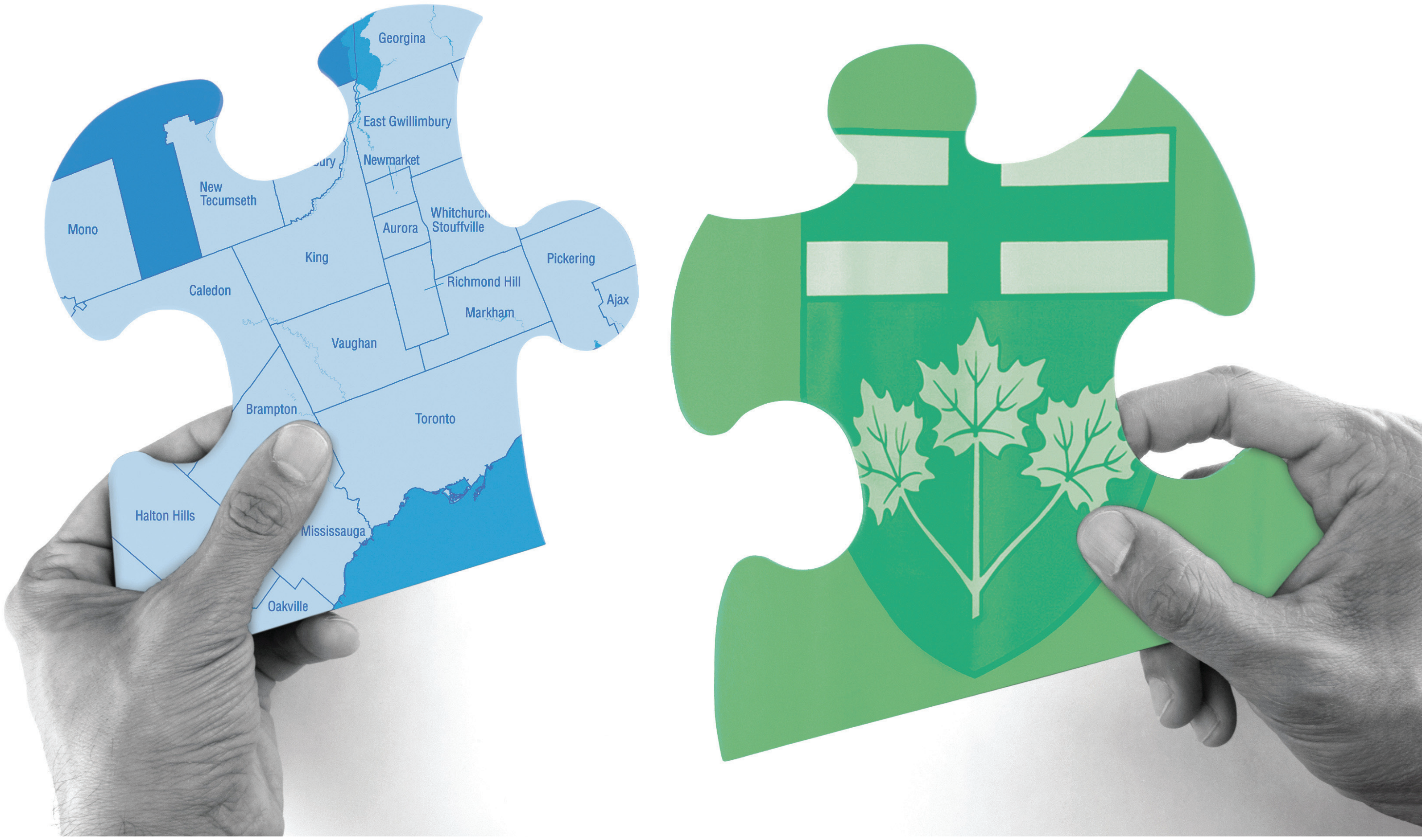
TORONTO
BOARD OF TRADE



Reaching Top Speed

INFRASTRUCTURE: Unleashing Ontario's Ability To Grow

VOTE ONTARIO 2011

Contents

Background

Welcome to the VoteOntario2011 Challenge Paper Series.

In February 2011, the Toronto Board of Trade (the Board) launched its VoteOntario2011 campaign with the Board VoteOntario2011: *A Framework for a Stronger Toronto Region and a Prosperous Ontario*. VoteOntario2011 is a sustained campaign focused on accelerating our economic recovery; ensuring scarce resources are invested with a focus on long-term growth and success; and that the Toronto region remains a globally competitive and attractive place to live, work, play and invest. Ultimately, VoteOntario2011 is about unleashing the economic potential of the Toronto region and Ontario.

The Board's more than 10,000 members — through inputs like our annual survey, policy roundtables, policy forums, volunteer committees and one-on-one meetings — have identified two inter-related economic themes on which the VoteOntario2011 campaign will focus:

1. **Jobs:** Promoting growth in the Toronto region & the province; and
2. **Infrastructure:** Unleashing Ontario's ability to grow.

To advance these inter-related economic themes, the Board is releasing two "Challenge Papers." These papers will highlight key issues that **must** be addressed by the next provincial government, identifying challenges we all must face and overcome in order to position the Toronto region and Ontario for robust economic growth and renewed prosperity.

These challenges are focused on the Toronto region because it is key to Ontario's success. When the Toronto region succeeds, Ontario succeeds. No party can explain how it intends to foster province-wide job creation and economic growth without outlining their plans for the Toronto region.

The first Challenge Paper, *Shifting into High Gear* (which serves as the substantive research behind the ***Jobs*** theme), was released on June 8, 2011, The Challenge Paper showed that inability to coordinate regional economic development efforts and the reluctance to focus on strengthening leading industries contributes to the Toronto region's middle-of-the-pack economic performance, when compared to other great global city-regions.

This Challenge Paper (the second of the two and serving as the substantive research behind the ***Infrastructure*** theme) explains that Toronto's infrastructure deficit is making it harder to do business here, potentially choking off future growth. While the task before us is precedent-setting, it is not insurmountable. Ballooning program budgets and fiscal deficits, as well as a lack of means to meet service obligations, mean there are impediments to investing sufficiently in infrastructure expansion. Certainly, there are plans in place, but the means to pay for these plans are often absent and we frequently change plans partway through. Unless we find innovative solutions to this challenge and provide certainty that projects will get built, the Toronto region's and Ontario's economy won't grow. Given the importance of this challenge to our present and future prosperity, commitments to see existing plans come to fruition and to have funding plans in place by spring 2012 to ensure these plans get built need to be part of the election campaign's focus.

By laying down these challenges and some potential solutions, the Board intends to engage and to continue a dialogue with our members, the political parties and the public to arrive at non-partisan solutions with broad-based support. The plan that emerges from this debate will be released as the Board's platform in September 2011.

1. Executive Summary

Toronto's Infrastructure Challenge

Every year, a population equivalent to the city of Kingston (about 100,000 people) moves to the Toronto region. By 2031, the Toronto region is expected to grow by 50% - one of the fastest population growth rates globally. To support the existing population and to sustain this population growth, maintenance of existing infrastructure assets and expansion of infrastructure is critical.

Toronto as a Global City: Scorecard on Prosperity 2011, the Board's annual global benchmarking study of 24 metropolitan areas, showed once again that the Toronto region is well placed to compete on the global stage and to attract talent and investment, but also that we are not building to meet the demands created by our population growth:

The Board is calling on provincial parties to commit to exploring innovative ways to fund, finance and deliver these plans, which the Board believes must be in place by spring 2012. All options must remain on the table as we build this plan. At the same time, provincial parties must commit to ensuring that existing plans for infrastructure maintenance and expansion will be built and not change course partway through long-term plans.

In this Challenge Paper, we explore some fiscal obstacles that, if left unresolved, could prevent us from adequately investing in infrastructure maintenance and expansion, as well as some principles that can help us to overcome our infrastructure challenge.

Attractive to Talent and Investment...	But Not Building to Match Our Growth
Top market potential in North America (and 5th overall)	19th (out of 23) overall on the Transportation Lens
Unmatched diversity (over 45% of the population is foreign-born)	Last place for commute time
High population growth (6th overall)	15th (out of 24) on public transit ridership (but 3rd in North America)
Competitive overall tax rates (4th overall, ahead of all US metros)	15th (out of 21) on per capita investment in public transit
High level of international visitors (5th overall, well ahead of all Canadian metros)	16th (out of 22) for kilometers travelled by rail vehicles
Relatively affordable housing (5th in North America, ahead of almost all US metros)	
In the top-third (8th) on employment growth	

This paper challenges provincial parties and the public to consider the infrastructure challenge presented by the Toronto region's rapid population growth and how we will overcome this challenge.

This is an Economic Issue

Shifting into High Gear highlighted the need for a pro-competitive business environment – a region's infrastructure assets being a key component– as an underpinning to a strong regional economy.

Toronto's infrastructure is quickly becoming the biggest threat to our continued growth and economic prosperity, in the Toronto region and Ontario generally.

Additional Groups Noting the Impact of Toronto's Infrastructure on its Global Competitiveness:

- Organization for Economic Co-operation and Development (2010)
- Economist Intelligence Unit (2011)
- PricewaterhouseCoopers (2011)
- Siemens Canada (2010)
- Colliers International (2010)

This Challenge Paper focuses on transportation infrastructure because it is the top priority of Board members and because of its outsized impact on the Toronto region's global competitiveness.

Dealing With Our Infrastructure Deficit

Substantial investment needs to be made in our infrastructure. Only about $10-billion of the $50-billion capital costs of *The Big Move* (the Toronto region's 25-year regional transportation plan) have been funded thus far. There is no long-term plan in place for the remaining $40-billion that will be needed to see *The Big Move* fully constructed. Operating costs associated with these transportation projects could add another $50-billion to the price tag.

The Big Move is potentially the largest regional infrastructure project being implemented in North America. In terms of scale, *The Big Move's* price tag likely exceeds some of the most recent "mega" infrastructure projects *combined:*

Project (Location)	Approximate Cost
Big Dig (Boston)	$16-billion[1]
Channel Tunnel (Britain-France)	$38-billion[2]
Three Gorges Dam (China)	$28-billion[3]
The Big Move (Toronto region)	$50-billion (capital only); $100-billion (including operating costs)

The longer we wait to fund, finance, and build our needed infrastructure, the bigger the challenge will become. And the more we change projects partway through completion, the less certain and more expensive these plans become. At the same time, until we admit that funding and financing these infrastructure needs requires innovative ways of doing things, we are not going to create realistic and adequate funding plans to construct these projects.

[1] Virginia Greiman, "The Big Dig: Learning from a Mega Project." *Ask Magazine*, on-line: www.nasa.gov/pdf/469423main_ASK_39s_big_dig.pdf. Cost is stated in 2008 dollars.
[2] "Building Big: Databank: Channel Tunnel (Chunnel)," on-line: www.pbs.org/wgbh/buildingbig/wonder/structure/channel.html. Cost is stated in 2008 dollars.
[3] "Three Gorges Dam Wall Completed." *BBC News* (20 May 2006), on-line: http://news.bbc.co.uk/2/hi/asia-pacific/5000092.stm. Cost is stated in 2008 dollars.

Fiscal Impediments to Meeting Ontario's Infrastructure Needs

Toronto's infrastructure needs go beyond what can be funded by the public purse. Innovative ways of approaching the financing, funding and delivery of infrastructure will be needed to meet this challenge. But, rather than have that frank discussion, talk of funding and financing infrastructure often involves blaming other levels of government. While the issues raised may be valid, ultimately they represent arguments over small sums that lose sight of significant dollars that are needed.

Toronto Region Municipalities' Fiscal Capacity

For this Challenge Paper, the Board has undertaken an extensive analysis of Toronto region municipalities' fiscal capacity. Our analysis shows that, while the Province has made moves to improve the municipalities' fiscal capacity, these municipalities are not able to absorb infrastructure expansion projects, and will face an increasingly steep battle in the next ten years to maintain their existing infrastructure in a state-of-good repair. The chart below shows the findings on the fiscal capacity of the municipalities with the largest operating and capital budgets to meet their operating, state-of-good-repair and capital expansion budgets:

Context: Fiscal Capacity of the Toronto Region: Present - 2020

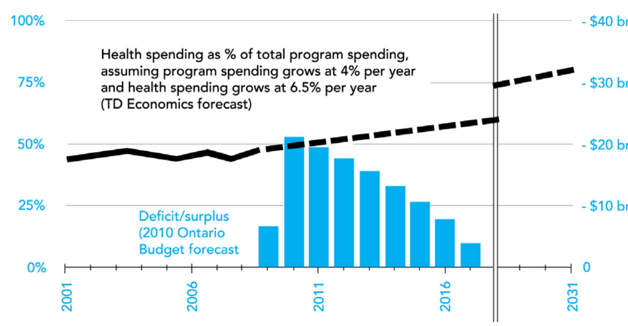
Fiscal Capacity of Toronto Region	Operating	State of Good Repair	Capital Expansion
Toronto	?	!	!
Hamilton	?	?	!
Durham	✓	?	!
York	✓	?	!
Peel	✓	?	!
Halton	✓	?	!
Mississauga	✓	?	!
Brampton	✓	?	!
Markham	✓	?	!

✓	Manageable fiscal capacity
?	Will struggle with fiscal capacity
!	No fiscal capacity

Provincial Fiscal Capacity

In an age of fiscal austerity, the Province will face continued difficulties in meeting all of its program and service expectations. Competing priorities – such as health care, education and social programs – have the potential to crowd out investments in infrastructure without long-term funds earmarked for infrastructure.

While the Province will gain fiscal capacity as it moves toward budget balance, there will be competing priorities that are likely to consume these dollars.



Filling the Remaining Gap

Even if Toronto region municipalities and the Province finalize an agreement over funding infrastructure responsibilites and a way is found to fund all competing priorities in the Provincial budget, neither one has the fiscal capacity to completely fund Toronto's infrastructure needs. The federal government is needed as a partner in this challenge. Yet, even with all three levels of government engaged, public dollars will not be able to meet this need.

Unfortunately, no level of government is acknowledging this reality to the public and beginning to explore innovative ways of funding, financing and delivering our infrastructure needs.

Core Components to Reaching Top Speed

Innovation and Private Sector Investment

A new approach to financing, funding and delivering infrastructure is needed. While this form of innovation is being undertaken all over the world, governments in Canada – particularly at the municipal level – have been relatively slower in pursuing this innovation.

Through the creation of Infrastructure Ontario (IO), the provincial government has shown a positive commitment to innovation. The Board's members believe that opening up opportunities for public-private partnerships (P3s) by IO is needed.

Finally, the public and politicians must recognize that private sector investment in infrastructure is not "free money." Attracting private investors requires a return on investment and certainty surrounding projects.

Sustainable, Long-Term Investment Plan

Infrastructure projects have long planning and construction timelines, so long-term and predictable funding from all levels of government is critical to long-term infrastructure planning and has been shown to promote stronger economic growth.[4]

It is also important that these public funds are clearly *earmarked* to infrastructure, making it more difficult for planned funds to fluctuate due to other budgetary imperatives and that there is transparency/public accounting for how these substantial funds are spent.

But funds beyond the public purse will be necessary to meet our challenge. What is necessary is to move forward – and quickly. While provincial legislation requires Metrolinx to present its Investment Strategy by June 1, 2013, the Board calls on the next provincial government to ensure this crucial strategy is in place by spring 2012.

Managing Demand, as Well as Supply

Success in addressing the infrastructure challenge also requires managing demand. If underlying drivers of infrastructure needs, such as increasing demand for infrastructure, are not addressed, there will not be a long-term, sustainable solution to the infrastructure challenge.[5] So, part of the solution to Toronto's infrastructure challenge will be employing congestion management strategies.

Controlling Program Costs

For the Province to return to budget balance and invest in the transportation needs of the Toronto region, it is essential to find efficiencies in program delivery while maintaining the same standard of service Ontario citizens currently enjoy.

Improving the Province's long-term fiscal health will require changes to the way many programs are funded and/or delivered. Dealing with the budget will require an examination of the two largest expenditures: health-care and labour costs. The Board believes these items must be looked at because of their sheer size – one cannot improve the Province's fiscal situation without looking at these substantial expenditures.

The Need for Federal Partnership

Canada is the only OECD and G8 nation without a national transit strategy. Even though the magnitude of the infrastructure challenge is beyond the means of the public purse, it is important that all levels of government are engaged and contributing to the solution of this challenge. That includes the federal government. The Toronto region accounts for such a large percentage of the country's population and GDP that it is imperative for the federal government to be engaged in this economic project. The next Ontario government needs to work with the federal government to ensure the unique importance of the Toronto region is recognized through some specific federal partnership in solving Toronto's infrastructure challenge.

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[4] Residential and Civil Construction Alliance of Ontario. *Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth* (July 2010).

[5] Casey G. Vander Ploeg, *New Tools for New Times.* Canada West Foundation, (January 2011)

Conclusion: Tackling Our Challenge

Toronto's infrastructure is quickly becoming the biggest drag on our global competitiveness and, in turn, our economic growth. **So, what are parties' plans to ensure long-term, sustainable and certain funding and financing plans to address the infrastructure deficit are in place? What are their plans for the Toronto region specifically?**

Overcoming Toronto's infrastructure challenge will be key to the entire province's future growth and prosperity. It is a daunting challenge, but not an insurmountable one.

The Board believes that innovative solutions – such as those that have been used successfully in other jurisdictions – can resolve Toronto's infrastructure challenge. To get there, though, requires recognition that the region's infrastructure needs are beyond what the public purse can bear. And we need certainty that long-term plans will get built.

Together, this challenge can be overcome. This solution will release Ontario from third gear and allow us to reach top speed.

2. Toronto's Infrastructure Challenge

In today's global economy, it is city-regions – more so than provinces or countries – that are competing for talent and investment. Companies and talented individuals are increasingly choosing between Toronto, London, Boston and Shanghai, for example, rather than between Canada (or even Ontario), Britain, the U.S. and China.

Toronto as a Global City: Scorecard on Prosperity 2011, the Board's annual global benchmarking study of 24 global metropolitan areas, showed once again that the Toronto region is well placed to compete on this global stage and to attract talent and investment:

- Top market potential in North America (and 5th overall)
- Unmatched diversity (over 45% of the population is foreign-born)
- High population growth (6th overall)
- High level of international visitors (5th overall, well ahead of all Canadian metros)
- Relatively affordable housing (5th in North America, ahead of almost all US metros)
- In the top-third (8th place out of 24) on employment growth

These desirable characteristics explain why the Toronto region continues to grow. **Every year, a population equivalent to the city of Kingston (about 100,000 people) moves to the Toronto region. By 2031, the Toronto region is expected to grow by 50% - one of the fastest population growth rates globally.**

In order to support the existing population and to sustain this population growth, maintenance of our existing infrastructure assets and expansion of infrastructure is critical. *Scorecard on Prosperity 2011* also included a Transportation Lens to provide a fuller picture of how the Toronto region fares with respect to its transportation infrastructure. The results were not encouraging:

- 19th (out of 23) overall on the Transportation Lens
- Last place for commute time
- 15th (out of 24) on public transit ridership (but 3rd in North America)
- 15th (out of 21) on per capita investment in public transit
- 16th (out of 22) for kilometers travelled by rail vehicles

These results point to a significant problem: the Toronto region is enjoying great success in attracting global talent as a result of our strong economic foundations, but the necessary infrastructure is not getting built (or not getting built quickly enough) to support this growth. In recent years, Provincial investments in infrastructure have averaged almost $10-billion annually. However, there are decades of under-investment for which to make up. The amounts that need to be invested in infrastructure maintenance and expansion are beyond the abilities of the public purse, particularly at a time of fiscal austerity.

It's as if we are choking on our own success. Put another way: Toronto's population is growing at near Asian rates, but infrastructure is being built to support this population growth at less than North American rates.

If we are to continue to grow, economically and in population, this situation cannot continue. It is imperative that we not only create long-term plans to solve our infrastructure challenge, but that we effectively fund, finance and deliver these plans immediately. Until we do, we won't be able to unleash our ability to grow.

Luckily, there are a number of large-scale plans in place to address these infrastructure needs. Unfortunately, these plans have often changed as a result of political and economic events, creating a great deal of uncertainty that these plans will come to fruition.

This situation – the need to make significant investments in infrastructure, but limited fiscal means to meet this requirement and the need to assure the public, as well as the private sector, that these plans will be built – is one that will confront the next Ontario government. Urban infrastructure issues, particularly in the Toronto region, will be a key issue in the 2011 provincial election. But, in an age of fiscal austerity, how can we ensure that the needed investments in infrastructure are made? How can we make sure long-term plans do not get derailed by short-term objectives?

Action is needed so that plans for infrastructure maintenance and expansion come to fruition. The infrastructure needs of the Toronto region are a key factor in the economic success of the entire province and the country.

If inadequate infrastructure is a drag on Toronto's economy, this will negatively impact Ontario's economy. Thus, the Board is calling on provincial parties, through their platforms and other pledges, to commit to ensuring that existing plans for infrastructure maintenance and expansion will be built – that they will complete plans and avoid changing course partway through long-term plans. At the same time, parties need to commit to exploring innovative ways to fund these plans (this will require avenues other than just the public purse) – all options must remain on the table as we create this plan, which the Board believes must be in place by spring 2012.

In this paper, the Board, based on extensive consultation with and input from our members and stakeholders, explores some of the fiscal obstacles that, if left unresolved, could prevent us from properly investing in infrastructure maintenance and expansion, as well as some of the principles that can help us to overcome our infrastructure challenge. This will lead to increased economic growth and job creation.

This paper challenges the provincial parties and the public to consider the infrastructure challenge presented by Toronto's rapid population growth, coupled with fiscal constraints placed on the governments, and how we will overcome this challenge.

Infrastructure and the Economy: A Vital Connection

Big cities have big needs. Globally competitive metro areas need a multitude of amenities to make them attractive places in which to live, work, play and invest, including:

- Robust transportation networks;
- Reliable and secure electricity grids;
- Safe and clean drinking water;
- Virtual infrastructure, such as broadband access;
- Social infrastructure, such as hospitals, schools and community centres; and
- Parks and recreation areas.

Shifting into High Gear highlighted the need for a pro-competitive business environment. A region's infrastructure assets are a key component of this business environment and an underpinning to a strong regional economy. The challenge contained in this paper builds on the challenge set out in *Shifting into High Gear*. Addressing one of these challenges, rather than both of them, is unlikely to lead to a successful outcome.

In a global survey of C-level executives commissioned by KPMG, 90 per cent of respondents said that quality and availability of infrastructure directly affects where they locate and expand their business operations.[1]

For example, heavy industrial operations won't locate in areas where they can't be assured of an adequate energy supply. Similarly, businesses want to know if they might miss deadlines because of traffic congestion. Infrastructure directly impacts how and where businesses operate, the associated cost of their operations and their ability to attract top talent.

The Toronto region's infrastructure is quickly becoming the biggest threat to our continued growth and economic prosperity, in Toronto and Ontario generally.

In addition to results in *Scorecard on Prosperity 2011,* this situation was recently confirmed in *Cities of Opportunity,* a study of global cities by PricewaterhouseCoopers, which ranked Toronto's transportation infrastructure in the bottom half of cities and identified this as Toronto's biggest impediment to global competitiveness.[2] Similarly, an Economist Intelligence Unit ranking of global cities ranked Toronto 4th; based on the methodology, even a slight increase in Toronto's infrastructure score would have made Toronto the global leader.[3] The Organization for Co-operation and Development (OECD), in its 2010 study of Toronto, cited the region's transportation infrastructure as the leading drag on global competitiveness.[4] A recent Colliers International study of Toronto region businesses underscored transportation infrastructure as the second most important factor for business' location decisions in the GTA.[5] This is one of the reasons that Toronto Board of Trade members have identified traffic congestion as their top priority for five years running.

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[1] KPMG (commissioned by KPMG in cooperation with the Economist Intelligence Unit). *Bridging the Global Infrastructure Gap: Views from the Executive Suite* (2009).

[2] PricewaterhouseCoopers. *Cities of Opportunity* (2010).

[3] Economist Intelligence Unit. *The Liveability Ranking and Overview.* (March 2011).

[4] OECD. *OECD Territorial Reviews: Toronto, Canada* (April 2010).

[5] Colliers International, *Tenant Sentiment Survey for Toronto* (September 2010).

Infrastructure also plays a key role in attracting top talent by adding to a region's liveability. Top-level talent is attracted to regions that offer a high quality of life – and ease of access to amenities and attractions is a large factor in this. In this way, it's not surprising that a Siemens report on megacities highlighted "solving transportation issues" as the number one concern for a global city.[6] Similarly, in a study of business leaders commissioned by Philips that focused on liveability, transportation infrastructure was the second most important factor, behind the job market, in making a particular city an attractive place to live and work.[7]

Infrastructure's Impact on a Region's Productivity

- $1 invested in public infrastructure (such as roads and bridges) = reduction in business costs by 17 cents (on a per company basis)[8]
- Annual cost of congestion to the Toronto region economy (2006): $6-billion

Clearly, Toronto cannot afford to stall progress any further. This is not just about remaining competitive with the leading city-regions of the world today; it's just as much about not threatening the prosperity of generations to come. The time for the Province and the region to act is now. If they fail to do so, Toronto's economy simply will not grow. It's time to find the investment to unleash the region's, and Ontario's, full economic potential.

Why Doing Nothing Costs More

- Projected annual cost of congestion to the Toronto region economy (2031): $15-billion (if no significant action is taken)
- Projected commute time in 2031: 109 minutes
    - That's equivalent to almost 3 more work-weeks a year spent in traffic
- Increased health costs
- Increased smog
- Crumbling infrastructure that threatens public safety

[6] Globescan and MRC (commissioned by Siemens), *Megacity Report* (January 2007).

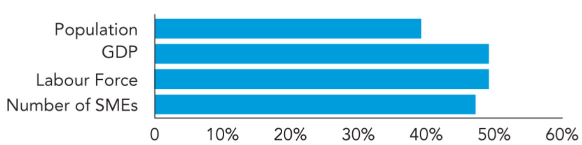
[7] See Economist Intelligence Unit (commissioned by Philips). *Liveanomics: Urban Liveability and Economic Growth* (January 2011).

[8] Statistics Canada. "Public Infrastructure and the Performance of the Canadian Economy." *The Daily* (November 12, 2003). Period covered is 1961 to 2000.

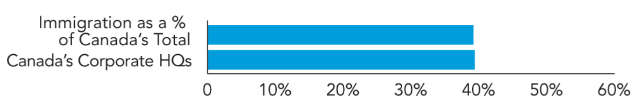
Why This Matters to Ontarians

The Toronto region, home to over five million residents, is the economic heart of Ontario and also Canada, generating about 50 percent of Ontario's, and 20 percent of Canada's, GDP. As a healthy heart is essential for pumping blood to the rest of the body, a healthy Toronto region is critical in flowing growth and prosperity to the rest of Ontario and Canada.

Key Indicators: Toronto as a Share of Ontario



Key Indicators: Toronto as a Share of Canada



Other parts of the province rely on the strength of Toronto's economy for their prosperity. For example, the Toronto region's agri-food economic cluster relies on and employs many people in Ontario's smaller communities. For every $1 generated by the Toronto region's agri-food economic cluster, the provincial economy benefits by $6 (as a result of the value chain involved that touches many communities throughout the province).[9] If Toronto's infrastructure impedes the ability of products from outside the region to get to markets – either in Toronto or elsewhere–it will negatively impact the entire province.

At the same time, as highlighted above, independent studies and the Board's members are increasingly identifying the Toronto region's infrastructure as the biggest impediment to global competitiveness and economic growth. Because of the significant impact that the Toronto region economy has on the province's finances, the pace of Toronto's economic growth matters to all Ontarians.

Both directly, through economic multipliers and indirectly, through impact on provincial coffers, it is in all Ontarians' interests that the Toronto region's infrastructure is sufficient to support leading economic growth.

Transportation Infrastructure: First Among Equals

As noted above, many pieces make up a region's infrastructure assets.

There are a number of infrastructure projects in the works. For example, the Province's Long-Term Energy Plan will cost $87-billion to upgrade existing infrastructure, build two new nuclear plants, and expand solar and wind energy capabilities. In addition, many of Ontario's municipalities will be upgrading their aging and failing water and sewage facilities over the next few years, costing tens of billions of dollars.[10]

To identify how Toronto's infrastructure challenge can be overcome, the Board will focus on *transportation* infrastructure in this paper. The focus on transportation is not meant to suggest that maintenance and expansion of other types of infrastructure are not needed. Rather, Toronto's transportation infrastructure is the focus because it is the top priority of Board members and because of its outsized impact on the Toronto region's global competitiveness and liveability.

[9] City of Toronto, Economic Development, Culture & Tourism. *2010 Toronto Food Sector Update* (2010).

[10] Barrie McKenna, "Cities need to seriously tackle water infrastructure repair before the problem overflows." *The Globe and Mail* (June 5, 2011)

Dealing With Our Infrastructure Deficit

No matter how one calculates it, substantial investment needs to be made in infrastructure. Many numbers have been presented on this subject by various actors:

Selected Sums for the Infrastructure Deficit

Number and Source	What is Included
$123 billion (Federation of Canadian Municipalities, 2007)[11]	Unfunded municipal infrastructure needs across the country; estimates of $115 billion needed for infrastructure expansion
$400 billion (McGill University Department of Engineering, 2003)	Total infrastructure deficits from all governments in Canada by 2020
Over $100 billion (Province of Ontario)	Provincial and other infrastructure assets. Based on a 2007 TD Economics report, the GTA represents more than half of this deficit[12]

The good news for Toronto is that a regional agency *is* in place to tackle the region's transportation needs. Established by the province in 2006, Metrolinx's plan - The Big Move, a 25-year, $50-billion plan – was adopted in 2008. Since then, construction has begun on a number of projects in The Big Move, including the Union-Pearson Air Rail Link, the Toronto-York Spadina subway extension and York VIVA bus rapid transit.

The challenge is that only about $10-billion of the $50-billion capital costs, have been funded thus far (with contributions coming mostly from the provincial government, as well as the federal and municipal governments). There is no long-term funding or financing plan in place for the remaining $40 billion that will be needed to see *The Big Move* fully contructed. Operating costs associated with these transportation projects could add another $50-billion to the price tag.

This is a precedent-setting funding need. *The Big Move* is potentially the largest regional infrastructure project being implemented in North America. In terms of scale, *The Big Move's* price tag likely exceeds some of the most recent "mega" infrastructure projects *combined:*

Project (Location)	Approximate Cost
Big Dig (Boston)	$16-billion[13]
Channel Tunnel (Britain-France)	$38-billion[14]
Three Gorges Dam (China)	$28-billion[15]
The Big Move (Toronto region)	$50-billion (capital only); $100-billion (including operating costs)

Through a variety of means, each of these projects was funded and completed. To be sure, this is a daunting task, but it is not an insurmountable one.

[11] Federation of Canadian Municipalities, *Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure* (November 2007).

[12] TD Economics, *An Update to TD Economics' 2002 Report on the Greater Toronto Area (GTA) Economy* (July 17, 2007).

[13] Virginia Greiman, "The Big Dig: Learning from a Mega Project." *Ask Magazine*, on-line: www.nasa.gov/pdf/469423main_ASK_39s_big_dig.pdf. Cost is stated in 2008 dollars.

[14] "Building Big: Databank: Channel Tunnel (Chunnel)," on-line: www.pbs.org/wgbh/buildingbig/wonder/structure/channel.html. Cost is stated in 2008 dollars.

[15] "Three Gorges Dam Wall Completed." *BBC News* (20 May 2006), on-line: http://news.bbc.co.uk/2/hi/asia-pacific/5000092.stm. Cost is stated in 2008 dollars.

The longer we wait to build our needed infrastructure and the longer we take to fully tackle the funding of projects, the bigger the challenge will become. And the more we change projects partway through completion, the less certain these plans become, also escalating costs. At the same time, until we admit that funding and financing these infrastructure needs will require innovative ways of doing things, we are not going to create realistic and adequate funding plans to construct these projects.

This paper explores some fiscal impediments that tend to stand in the way of making progress on maintaining and expanding our infrastructure, namely:

- The provincial-municipal fiscal balance that makes it difficult for Toronto region municipalities to invest in the state-of-good repair and expansion of infrastructure projects;
- The Province's long-term fiscal health that makes it difficult to invest in the region's transportation needs; and
- The lack of clarity from leaders that the remaining gap is beyond what the public purse can fund.

The Board then offers a number of the core components that must be part of the solution:

- Innovation in funding, financing and delivery methods, including increased private sector investment in infrastructure projects;
- A sustainable, long-term investment plan;
- Managing demand, as well as supply;
- Controlling program costs to ensure infrastructure investment doesn't get crowded out by competing priorities; and
- The need for federal partnership in this economic project.

Ultimately, a strong Toronto region and Ontario economy, bolstered by a strong infrastructure foundation is our goal. **The challenge we face is sticking to long-term plans and overcoming our aversion to innovative funding discussions.** The Board's members believe that pursuing the core components to reaching top speed will prevent stalled growth and position the Toronto region for greater prosperity. The future success of the region's citizens, and that of their children's and grandchildren's, depends on it.

The Board seeks political parties' and the public's specific solutions to unleashing Ontario's ability to grow.

3. Fiscal Impediments to Meeting Ontario's Infrastructure Needs

Toronto's infrastructure needs go beyond what can be funded by the public purse. Innovative ways of approaching the financing, funding and delivery of infrastructure will be needed to meet this challenge.

But, rather than have that frank discussion, talk of funding and financing infrastructure often involve blaming other levels of government. While the issues raised may be valid, ultimately they represent fights over small sums that lose sight of the significant dollars that are needed.

Provincial-Municipal Fiscal Balance

The Issue

The Province of Ontario has improved the fiscal health of Toronto region municipalities since 2008 through the staggered "upload" of many costs and responsibilities of program delivery that were initially downloaded in the 1990s. However the issue of infrastructure still needs to be addressed. Much of Toronto's infrastructure, including roads, bridges and public transit, is funded and delivered by the municipal level of government. Municipalities often claim their responsibilities for adequately maintaining and expanding infrastructure does not match their fiscal capabilities.

The Challenge

Implemented in 1998, Local Services Realignment (LSR) – more commonly known as "downloading" – was presented as a "fiscally neutral" transfer of responsibilities, with a number of programs that were wholly or partially funded by the Province, such as social assistance, social housing, and public health, downloaded to municipalities in exchange for uploading to the Province 50% of the residential property tax for education programs. Uploading some education program costs from municipalities to the Province served to lift the significant fiscal burden of education costs from Ontario municipalities' shoulders.[16]

In theory, the fiscal room created by partially uploading education costs was supposed to be sufficient to fund downloaded programs and services. In reality, municipalities felt that they were left to shoulder a greater burden with no new financial levers to pay for it. To rectify this situation, the Province undertook a fiscal and service delivery review and an uploading agreement was announced in 2008. Uploading will be phased in over 10 years, with an annual benefit to Ontario's municipalities of $1.5-billion once fully implemented in 2018.[17]

[16] Most education costs have been covered by the Province for decades, through grants to school boards. However, had uploading not occurred, Ontario municipalities would be responsible for approximately $3-billion in education costs per year.

[17] According to the Ministry of Finance *(Provincial-Municipal Fiscal and Service Delivery Review,* (October 2008), ongoing provincial support to Ontario's municipalities in 2018, at over $4-billion, will represent a 270% increase over the provincial support in 2003. The 2008 uploading agreement creates significant fiscal room for Toronto region municipalities, as the City of Toronto alone will see a gain of $500-million annually once fully implemented.

Provincial Uploading of Government Programs 2008-2018	
Program	**Uploading Initiatives and Benefit to Municipalities**
Ontario Drug Benefit (ODB) Costs for Social Assistance Recipients	Uploaded (2008) — $181 million annual benefit
Ontario Disability Support Program (ODSP) Administration Costs	Uploaded (2009) — $85 million annual benefit
ODSP Benefits Costs	Uploaded (began in 2010, completed in 2011) — $652 million annual benefit
Ontario Works (OW) Benefits Costs	Eliminated burden through uploading (began in 2010) — $29 million annual benefit, growing to over $430 million by 2018
Court Security	Upload begins in 2012 — up to $125 million annually at maturity

Some criticisms have been voiced about the uploading agreement. The principal complaints are that the bulk of uploading is back-ended and a number of significant cost drivers, such as expansion and maintenance of social housing, roads, bridges and public transit, have still not been dealt with.

To assess the extent to which Toronto region municipalities have the capabilities to pay for their infrastructure maintenance and expansion responsibilities, the Board undertook a comprehensive analysis of the fiscal capacity of the Toronto region's municipalities. This analysis builds on *The Growing Chasm*, the Board's analysis of the City of Toronto's fiscal situation prepared for the 2010 municipal election.

The Growing Chasm showed that, absent measures to rein in spending, the City was facing increasing difficulties in meeting its program spending, let alone its infrastructure needs. Analysis for this Challenge Paper is meant to determine whether similar fiscal constraints are shared by other municipalities across the Toronto region.[18]

To come to some broad conclusions about the fiscal capacity of the Toronto region, the Board conducted an extensive study of the fiscal capacity of the municipalities with the largest operating and capital budgets:

Upper-Tier	Lower-Tier	Single-Tier
Region of Halton	City of Mississauga	City of Toronto
Region of Peel	City of Brampton	City of Hamilton
Region of York	Town of Markham	
Region of Durham		

Anatomy of Municipal Budgets	
Operating	A year-to-year budget to run municpal services
Capital State-of-Good Repair	The budget dedicated to the maintenance and repair of all existing infrastructure
Capital Infrastructure Expansion	A 10 year plan that lays out the budget for infrastructure expansion above and beyond what has already been built

[18] Our study included a comprehensive examination of Public Sector Accounting Board reports, Financial Information Returns, and 2010 and 2011 operational budgets, as well as 10-year capital plans. We followed this with interviews with the CFOs and Treasurers of the municipalities to confirm that our data was accurate and to expose any infrastructure plans that were not in the books, as well as with senior officials at the Ministry of Finance. Finally, the analysis was subjected to third party peer review to ensure accuracy and completeness. For the full report, please see the Technical Appendix, available upon request.

As anticipated, the Board's analysis found that Toronto region municipalities lack the fiscal capacity to absorb any infrastructure expansion projects such as the $40-billion unfunded portion of *The Big Move*. What was surprising, though, is that our analysis showed they will face an increasingly steep battle in the next ten years just to maintain their existing infrastructure in a state-of-good repair. The chart below lays out the findings on the fiscal capacity to meet operating, state-of-good-repair and capital expansion:

Context: Fiscal Capacity of the Toronto Region: Present - 2020

	Fiscal Capacity of Toronto Region		
	Operating	State of Good Repair	Capital Expansion
Toronto	?	!	!
Hamilton	?	?	!
Durham	✓	?	!
York	✓	?	!
Peel	✓	?	!
Halton	✓	?	!
Mississauga	✓	?	!
Brampton	✓	?	!
Markham	✓	?	!

✓ Manageable fiscal capacity
? Will struggle with fiscal capacity
! No fiscal capacity

A summary analysis, with specific notes for each of the municipalities examined, can be found in the appendix. Our analysis highlights three particular concerns for Toronto region municipalities:

- The single-tier municipalities of Toronto and Hamilton, with generally older infrastructure, face increased pressure to meet their infrastructure obligations (partly due to a relatively narrow funding base primarily composed of property taxes and user fees), with some capital and maintenance costs "intruding" into their operating budgets;
- There is a decreasing ability for development charges to mitigate the costs of capital as build-out and intensification plateau over time across the Toronto region municipalities; and
- The limited ability for development charges to properly fund expensive new capital initiatives, such as transportation infrastructure, even in municipalities where growth is still occurring due to current provincial legislation that limits recovery from development based on a documented provision of service that does not exceed the average level available during the past ten years.

The Bottom Line

While the uploading discussion as it pertains to infrastructure needs to be completed (a point acknowledged in the report on the 2008 agreement[19]), this inter-governmental discussion over "who does and pays for what" is only a small part of the solution to overcoming our infrastructure deficit.

[19] Ministry of Municipal Affairs and Housing, *Provincial-Municipal Fiscal and Service Delivery Review: Facing the Future Together (Fall 2008)*, pg. 19-21.

Provincial Fiscal Capacity

The Issue

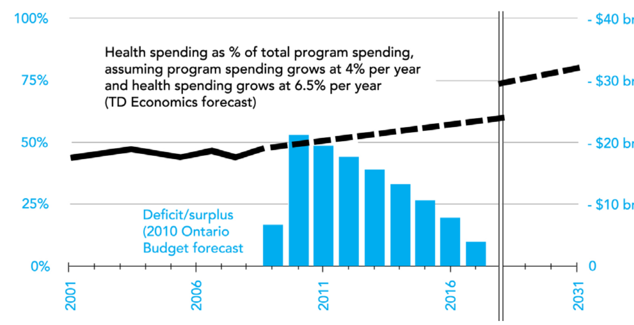
The Province faced a $16.7-billion deficit in 2010-2011 and is not forecast to get back to balance until 2018. As a result, the Province, like many governments around the world, is looking for austerity measures to bring its budget under control. For the past number of years, about $10-billion a year has been invested in infrastructure across the Province. Given the Province's financial situation, it is unlikely this level of investment in infrastructure can continue indefinitely, particularly as the Province continues to grapple with the costs of its own day-to-day service delivery.

The Challenge

In an age of fiscal austerity, the Province will face continued difficulties in meeting all of its program and service expectations. Competing priorities – such as health care, education and social programs – have the potential to crowd out investments in infrastructure without long-term funds earmarked for infrastructure.

From a government spending perspective, health-care is the top priority and will continue to be so. The Board and our members value the quality of, and competitive advantage created by, our health-care system. It is imperative that high-quality, publicly-funded health-care remains available to all Ontarians.

But this level of priority comes at a price. Health-care is the largest single item in the Provincial budget, accounting for a growing percentage of this budget. The graph in the next column shows the Province's expected budget deficits to 2018 (right axis) and the percentage health-care will account for of the Provincial budget to 2030 (left axis). Health-care will go from 46% of the Provincial budget in 2009 to 80% in 2030. Even as the Province emerges from its budget deficit, health-care will consume any fiscal room created – and begin to crowd out the funding for other items, such as education, social programs and infrastructure investment.



Another significant item in the Provincial budget is labour costs. These account for 70-80% of spending in some departments and programs. Ontario's public servants provide excellent service to Ontarians. That being said, current benefits are proving to be more generous than found in the private sector. This is one of the reasons that the average retirement age in the public sector between 2000 and 2005 was 59, while it was 62 in the private sector (down from 64 and 65, respectively, between 1976 and 1979)[20]. Further, as other governments around the world are discovering, the long-term costs of these generous benefits as the population ages are not sustainable.

The Bottom Line

Continued provincial investments in infrastructure are necessary to overcome the infrastructure challenge. While the Province will gain fiscal capacity as it moves toward budget balance, there will be competing priorities, such as the growing health-care budget and education, that are likely to consume these dollars (and, in some cases, will eat into the current budgets of other programs or services). In any event, though, the size of Toronto's infrastructure needs exceed the Province's (or any level of government's) ability to fund them from the public purse.

[20] Statistics Canada, *Labour Force Survey*, 2006.

Filling the Remaining Gap

The Issue

Even if Toronto region municipalities and the Province finalize an agreement over funding infrastructure responsibilities and a way is found to fund all competing priorities in the Provincial budget, neither one has the fiscal capacity to completely fund Toronto's infrastructure needs. The federal government is needed as a partner in this challenge. Yet, even with all three levels of government engaged, public dollars will not be able to meet this need.

The Challenge

Addressing the Toronto region's transportation infrastructure needs is overdue. Further delay will have negative impacts on Toronto's global competitiveness. Failure is not an option.

The levels of funds needed are beyond the capacity of government, either individually or collectively. Unfortunately, no level of government is acknowledging this reality to the public and beginning to explore innovative ways of funding, financing and delivering our infrastructure needs.

The Bottom Line

It's time that all provincial parties and all levels of government are open with the public about the magnitude of Toronto's infrastructure challenge and that innovation will be needed to overcome this challenge. Until we do, we're effectively operating in a fantasy[21], rather than reality.

There is significant public appetite to see a solution to the Toronto's congestion. It's time for our political leaders to engage the public in making this solution real.

[21] Marcus Gee. "Another Transit Fantasy – And This One is Electric." *Globe and Mail* (January 20, 2011).

4. Core Components to Reaching Top Speed

Innovation and Private Sector Investment

Like many governments around the world, the Province of Ontario needs to be far more innovative in financing infrastructure. The infrastructure deficit's size, as well as expansion demands, exceeds the ability of governments to pay for this infrastructure. So, something different from the traditional method of delivering infrastructure projects is needed.

Innovation in the funding, financing and delivery of infrastructure will often, but does not always require, private sector involvement. To the right are examples of some innovative ways an infrastructure project can be delivered.

While innovation in funding, financing and delivery of infrastructure is being undertaken all over the world, governments in Canada – particularly at the municipal level – have been relatively slower in pursuing this innovation, especially with respect to public transit. Among the few Canadian examples is the Canada Line in Vancouver, which was built with a mix of funding (approximately two-thirds public and one-third private funds). Through the creation of Infrastructure Ontario (IO), the provincial government has shown a positive commitment to innovation. The Board's members believe that opening up opportunities for public-private partnerships (P3s) by IO is needed.

IO is a world leader in creating certain opportunities for P3 partnerships, such as independent jail and hospital projects. Board members believe IO should be tasked with overseeing construction of more complex projects, such as public transit and energy. To do this, IO will need a more robust framework for P3 involvement in general delivery of services so that the scope and possibilities for P3 cooperation are widened. Sharing costs of road maintenance with the private sector, for example, would surely lift some of the financial burden off of Toronto region municipalities.

A simple illustration of some P3 options

A municipality plans to develop a sports centre.
It has the option of using its staff to carry out all of the components of the project, including the funding of the project through tax revenues or debt. Alternatively, it can develop a Request for Proposals (RFP) to partner with the private sector.

Design/Build – this approach has been used extensively by governments in the past. Bids for tender would be asked to present innovative options. For example, one proposal might include the design of a playhouse and entertainment complex on the top floor of the sports centre. The public sector will choose the preferred option and manage the operations and finance the project. The private sector will receive payment based on whether performance requirements are met.

Design/Build/Operate (DBO) – The design build is taken a step further, with the private firm also in charge of operating the arena. A long-term "concession" agreement would be developed, usually encompassing 25-35 years or longer. Revenues could consist of pre-set annual payments by the government, user fee receipts or a combination of both. At the same time, the government's ability to monitor progress and quality and renegotiate the agreement is included in the contract. This approach will often increase the life span of the private business involvement and provide a stronger incentive for the private sector to invest more effort in the initial project and develop a higher quality product requiring fewer repairs.

Design/Build/Finance/Operate (DBFO) – In addition to constructing and operating the project, the private sector can fund the project through an equity state and debt financing. On the debt side, three options are generating capital through bank lending, private placement (i.e. pension funds) or tapping financial markets through an initial public offering (IPO). Cash or "in kind" contributions to the project by the government would lower the required private funding needs. In this approach, the private sector operates the sports complex for a certain period of time, afterwhich the asset is usually transferred to the public sector.

Source: TD Economics, *Creating the Winning Conditions for Public-Private Partnerships (P3s) in Canada* (2006)

The Board wants to make clear that, while private sector investment in infrastructure projects is needed, it must be recognized that such arrangements do not work in all instances and that private sector investment is not "free money." Attracting the interest of private sector investors requires two critical elements:

- Some form of return on investment: such as access to a secure and stable flow of funds (such as a user fee), development rights in a certain location or some other pay-back on their investment; and
- Certainty surrounding projects: the private sector needs to have confidence that planned projects will proceed, rather than have fears that those projects will be interrupted or changed partway. Continually altering plans creates delays in construction, drives up costs and ultimately scares away potential private-sector investors.

Institutional investors, such as pension funds, are interested in infrastructure assets because they offer stable and predictable returns on investment. This is one innovative source of funding that could be sought for the Toronto region. The Canada Pension Plan Investment Board, for example, is investing in infrastructure projects around the world. Unfortunately, a number of elements, such as the uncertainty surrounding the completion of projects, make investing in Toronto region projects less attractive to these institutional investors.

Sustainable, Long-Term Investment Plan

Infrastructure projects – from the planning stage to being in service – usually take years to complete. As a result, long-term and predictable funding is critical to long-term infrastructure planning, particularly at the municipal level where much of the infrastructure planning takes place. Stable infrastructure funding has been shown to promote stronger economic growth and guarantees more funding will be available for infrastructure.[22]

The Board's members agree that, regardless of the area of infrastructure under focus, there needs to be sufficient, stable, and sustainable funding going forward. Volatile funding practices encourage simply patching problems as they arise. In the long-run, this is much more expensive than consistent maintenance, upgrading, and expansion of our infrastructure – which can only be guaranteed if adequate funds are made regularly available.

Stable funding requires a consideration of full life-cycle costs of infrastructure assets. It is equally important to consider the funding needed to operate and maintain infrastructure assets as it is to consider the capital funding at the outset of their installation. Without engaging in this type of long-term planning, it is impossible to ensure that sufficient funds will be available to keep infrastructure in a state of good repair.

Through *ReNew Ontario* and the Long-Term Infrastructure Plan, the Provincial government has shown a commitment to longer-term and more predictable funding for infrastructure. The Board's members believe such long-term plans must continue. Since many infrastructure projects, as well as the lifecycles of many infrastructure assets, extend beyond 10 years, the Board believes that future plans should look to even longer terms.

[22] Residential and Civil Construction Alliance of Ontario. *Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth* (July 2010).

It is also important that public funds are clearly *earmarked* to infrastructure, making it more difficult for planned funds to fluctuate due to other budgetary imperatives, and that there is transparency/public accounting for how these substantial funds have been spent.

But the infrastructure challenge in the Toronto region is beyond the means of the public purse alone. An innovative approach to long-term funding and financing plans, with specific measures or tools generating dollars that flow directly to infrastructure projects, is necessary. In May 2010, the Board took the lead on advancing the discussion of these tools with the release of *The Move Ahead.* This paper, part of our VoteToronto2010 campaign, outlined 16 different revenue tools that have been used in other jurisdictions to successfully finance and fund infrastructure projects.

These tools included "large" ones (such as road pricing, a vehicle-kilometres-travelled charge, gas tax, regional sales tax and a parking surcharge) that could generate $1-billion a year or more to "medium" tools (such as infrastructure bonds, employer payroll tax, tax increment financing and land value enhancement) that could generate $500-million to $1-billion a year and "small" tools (such as high occupancy toll lanes, vehicle registration fee, utility levy and full-cost recovery transit fares) that could generate less than $500-million a year.

The Board does not suggest this is the full gamut of policy options that will deliver the transportation infrastructure needs of the Toronto region. Other policy tools are available. Nor is it necessary that all tools to be used are implemented at once. Measures can be introduced in stages, as public confidence that infrastructure projects will be built and support for such measures builds.

What *is* necessary is to move forward – and quickly. While provincial legislation requires Metrolinx to present its Investment Strategy by June 1, 2013, the Board calls on the next provincial government to ensure this crucial strategy is in place by spring 2012.

Managing Demand, as Well as Supply

According to the Canada West Foundation, closing an infrastructure deficit requires a focus on both supply and demand. It is not simply a matter of more funding for more infrastructure. Success in addressing the infrastructure challenge also requires managing demand. If the underlying drivers of infrastructure needs, such as increasing demand for infrastructure, are not addressed, there will not be a long-term, sustainable solution to the infrastructure challenge.[23]

Many of the Toronto region's global competitors have already embraced this need by pursuing congestion management. For example, the congestion charge levied to enter London's downtown core raises funds to pay for other types of infrastructure. But another primary goal of this charge is to influence consumer behaviour and manage demand for road space in the downtown core. Commuters changed their mode of transport into the downtown core. For example, some who had previously driven to work started taking public transit; others carpooled instead of each taking their own car. By imposing this charge, London was able to reduce congestion on the roads in the downtown core and increase the average speed on those roads.

Highway 407 is a Toronto region example of congestion management. The operators of Highway 407 set tolls at a level that will ensure a quick ride for consumers.

[23] Casey G. Vander Ploeg, *New Tools for New Times.* Canada West Foundation, January 2011.

So, a part of the solution to Toronto's infrastructure challenge will be managing the demand for ever more infrastructure. Pursuing congestion management, for example, will enable the Toronto region to achieve multiple objectives, such as reduced demand for infrastructure, environmental conservation and equity in the provision of services and infrastructure.[24]

Controlling Program Costs

For the Province to be able to relieve its current fiscal deficit and invest in the transportation needs of the Toronto region, it is essential to find efficiencies in program delivery while maintaining the same standard of service Ontario citizens currently enjoy.

Improving the Province's long-term fiscal health will require changes to the way many programs are funded and/or delivered. Dealing with the budget will require an examination of the two largest expenditures: health-care and labour costs. The Board believes these items must be looked at because of their sheer size – one cannot improve the Province's fiscal situation without looking at these substantial expenditures.

The Board believes a key principle to improving the Province's fiscal health is to **bend down the health care cost curve.** A primary way to achieve this will be greater investments in health prevention and improving the social determinants of health – effectively, taking steps that will eliminate the need for expensive care later. Chronic diseases, such as obesity and lifestyle-related diabetes, account for a substantial portion of health-care costs and will likely increase in future if greater prevention measures are not taken now. Another means to achieve cost efficiencies in health-care spending is to place an emphasis on redirecting future health care dollars towards less expensive community-based care found in Community Care Access Centres, primary care provision, and home-based care. Better use of technology, such as electronic health care records, to make resources even more interlinked and accessible to citizens and business alike, will also be needed.

Governments around the world are looking to **lower public sector labour costs.**[25] Ontario will be no different. A good place to start would be leveraging natural attrition rates to reduce the overall size of the provincial workforce, where appropriate. The long-term sustainability of labour costs and benefits, including pensions and early retirement packages, needs to be examined if the Toronto region is to move forward. This ties in closely with the aforementioned need of the Province to be more innovative in financing program and service delivery in Ontario. Again, what's key here is maximizing efficiency while refusing to compromise quality of service delivery to Ontario citizens.

The Need for Federal Partnership

Canada is the only OECD and G8 nation without a national transit strategy. Even though the magnitude of the infrastructure challenge is beyond the means of the public purse, it is important that all levels of government are engaged and contributing to the solution of this challenge. That includes the federal government.

Currently, the Toronto region accounts for about 20% of Canada's population and, by 2031, will account for 25-30% or more. When this large a portion of the national economy and national population is impacted, there is no way the federal government cannot be a partner in the solution.

Already, the federal government dedicates about $2-billion annually from the Gas Tax Fund to be disbursed to municipalities across the country, on a per capita basis. In addition, since 2006, the federal government has made over $2-billion of commitments toward transportation infrastructure projects in the Toronto region. These are welcome investments that should be built upon through a more certain, long-term commitment, such a national transit strategy.

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[24] Ibid

[25] "The Battle Ahead" and "(Government) Works Of The World Unite!" *The Economist* (Jan.6, 2011)

The newly re-elected federal majority government pledges to introduce legislation that makes the Gas Tax Fund permanent and to develop a long term plan for public infrastructure that extends beyond the expiry of the Building Canada Plan in 2014. The next Ontario government must work with the federal government to ensure this happens – and also to ensure the unique importance of the Toronto region is recognized by the federal government through some specific federal partnership in solving Toronto's infrastructure challenge.

5. Conclusion: Tackling Our Challenge

The Toronto region continues to attract people from around the globe, experiencing high rates of population growth. Unfortunately Toronto's infrastructure has not kept pace with this population growth. As well, there have been decades of under-investment that need to be made up.

The result is an infrastructure challenge: the Toronto region's long-term transportation infrastructure plan, *The Big Move*, alone, when fully built, is likely to cost more than the Big Dig, the Chunnel and the Three Gorges Dam "mega-projects" *combined*. Toronto's infrastructure is quickly becoming the biggest drag on our global competitiveness and, in turn, our economic growth and job creation. So, **what are the parties' plans to ensure that long-term, sustainable and certain funding and financing plans to address the infrastructure deficit are in place? What are their plans for the Toronto region specifically?**

Overcoming Toronto's infrastructure challenge will be key to the entire province's future growth and prosperity. It is a daunting challenge, but not an insurmountable one.

The Board believes that innovative solutions – such as those that have been used successfully in other jurisdictions – can resolve Toronto's infrastructure challenge. To get there, though, requires the recognition that the region's infrastructure needs are beyond what the public purse can bear. And we need certainty that long-term plans will get built.

In this paper, the Board has explored some of the issues that seem to stand in the way of meeting the region's infrastructure needs – the Toronto region municipalities' lack of fiscal capacity to handle state-of-good repair and infrastructure expansion projects; the Province's budgetary pressures; and how to fill the remaining gap – to show that a realistic solution needs to include plans that incorporate innovative ways to finance, fund and deliver infrastructure projects. **The Board believes it is imperative that provincial parties commit to seeing through long-term plans and to have in place credible funding and financing plans by spring 2012.**

To get to this stage, the Board has put forward a number of potential solutions: driving innovation behind private sector funding, financing and delivery; a long-term, sustainable investment plan; managing both supply and demand; controlling program costs; and the partnership of the federal government.

Together, the Toronto region's infrastructure challenge can be overcome. This solution will release Ontario from third gear and allow us to reach top speed.

Appendix

Toronto

- Mature municipality so limited increases will occur in assessment growth
- Major state-of-good-repair (SOGR) issues due to large and aging infrastructure stock
- Access to additional debt is limited
- Limited reserves for funding capital
- Some relief due to Provincial uploading but other programs (especially transit) are major and increasing draws on both capital and operating resources

Halton

- Relatively well positioned to deal with current level of demands including SOGR but will face increasing difficulties over the next ten years
- Growth in Milton but greenbelt restrictions result in near build-out of Oakville and Burlington

York

- Required to address existing debt pressures largely through user rates (water/wastewater related)
- New debt issuance will require Provincial approval but new debt largely supported development
- Transit recently regionalized so will create a demand on the capital budget

Mississauga

- Approaching build-out so assessment growth is limited
- To fund capital, will be drawing down reserves and begin debt financing
- Plans in place to manage SOGR pressures through allocated increases in taxes

Markham

- Still experiencing growth
- Policy to make tax provisions to support SOGR

Hamilton

- Some growth outside the core but core city is effectively built out
- Major SOGR issues in the core due to the size and age of infrastructure (particularly roads)
- While ICI growth may occur within the next ten years, the economy is still heavily reliant on the steel industry

Peel

- Also relatively well positioned to deal with current issues
- Growth in Mississauga is limited but still expansion in Brampton

Durham

- Growth still occurring and making large contributions to capital for roads, water/wastewater and transit (recently regionalized)
- Funding pressures resulting from transit and social housing

Brampton

- Will continue as a growth municipality over the next ten years
- Can rely on tax base to support operating and capital needs without reliance on debt

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