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Federal infrastructure ante must increase: report

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The federal government is investing only a fraction of what it could into Ontario's infrastructure asset base, causing the provincial government and municipalities to take on the brunt of the risk, concludes a new report commissioned by the **Residential and Civil Construction Alliance of Ontario** (RCCAO).

If the federal government increases its investments into Ontario's public infrastructure from 0.37 per cent to two per cent of provincial gross domestic product (GDP), "then you get better balance in terms of that risk and return. The federal will get a lot more tax revenue out of it because the economy will be humming along better," said RCCAO executive director Andy Manahan.

"They get way more return in terms of tax and other benefits than they do with their investments. That's the major theme that various provincial finance ministers over the years have said to Ottawa."

The report, Ontario Infrastructure Investment: Federal and Provincial Risks and Rewards, shows that if the province's infrastructure funding risks followed from the fiscal benefits, then all Ontario-based governments would be expected to cover about 61 per cent of the investments, with the feds covering the remaining 39 per cent.

Currently, the provincial and municipal governments in Ontario collectively cover 88 per cent of infrastructure risk while the federal government currently covers the balance of 12 per cent.

"Examination of the sustainability of such an apportionment of risks demonstrates that, under the current trends, the federal government is a significant net beneficiary of Ontario public infrastructure investments while Ontario-based governments are not. The economic rate of return for Ontario-based governments does not cover their costs of funding such investments, while it does for the federal government," says the report.

Long-term, this results in growing fiscal deficits and debt for Ontario-based governments and fiscal surpluses for the federal government. This underinvestment will continue to impact Ontario's ability to invest in and appropriately maintain its infrastructure.

The report found that Ontario-based governments could not avoid growing fiscal deficits and debt by investing more themselves.

"In fact, regardless of what Ontario-based governments do, whether they invested more or less, they could not avoid the exposure to growing future fiscal deficits. Objectively, such a situation cannot be described as sustainable," says the report.

Any solution needs to involve a change in federal policy, it said. It noted that if the federal government invested 35 cent of every dollar of its fiscal surplus it receives from Ontario public infrastructure investment, then Ontario-based governments could have their own fiscal surpluses. The absence of federal funding accounts for 84 per cent of the total infrastructure investment shortfall, though both governments are shown to have sub-optimal levels of investment.

The optimal investment has been identified as 5.1 per cent of Ontario GDP to provide sufficient funding to maintain existing infrastructure and build new infrastructure, as well optimize the province's economic returns over the next 50 years. Historical trends show an investment of 3.1 per cent of GDP.

Ontario invests about 2.8 per cent of GDP and the federal government invests about 0.37 per cent of GDP into infrastructure.

In order to reach the optimal 5.1 per cent of Ontario GDP, Ontario-based governments would have to increase their public infrastructure investments by $1.4 billion annually and the federal governments ramps up its Ontario public infrastructure funding to two per cent of provincial GDP, amounting to about $7.2 billion annually in the short term.

"Such a solution would allow them to be net beneficiaries of their own investments in Ontario public infrastructure," said the report.

"This optimal contribution split is shown to be quite achievable by both levels of government without a significant sacrifice of the federal surplus from its current position."

Manahan will be speaking at the Association of Municipalities of Ontario (AMO) conference in August, where he will share the findings of this report.

"I think it will be a message that will be greatly appreciated by the municipal sector because whether it's FCM (Federation of Canadian Municipalities) or AMO they're always saying we need more predictable, sustainable sources, so that mantra is well understood," he said.

"It still seems to be, with the new building Canada program, it's application based, it's one time only and sometimes limited like we saw with stimulus. What can be done so there's greater certainty for municipalities of the funds that will be flowing from Ottawa."

The report also noted that the role of the private sector through public-private partnerships merits further research.

Click here to view for the report.