

# Brief to the Standing Committee on Finance and Economic Affairs

2014 PRE-BUDGET CONSULTATION

JANUARY 16, 2014



## INTRODUCTION

The Consulting Engineers of Ontario (CEO) is grateful for the opportunity to make this submission to the Province's Standing Committee on Finance and Economic Affairs as part of the annual public consultation process in preparation for the 2014 provincial Budget. CEO represents Ontario member firms that provide a wide range of engineering services to government and private sector clients. Our members' professional staff are not just engineers, but also technicians and technologists, geoscientists, architects, and planners. Through their service offerings, CEO member companies directly impact the economic, social and environmental aspects influencing Ontario's quality of life.

Offered for the committee's consideration are the following recommendations:

### **Recommendation #1:**

Continue the government's commitment to a long-term infrastructure strategy with an emphasis on planning.

### **Recommendation #2:**

Strategic long-term infrastructure commitments must be supported by dedicated revenue streams.

### **Recommendation #3:**

Develop a standardized decision-making process, incorporating success metrics, to be applied to all public infrastructure projects to determine whether traditional or alternative financing and procurement methods are used.

### **Recommendation #4:**

Focus investment on core infrastructure, both on new capital projects and on-going repair and maintenance of existing assets.

## PERSPECTIVE INFORMING CEO'S RECOMMENDATIONS

If recent history has shown us anything, infrastructure must be considered an investment, not an expense. The great recession and radical weather events have demonstrated the true extent to which the lack of core infrastructure investment has hollowed-out our society's ability to efficiently and effectively respond to, and recover from, both economic and environment shocks.

Since 2005, the Ontario government has recognized the need for greater infrastructure investment, committing approximately \$75 billion through initiatives such as *ReNew Ontario*, *Places to Grow* and *Building Together*. These commitments have started the province on its

way to addressing its infrastructure deficit, but as we can all attest; we still have a long way to go.

Yet, just as, if not more important than these monetary investments is the need for a commitment for robust planning. A well balanced long-term, strategic plan aimed at reducing Ontario's infrastructure deficit while anticipating future growth will see Ontario become more competitive and resilient. This regained strength will stem from the:

- Reduction in capital, maintenance and operational costs of infrastructure, over the asset's design lifecycle;
- The creation of long-term, multi-sector job creation; and,
- The fortification of Ontario's design, technology and construction industries.

## DISCUSSION OF RECOMMENDATIONS

***Continue the government's commitment to a long-term infrastructure strategy for Ontario.***

In order to ensure Ontario realizes the maximum possible return on investment of the valuable tax dollars it dedicates to public infrastructure, it must have a comprehensive plan that clearly defines when it has successfully achieved its objectives. With this imperative in mind, CEO recommends that any long-term strategic infrastructure strategy contain the following key features:

- A commitment to close and stabilize the infrastructure deficit over a prescribed time period;
- A predictable plan for infrastructure investment to allow governments, organizations and firms that plan, finance, design, construct and operate infrastructure to appropriately develop and allocate resources;
- Defined roles for all partners and stakeholders and identifying realistic deliverable objectives with measurement and reporting of successes;
- Realistic timetables that balance the long-term urgency of infrastructure investment with current fiscal pressures;
- Adoption of sound and consistent asset management practices to quantify the state and remaining service life of existing infrastructure; and,
- A transparent annual evaluation of progress.

***Strategic long-term infrastructure commitments must be supported by dedicated sources of revenue.***

To preserve the integrity of planning and investment of the magnitude required by the province, adequate funding must be assured. Government must ensure that funds raised will be applied to the development and maintenance of the assets for which they are committed. Dedicated revenue generated using innovative tools for specific projects must be safeguarded by inviolable designated reserves. While we certainly understand the recent focus on developing new revenue tools to fund infrastructure investment, CEO believes it is critically

important for the government to ensure that these revenues be placed in dedicated reserves for specific, intended infrastructure investment. It is imperative that these resources cannot be syphoned-off by future competing priorities as has happened in the past.

***Develop a standardized decision-making process, incorporating success metrics, to be applied to all public infrastructure projects to determine whether traditional or alternative financing and procurement methods are used.***

CEO believes that, as with any form of investment, diversification is the best approach. For many years when it came to constructing infrastructure Ontario dealt only in traditional design-bid-build approaches for its projects. Recent successes with both horizontal and vertical infrastructure projects here in Ontario and across Canada have proven the value that alternative financing and procurement (AFP) models, such as Public-Private Partnerships (P3s), and the variety of design/build approaches hold. Under the right circumstances, they can deliver assets quickly, efficiently and with optimal sustainability.

While we understand the need for alternative financing and procurement methods, it must be acknowledged that Public-Private Partnerships are a suite of potential solutions, not a panacea. Decisions to use these tools should be based on criteria that include sustaining and creating jobs and local and regional economies. Bundling of projects simply to meet financial criteria, or create administrative ease, can harm smaller companies in the construction sector. Moreover, awards to foreign consortia have already sent engineering and design work offshore, putting domestic jobs in jeopardy. To date, this has happened on two major transportation projects.

Ontario is a large, geographically diverse and socially complex jurisdiction. A balanced approach that uses the most modern delivery methods available, allowing the province to maintain its knowledgeable-owner status, and that ensures a continued commitment to achieving value for money and optimizing taxpayer investments in public infrastructure will best serve the needs of this province.

Consulting Engineers of Ontario believes that risk and return will ultimately be the issue that defines the government's actions. Infrastructure spending costs billions of dollars annually and it will be at a significant disadvantage if it does not take advantage of the consulting engineering sector that brings diverse experience and lessons from around the world.

***Focus investment on core infrastructure, both on new capital projects and on-going repair and maintenance of existing assets.***

Investment in core infrastructure directly effects our growth and continued social, economic and environmental prosperity. Hence, CEO believes that the benefits that accrue to society through strengthening transportation systems and networks are substantial. Moreover, critical areas such as water conservation, treatment and reuse will ensure a sustainable quality of life for the people of Ontario.

The province's current infrastructure deficit is calculated to be more than \$100 billion. Much of our infrastructure, as much as 60 per cent of that deficit, is more than 50 years old and is either nearing the end of its design life or in drastic need of repair and maintenance.

*(Politicians ignore creative ways to fund our crumbling infrastructure, R. Michael Warren, Toronto Star, March 19, 2013)* Safe and reliable Ontario infrastructure requires planned investment, but investment in new infrastructure must be balanced by reinvestment in our aging stock of existing core assets.

Important areas of core infrastructure investment and reinvestment are as follows:

1. Transportation (all modes) and transit;
2. Water conservation, treatment and reuse;
3. Health facilities.

The Ontario Government must focus investment in these areas. This will stimulate our economy and improve the social and environmental quality of life for all Ontarians. The Conference Board of Canada has estimated that in an economy performing below potential, every dollar spent on infrastructure can increase Canada's real GDP by as much as \$1.20 (*Lessons from the Recession and Financial Crisis, Lesson 5 - Sound Fiscal Policy is Key to Keeping the Economy Afloat in Hard Times, March 2010*).

The Government must recognize that as levels of immigration rise, so too will the needs for new and rehabilitated core infrastructure. The province has put great emphasis on programs to manage growth and development in a way that supports economic prosperity, protects the environment, and promotes a high quality of life. Through the *Places to Grow Initiative*, a number of regional plans have been developed for areas like the Greater Golden Horseshoe (GGH) and Northern Ontario. These plans will not be successful if there is inadequate core infrastructure - roads, water, wastewater, and electrical transition and distribution systems to support them.

## **ABOUT CONSULTING ENGINEERS OF ONTARIO**

Founded in 1975, Consulting Engineers of Ontario (CEO) is a not-for-profit association representing over 200 consulting engineering firms that collectively employ more than 20,000 people across the province of Ontario. Its member firms provide a wide range of engineering services to government and private sector clients. Member firms range in size from sole proprietorships to large multinational engineering firms.

CEO advocates for a business and regulatory climate that allows its members to provide the highest level of services and best possible value to its clients. CEO promotes the important contribution that the consulting engineering sector makes to the social, economic and environmental quality of life in Ontario.

As part of a regulated profession, the engineers employed by CEO member companies are obligated by law to act with fidelity to the public interest