

## Infrastructure bank may invest in Montreal LRT

by Don Wall Jun 29, 2017

The Ministry of Infrastructure has suggested that the new Canada Infrastructure Bank (CIB) may consider investing in Montreal's \$5.3-billion automated LRT project and if after due diligence it decides to proceed, the CIB stake would supplant the \$1.28-billion grant recently promised by the federal government.

There was some uncertainty after the federal government issued a statement June 15 confirming that it would contribute towards the 67-kilometre, 27-station Réseau électrique métropolitain (REM) being undertaken by the CDPQ Infra, the infrastructure subsidiary of Quebec's Caisse de depot pension fund.

The federal statement indicated, "Once the Canada Infrastructure Bank is established, it will be possible for the Province of Quebec and the Caisse de depot...to identify the project as an opportunity for independent analysis and consideration by the bank.

"If the bank decides to move forward with an investment in the REM project, it will be possible for an investment to come from the bank rather than Quebec's transit allocation."

Brook Simpson, a spokesperson for Infrastructure Minister Amarjeet Sohi, admitted the ministry had fielded questions asking for an explanation.

"If the bank were to look at it and decide that it were to make an investment, it would replace the federal share, not the provincial share," said Simpson.

The Quebec provincial government previously committed \$1.28 billion and the project owner will invest \$2.67 billion. Construction is slated to start this fall with the first stations opening in 2020.

The framework for the CIB was contained in the federal government's Bill C-44, the budget implementation act.

The bank's purpose as stated in the act is "to invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects in Canada or partly in Canada that will generate revenue and that will be in the public interest."

Bill C-44 was passed by the Senate on June 22 after wrangling by some senators led by Percy Downe who attempted to amend the bill to separate the CIB from the main body of the bill.

The federal government intends to allocate \$35 billion to the bank over the next decade. The CIB is expected to be in operation by this fall.

Simpson said there had been an idea-sharing exercise with provinces and territories but there was nothing advanced enough for the CIB to consider at this time besides the REM.

"This is an example where they had a construction timeline that was faster than what we had in terms of our policy-development timeline, so we did what we could to move forward on this while keeping as many options as possible open to them," he said.

**Andy Manahan**, executive director of the **Residential and Civil Construction Alliance of Ontario**, who had addressed the parliamentary finance committee on the CIB and urged the legislators to ensure CIB decisions were made based on evidence-based considerations rather than on political preferences, offered a note of caution when asked about the REM proposition.

"In the news release they did talk about independent analysis and consideration by the bank, so that is good, they kind of recognize that, but the organization has not even been set up yet and they are starting to set priorities," he said.

"The advice I was giving to the finance committee members was that the independence of the bank was going to be critical."

"We have heard from Finance Minister (Bill) Morneau that certain decisions of the board might be vetted. That is problematic for the long-term decisions of the board," he said. "The point of the bank according to the federal government is they are trying to leverage three or four dollars for every one dollar that they put up. I am worried that it could be a failure out of the gate unless that independence is returned to it."

A report from the C.D. Howe Institute released June 20 titled *Banking on Infrastructure: How the Canada Infrastructure Bank can Build Infrastructure Better for Canadians* and authored by Harvard scholar Steven Robins also stressed the importance of evidence-based consideration of projects as a way to ensure potential investors are not deterred by the prospects of political interference.

"All of our infrastructure spending would benefit from better analysis of project costs and benefits, more accurate demand forecasts and more independence in evidence-based decision making," said Robins.

Canadian governments have little experience documenting how well infrastructure projects meet usage targets, he said, and his research showed they generally perform poorly in that respect, with usage falling 17 per cent below expectations on average.

"They need to set a high bar for what an infrastructure project looks like," said Robins of the CIB. "They need to rigorously test does it meet the public interest, is it involving revenue, is the risk transfer between the private sector and the government appropriate and done effectively.

"Have we run a world-class procurement process where no one can criticize it, where we know it is a truly unbiased level-playing-field selection process and we know the team that put forward the best bid won."

Asked about the REM project, Robins said, "Projects like the REM are appropriate for the bank to evaluate. The bank should do a full diligence of the appropriateness of the investment, and the proposed risk-sharing agreement with the private investor, before the bank's board makes a decision to invest in the project."