructure spending plan. That was welcome news, but securing the funds is still a serious problem.

The other problem is the scale of the challenge. Over the last several decades, the national infrastructure deficit has continued to grow. Today it's at a level that some sources put as high as \$400 billion. And the resulting economic fallout has reached critical levels.

"The Scorecard on Prosperity," a study published by the Toronto Board of Trade, argues that if the population of Canada increases to expected levels in the future, the current estimated \$6 billion in lost productivity from traffic congestion alone will rise to \$15 billion. The study says that existing infrastructure maintenance is another key area that has lagged as a priority, resulting in a huge infrastructure deficit.

“Municipal infrastructure in many jurisdictions could not be categorized to be in a state of good repair,” the study concludes.

The “Canadian Infrastructure Report Card,” issued in 2012, was the first comprehensive attempt to assess the state of the nation’s infrastructure. The report was based on survey data provided by 123 municipalities across the country. Canada’s roads scored especially poorly. Drinking water infrastructure and waste water infrastructure ranked “good, adequate for now,” and storm water infrastructure scored “very good, fit for the future.” Road infrastructure, on the other hand, rated only “fair, requires attention.” The estimated investment required to put this right? \$91.1 billion, or more than \$7,000 per Canadian household.

It’s probably not surprising then, that various levels of government, despite their stated commitment to infrastructure remediation, have also sought to shift the responsibility. Federal and provincial government have consistently offloaded responsibility for infrastructure to municipalities. CANSIM data for capital and repair expenditures reveal the trend; in 1970 provincial governments shouldered

slightly over half of the burden, with local governments at around a third and the federal government chipping in about 15 per cent. As of 2007, the federal share had halved, falling to about seven per cent, the provincial share had declined to just under 40 per cent, and the local level was now comfortably on top at 55 per cent.

But the distribution of resources for handling that burden has hardly followed the same pattern. Despite the fact that Canadian municipalities own over 60 per cent of the country’s infrastructure, they only collect eight per cent of total taxes levied in the country. And while the vast majority of the risk associated with infrastructure investment is borne by provincial and municipal governments, only 12 per cent of that risk falls to the federal government, although it has by far the greatest resources.

In 2007, the Federation of Canadian Municipalities (FCM) pegged the municipal infrastructure deficit in Canada at \$123 billion. “About half of that deficit in Ontario is for roads, bridges, waste water and storm water [infrastructure],” says Geoff Wilkinson, ORBA Executive Director. Today, federal infrastructure

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spending accounts for about 3.9 per cent of GDP, while in the 1960s that figure was 5.7 per cent. Wilkinson believes that spending should at least reach the five per cent level again.

Michael Atkinson, President of the Canadian Construction Association (CCA) delivered a presentation to the CanaData Construction Industry

Historical Federal Investments in Infrastructure



Transcontinental Railway

1880



Port of Vancouver



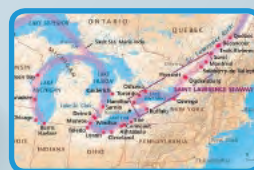
Canadian National Railway

1919-22



Trans-Canada Highway System

1950



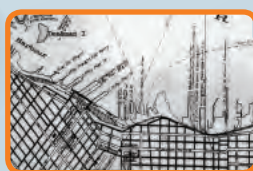
St. Lawrence Seaway

1954



Airports

1991



Source: Canadian Construction Association, September 2015

Forecast Conference in September, where he hammered home the point that sustained infrastructure investment is essential to maintaining Canada's future prosperity and quality of life, and that investments in infrastructure increase productivity. The return on investment is impressive, Atkinson said:

In the short term for every dollar invested in infrastructure GDP increases by \$1.43 and over the

long term the discounted present value of GDP generated per dollar of public infrastructure spending or return on investment lies between \$2.46 and \$3.83.

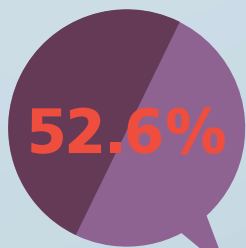
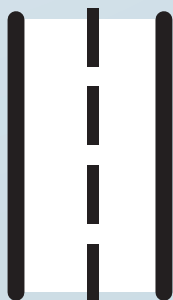
"If trade is the oxygen of the Canadian economy," Atkinson said, "then infrastructure is the lungs!"

During the latest federal election campaign, Liberal leader and now Prime Minister Justin Trudeau pledged

to make a dramatic hike in federal infrastructure investment over the next decade. "At full implementation, this will represent an annual additional investment of \$9.5 billion per year," Trudeau's campaign literature claimed. "This will almost double federal infrastructure investment to nearly \$125 billion - from \$65 billion - over 10 years, which will be the largest new investment in infrastructure in Canadian history." The Liberal plans include a new

Canadian Infrastructure Report Card (2012)

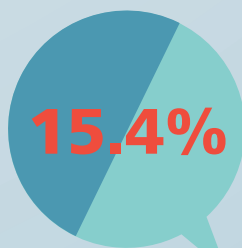
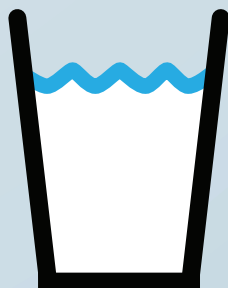
Results



MUNICIPAL ROADS
FAIR, REQUIRES ATTENTION

52.6 percent of municipal roads rank fair or below.

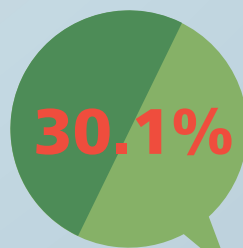
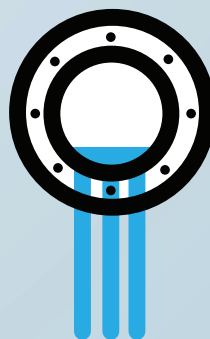
Replacement cost - \$91.1 billion or \$7,325 per household in Canada



DRINKING WATER
GOOD, ADEQUATE FOR NOW

15.4 percent of drinking water pipes rank fair or below.

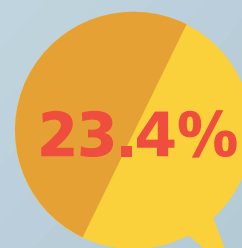
Replacement cost - \$25.9 billion or \$2,082 per household in Canada



WASTEWATER
GOOD, ADEQUATE FOR NOW

30.1 percent wastewater pipes rank fair or below

Replacement cost - \$39 billion or \$3,136 per household in Canada



STORMWATER
GOOD, ADEQUATE FOR NOW

23.4 percent of stormwater pipes rank fair or below.

Replacement cost - \$15.8 billion or \$1,270 per household in Canada

Canada Infrastructure Bank, which would provide low-cost financing to municipalities and provinces for infrastructure projects.

These plans would require deficit spending to the tune of \$10 billion a year for three years. "Deficit" may still be largely a dirty word in political discourse, but economists have long defended the notion of running deficits to stimulate the economy - and infrastructure spending is one of the best ways to do that. In discussing Trudeau's deficit financing plan following the election, BMO Chief Economist Douglas Porter emphasized to a conference audience in London, Ontario that the proposed investments could boost Canada's GDP by .5 per cent.

"Ottawa is clearly a jurisdiction that can afford it," Porter said. "You can debate whether \$10 billion is the right number ... but the general thrust is reasonable."

No one will know for sure exactly how the Liberals' infrastructure pledges will translate into action until the new government releases its first budget, which will likely be in March or April. So for the time being the party's campaign platform remains the main statement of their objectives.

And as grand as the promises sound, even if the Liberals follow through on every detail, the infrastructure deficit isn't going to go away any time soon. When Consultant Michael Fenn published an infrastructure research study titled "Unlocking Ontario's Advantages" for the Residential and Civil Construction Alliance of Ontario (RCCAO) last December, he described Canada's infrastructure challenge this way: "We need to mount an infrastructure investment program of a 'generational' scale and breadth that exceeds anything to which we have committed ourselves now or in the recent past." And unfortunately, while it's nice to see politicians of all stripes announce their commitment to infrastructure renewal, not even the best plans they've laid out so far are on a scale that matches the country's infrastructure deficit. ■

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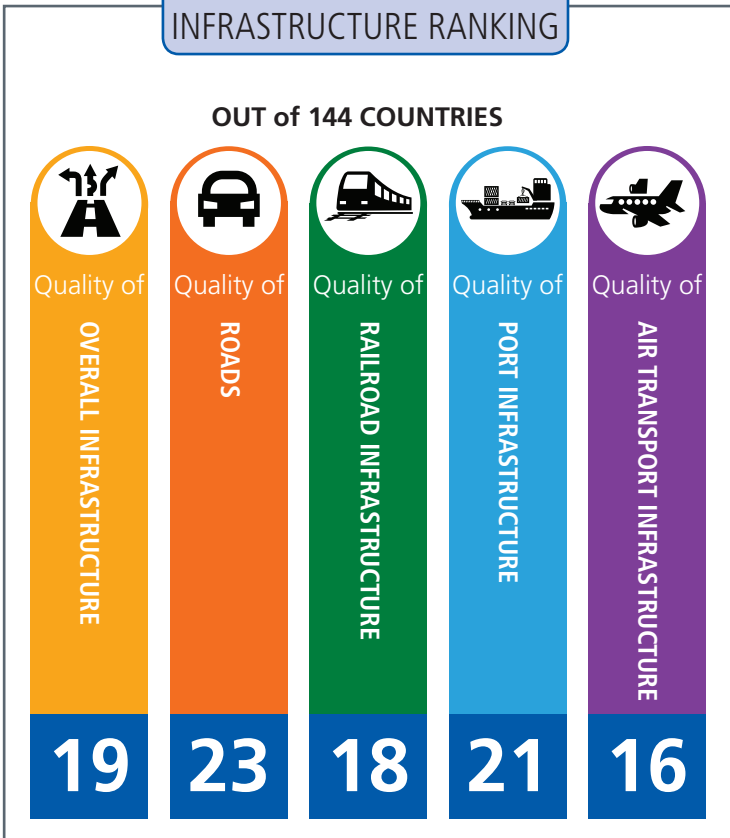
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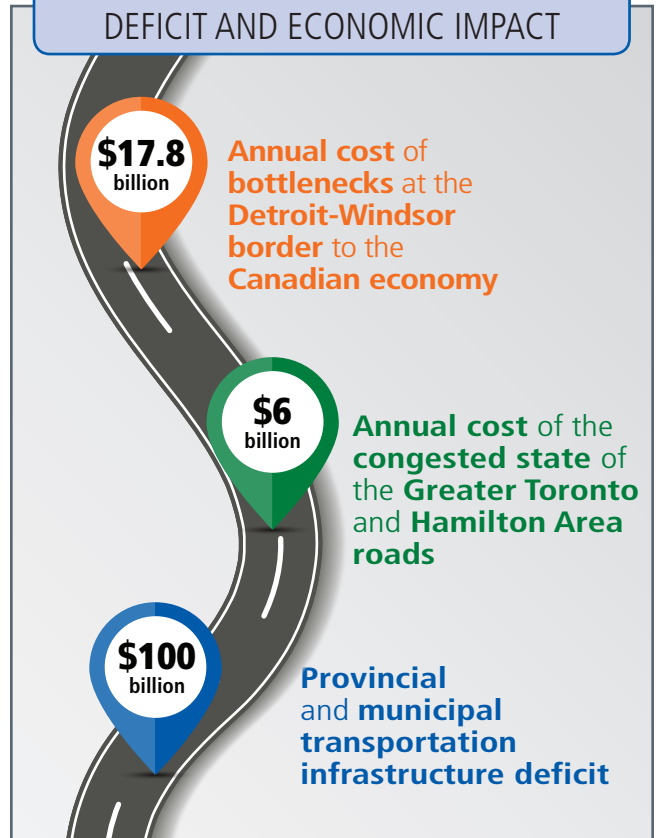
FACTS & FIGURES

CANADA'S WORLD INFRASTRUCTURE RANKING



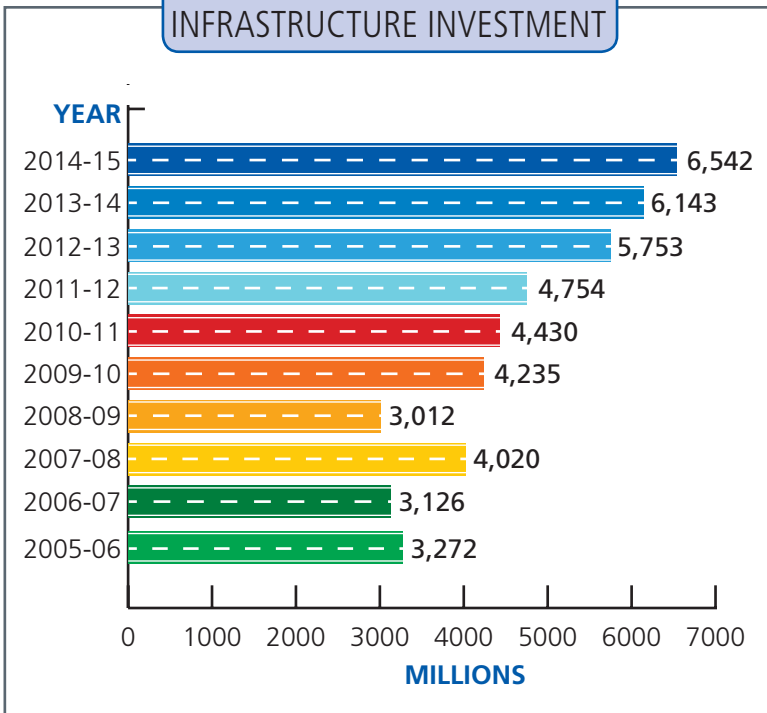
Source: The Global Competitiveness Report 2014-2015 © 2014 World Economic Forum

ONTARIO'S ESTIMATED INFRASTRUCTURE DEFICIT AND ECONOMIC IMPACT



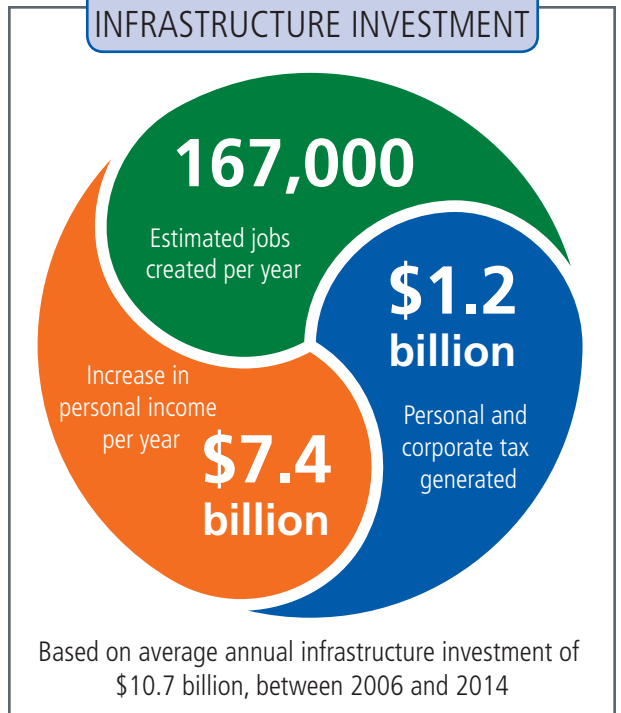
Source: Association of Municipalities of Ontario & ORBA, Metrolinx and Canada West Foundation

ONTARIO'S ANNUAL INFRASTRUCTURE INVESTMENT



Source: The Conference Board of Canada and Ontario Budget 2015

IMPACT OF INFRASTRUCTURE INVESTMENT



Source: The Conference Board of Canada