

## **RCCAO FEDERAL PRE-BUDGET SUBMISSION TO THE STANDING COMMITTEE ON FINANCE**

Summary of RCCAO's top three recommendations:

**Recommendation 1:** Base future Infrastructure Funding Programs on more rigorous priority-setting and set in place clear programs for sustainable, long-term funding of infrastructure;

**Recommendation 2:** Support the development of an Infrastructure Simulation Platform that would enhance infrastructure investment decision-making [**estimated cost of \$1.525 million over two years**]; and

**Recommendation 3:** Streamline Environmental Assessment approval processes to get infrastructure funding allotments released faster.

Introduction: The Residential and Civil Construction Alliance of Ontario is a relatively new organization which brings together labour and management representatives across the residential and civil construction sectors. Although RCCAO was formed in late 2005 many of the member associations that we represent have been in existence for many decades. The list of contractor associations and construction unions that we represent includes:

- L.I.U.N.A. Local 183
- Greater Toronto Sewer and Watermain Contractors Association
- The Heavy Construction Association of Toronto
- Joint Residential Construction Council
- Toronto and Area Road Builders Association
- Carpenters' Union
- Residential Carpentry Contractors Association
- International Union of Operating Engineers, Local 793
- International Union of Painters and Allied Trades, District Council 46

Collectively, RCCAO aims to facilitate dialogue and ensure that the voice of the construction industry is clearly heard and understood by key decision-makers. Our objective is to work with all levels of government to seek out solutions to a variety of challenges facing our industry and the communities that we build in. Encouraging more strategic infrastructure investment and seeking ways to fast-track priority infrastructure projects are primary goals of our alliance.

Infrastructure investment as a way to sustain economic growth and bolster city-building efforts has been widely touted by many countries around the globe. In Canada, for example, the C.D. Howe Institute assessed the fiscal sustainability and effectiveness of the 2009 federal budget and concluded that of all the measures in the two-year, \$40 billion stimulus package one of the most likely to have a lasting positive impact on economic growth is public infrastructure investment.

We applaud the federal government's efforts to expedite federal infrastructure funding and for the cooperative approach taken with provincial and municipal governments.

Two of RCCAO's recommendations are process-oriented as opposed to a request for specific funding allotments. If these recommendations are pursued, however, there will be additional monies required to address the infrastructure funding deficit. The other recommendation (#2) will require federal funding support.

***(1) Base future Infrastructure Funding Programs on more rigorous priority-setting and set in place clear programs for sustainable, long-term funding of infrastructure.***

Crumbling infrastructure is not a recipe for competitive economic growth. Governments across Canada of course recognized that there had been chronic underfunding of infrastructure and rightly issued a call to arms for strategic infrastructure investment as a way to rebuild our regional economies and to get the country working again – not only for the construction jobs that are generated but also for the many positive multipliers that result once the infrastructure is in place.

Federal finance officials in crafting the 2010 federal budget must carefully monitor signs for an economic recovery but even if there are positive indicators we urge that the federal government not abandon infrastructure investment as an economic growth tool. It is our hope that the government will also craft a long-term strategy for infrastructure investment and assist in developing coordinated plans for infrastructure asset management.

It is our contention that economic recovery will remain bumpy but that construction spending will have a broader and more immediate impact than other forms of government stimulus measures. But there must be a requirement for proper prioritization and tracking of projects. If, for example, too much money is spent on “shovel ready” projects, this could end up leaving more worthy strategic projects short of funds to get built. Similarly, we have been hearing that some stimulus money is being redirected to cultural programming and music festivals through the Marquee Tourism Events Program. We do not think that this was the original intent of the Economic Action Plan and a more strategic approach to scarce public funding will have to be adhered to during the second tranche of stimulus funding (\$1.2 billion remains to be committed), currently projected to end on March 31, 2011.

Furthermore, with the first wave of ISF projects focused on meeting the criterion of being “shovel ready” many municipalities chose projects that had relatively low value and arguably little long-term competitive benefit to the country. A number of these municipal projects could be completed using in house resources and thus will not have the job inducing impacts that were sought by the federal government.

Many of the construction firms and contractors that we represent have indicated that they have not yet seen any tenders as a result of the ISF program. This delay is linked to the late spring release of ISF application criteria and later than hoped for communication of approvals from Infrastructure Canada in June 2009. Thus, the ability of municipalities to initiate tendering and procurement processes this summer has been hampered certainly in the south-central Ontario market area where our member organizations work.

In light of the delays in the release of funds and the compressed construction season to complete construction work such as roads, sewer and water infrastructure, we would recommend that the second wave of projects be provided with a wider window of opportunity for completion and receive federal funding beyond the arrangement already made with the Federation of Canadian Municipalities (i.e., provide federal monies if project goes beyond March 31, 2011). This budgetary measure would provide reassurance to municipalities that they will not be on the hook for projects that could be inadvertently delayed because of lengthy approval processes, winter weather conditions or other unanticipated complexities.

There is an ongoing challenge related to the multi-governmental jurisdiction over infrastructure. To improve predictability for local infrastructure investment, there should be clear funding formulas that result in predictable allocations of funding for qualifying municipalities. In the

U.S., the federal government has programs that are well-known to state and local legislators and can be applied to with greater assurance of success than here in Canada.

Transportation Funding/Metrolinx Case Study: The following is an example of where there is a requirement for infrastructure funding based on extensive public consultation, analysis and provincial/municipal support. In the Greater Golden Horseshoe a regional transportation plan (RTP) has been developed and is known as “The Big Move.” It calls for a massive \$50 billion expansion of the public transit system over the next 25 years. This expenditure of \$2 billion per year will result in the building of 1,200 km of public transit. To date, \$9.5 billion has been committed by the Province for projects such as Light Rail Transit, Bus Rapid Transit and GO transit improvements. Although this is positive there is still a requirement for at least another \$40 billion investment.

Those of us who view greater use of road pricing as inevitable to combat gridlock and to pay for infrastructure also recognize that there remains political sensitivity to the notion of “additional taxes” on the vehicle driving public, especially when other taxes are already collected to pay for roads. Fuel tax revenues as currently structured, however, will decline and the federal government must be cognizant of this with respect to the successful Gas Tax Fund.

Former U.S. Secretary of Transportation Mary Peters has said that “relying on the gas tax is like relying on cardboard to keep the rain out – the longer you use it the less it works.” Across North America and elsewhere we are already witnessing the move toward more fuel efficient, hybrid and electric cars and this would indicate that fuel tax revenues will diminish both on a per vehicle basis and in absolute terms.

High tech firms are already contemplating the move to road pricing mechanisms that can track vehicle distance travelled using satellite technology. Thus the current notion of road tolls based on a fixed piece of infrastructure (such as Hwy. 407 in the Greater Toronto Area) could be replaced by a system that tracks vehicle movement on all highways and roads. To sell this concept to the public will not be easy but could be phased in on the basis of transparently earmarking the revenues to transportation infrastructure in congested urban regions.

In an opinion piece published in the Toronto Star’s editorial pages last October RCCAO’s Executive Director stated that polls have suggested that the public is not ready to fully embrace toll roads but the following was posed “is the public prepared for ever-worsening gridlock over the coming years? Probably not, and the result could be lost opportunities by firms where locational decisions are influenced by mobility measures.” In this regard, infrastructure investment in the Greater Golden Horseshoe will help to facilitate greater trade with the U.S. and this would also help hard hit manufacturers in southern Ontario, a vitally important economic engine within Canada.

Role of P3 Canada: The federal government has created P3 Canada and this office should be at the forefront to encourage more public-private partnerships and alternate funding arrangements that will get more infrastructure projects built. Even though credit is tighter than it might have been a year ago, the trend toward partnerships will continue. Private sector investors recognize the advantages of projects that generate a revenue stream such as roads and bridges (e.g., Confederation bridge between N.B. and P.E.I.) while governments can generate more economic activity with fewer public dollars.

P3 Canada could also help various governments and partners to think about longer planning horizons of 30 - 50 years as opposed to short-term electoral cycles. This type of long-term

planning is necessary in order to facilitate more strategic infrastructure investments related to future urban regional development and economic prosperity.

**(2) *Support the development of an Infrastructure Simulation Platform that would enhance infrastructure investment decision-making.***

Better analytical tools and models are required to improve infrastructure investment decision-making. With a limited pot of funds, how does a government for example, decide which of any number of possible infrastructure projects are the best? How are determinations made on which projects have the greatest strategic interest? While we recognize that political considerations will always play some role in infrastructure planning there needs to be greater sophistication and more objective business case analyses. RCCAO has been in discussion with an organization that has been able to incorporate more sophisticated analytical tools into the decision-making process for health care spending and we think that these approaches could be transferred to the infrastructure realm by utilizing advanced simulation modelling techniques.

The simulation platform would complement and enhance more traditional models of prediction and decision analysis. A 'strategic risk and reward analysis' approach is envisioned where an industry sector can demonstrate its value to the economy and to society.

Simulation modelling requires the input of many data sets. Once the data has been loaded, then it can be shown how a change in variables or assumptions will have an impact on forecasts. The platform can simulate the movement of people, capital and wages over the lifetime of a community.

Questions that can be answered include: what is the size of the infrastructure gap and what should be the annual spending targets to address the gap? What is the business case for investing pension funds in infrastructure projects? What is the sensitivity of other industries to infrastructure investments?

We wish to have more detailed discussions with appropriate federal decision-makers to better flesh out this proposal and to determine a pragmatic plan of action with more finely-tuned cost estimates. However, projected costs for implementation of an Infrastructure Simulation Platform would be approximately \$2.25 million over a two year period, with annual operating costs thereafter of \$400 K. At this stage, we are suggesting that the federal government contribute 50% of the estimated costs, or \$1.525 million over a two-year period.

This proposal would entail a partnership approach whereby a third party would lead the effort with input from government representatives and industry experts. We are proposing that a group such as the National Round Table on Sustainable Infrastructure be the body that would manage this initiative.

**(3) *Streamline Environmental Assessment approval processes to get infrastructure funding allotments released faster.***

In our federal system, both the Government of Canada and the Province of Ontario each have their own legislated responsibilities to comply with environmental assessment legislation. While both the Canadian Environmental Assessment Act (CEAA) and the Ontario Environmental Assessment Act (OEAA) generally acknowledge that assessments prepared under either process may satisfy legislative requirements at each level of government, there has been no practical

application of this principle. So a duality of independent and unrelated review often remains on virtually all projects, regardless of complexity, magnitude or likelihood of effect.

While a number of federal/provincial EA Harmonization Agreements have been developed to address this duality, significant differences in purpose, process, scope and documentation requirements between the federal and Ontario legislation make coordination a challenge. There is a “Canada-Ontario Agreement on Environmental Assessment Cooperation”. The agreement coordinates the environmental assessment process for projects that are subject to both jurisdictions, but it does not state that a single assessment could be used to address both requirements. For example, many projects that are pre-approved under the OEAA are still subject to assessment under CEAA.

RCCAO released a research report in 2009 entitled “*Environmental Assessment Reform – A Tool for Economic Recovery.*” [available at [www.rccao.com](http://www.rccao.com)]. One of the key recommendations in the report was to eliminate duplicative federal and provincial EA processes. Currently projects that have satisfied provincial EA requirements often have to be ‘reassessed’ under the federal Act, with no apparent benefit to the environment or taxpayers. The goal should be to have one approval process for one project. Collaborative efforts have already been undertaken between Ottawa and Queen’s Park and we are encouraged by the progress that has been made. More work remains to be done on this initiative, however, to ensure that once priority projects have been identified shovels can indeed get in the ground faster.

The paper provided a positive example whereby one federal department that routinely provides projects to community facilities or infrastructure projects has developed an effective Screening process that is effectively completed in a short period of time. This process acknowledges that projects built within existing urban communities are subject to a vast array of local and provincial regulations. Where funding is the only federal “trigger”, this department does not seek to replicate the local or provincial regulation through the CEAA Screening. In one specific example, a major community recreation facility had a CEAA Screening approval in one week.

In Ontario a six month Transit EA Regulation was put in place last year. Thus far, there has not been any criticism of the accelerated process although proponents have had to do more upfront public consultation in order to meet the timelines.

Unlike funding support for other sectors, this type of stimulus can be achieved at no additional monetary cost to the treasury. In the end, the type of infrastructure projects that will be fast-tracked will result in additional federal and provincial tax revenues.

### Conclusion

While our pre-budget submission is not traditional in terms of an “ask list” we felt that there are a number of structural and process elements that need to be addressed to enhance infrastructure investment decision-making and to effectively tackle the infrastructure funding deficit over the long-term.

RCCAO therefore recommends that the Minister of Finance commit to a long-term funding program in the 2010 budget that will enable implementation of strategic investments. One such project would be the Metrolinx regional transportation plan that could be supported by alternate financing arrangements between the public and private sectors.