

National Infrastructure Program (NIP)

Introduction

There has been considerable debate about a proposed transfer of federal fuel taxes to municipal governments to invest in Canada's crumbling municipal infrastructure.

There has also been a deafening silence on the role the federal government must play in supporting a seamless multi-modal transportation grid including the National Highways System (NHS) in Canada to keep our economy productive and competitive.

A funded federal policy must clearly define the national investment need and benefit to upgrading Canada's global municipal and transportation infrastructure asset investment deficits. The policy must have "four corners" within which national objectives are addressed. Funding sources must be transparent, connecting the user to the benefit. It should require funding incrementality from participating government partners.

Ultimately in the eyes of the public, the policy must be transparent, accountable, equitable, serving a national purpose while being politically and fiscally responsible.

The policy must demonstrate that the federal government not only recognizes the national need, but leads and holds accountable, junior levels of government for the expenditure of federally made available funds.

The above reinforces the notion of good, responsible, accountable, fiscally prudent good governance in areas of legitimate national interest, all of which are expected by Canadians.

The question then becomes, if Canada's national infrastructure deficit is in critical need of investment for the good of national interests, what is the appropriate political and financially prudent approach.

The first step is to acknowledge that decisions relating to healthcare, environment, defense, education, research & development, foreign affairs, social safety net and a myriad of other national programs, are made within established policy(s).

Respectfully, there is a glaring absence of policy based and sustainable guiding principles or strategies for national infrastructure investment which are critical national assets.

Investment Deficit Magnitude – the Problem

Consider first the size of Canada's global infrastructure investment deficit – the amount of investment required to repair, build and then maintain Canada's core infrastructure.

Ignore for a moment whether or not the numbers are scientifically or mathematically exact. Frankly their calculation is not the art of science but tied directly to the rate of reinvestment lag affected then by the pace of exponential growth.

Recognize that the investment deficit "*reasonably*" reflects the nature and extent of the problem that exists and that ignoring it, further restricts federal fiscal flexibility.

Accept as well, that the youth of this country are not interested, nor do they deserve, to be saddled with new taxes imposed upon them in the future, to solve old problems our generation did not have the courage, wisdom, foresight or political will to address.

For the purposes hereof, Canada's Core Infrastructure is defined as follows:

- **Core municipal infrastructure** consists of streets; water treatment and distribution; wastewater collection and treatment; public transit; bridges and related structures.

The Federation of Canadian Municipalities (FCM) has created a meter it refers to as "*Canada's Infrastructure Deficit Counter*" at its website: <http://www.fcm.ca/>.

This 24-hour meter identifies the national municipal infrastructure deficit - the cost to build, maintain and repair essential infrastructure. It also allows the individual visitor to determine the amount by which the deficit grew since the last visit. At this date the deficit exceeds \$60 billion.

- **Transportation** consists of a multi-modal transportation system linking the National Highways System (NHS) with provincial highways, rail, airport and marine, between urban centers, intra-provincially and internationally.

The NHS footprint - essentially the Trans-Canada Highway and key commercial and tourism links connecting north/south to the United States - has already been agreed upon.

According to numbers generated by provincial governments and not strenuously challenged by Transport Canada, the NHS faces an investment deficit exceeding \$20 billion.

The NHS should be a shared investment responsibility between the national and federal governments. The NHS footprints a national highway corridor which provides the ability to move goods, services and tourists in an efficient, competitive, user friendly manner.

Its condition is so poor, that the trucking industry often selects to travel south of the border because the US Interstate System is designed, built and maintained to modern engineering and safety standards allowing for quick, on time, cost effective transportation of goods.

All of the economic benefits related to the carriage of goods by commercial transport vehicles therefore remain in the United States – room and board, vehicle repairs, purchase of fuel whose taxes are dedicated to maintaining the interstate highways system. These economic benefits which support jobs, growth and generate revenues to governments are lost to Canada.

The remaining grid of provincial highways face an investment deficit estimated to be hovering in the vicinity of \$30 billion – clearly a provincial area of jurisdiction.

Sub-total - \$110 billion.

But the issue is broader than that. The national government must also become attentive to the needs of road ports of entry, rail, air, marine capacity and condition, and the ability to finance improvements that will be needed to remain competitive and support economic growth.

Ports, airports, the airline industry and private railways need changes to rules which will encourage increased private sector investments as opposed to reliance simply on more government money. We do not have an estimated investment deficit in this area but one can be certain that it is significant.

- **Strategic Infrastructure Investments (SII)** must also be recognized as part of the overall investment strategy. The first two elements address "*catching up*" which will take generations to accomplish.

This third element recognizes that there will be investment strategies in the future, which seed the potential for new niche market activities and economic growth, or can expand upon existing jobs, add capacity or improve productivity, enhance border crossing efficiencies, all ultimately enhancing the economy, jobs and revenues to government.

These investments speak to future growth, enhancing Canada's economic role and influence in the world. This helps boost Canada's role and ability to shape international affairs allowing it some distance from reliance upon and acceptance of US foreign policy – it is tied to national sovereignty.

- **Funding Principle Note**

While the preferred approach is that federal fuel excise taxes should be returned proportionately back to those paying the taxes, we recognize that political flexibility is required to address Canada's global infrastructure deficit and therefore some deviation from the pure link is necessary.

The above not all inclusive list of considerations, should form the basis and framework around which a National Infrastructure Strategy is designed.

Strategy, purpose, mission, destination, objectives and nation building must be seen to underpin the policy rationale. That accomplished, the political benefits will be national in scope because of all of the constituencies, existing and new that such an approach will "touch."

National Infrastructure Policy (NIP) Elements

The following elements of a policy are recommended for consideration:

1. National Highways Program (NHP)

How?

- Allocate a portion of the sale proceeds of Petro-Canada shares expected to yield up to \$3.8 billion of which \$1 billion has been ear-marked for environmental purposes, to a trust fund dedicated to the NHP. It becomes part of the funding that is available either as part of the federal fuel tax allocation or reserved as a growth fund for SII investments related to the NHP;
- Allocate a portion of savings accrued to the federal government's annual debt charges, as a result of the recent reduction of the national debt by the \$9 billion payment from the federal surplus;
- Allocate 2 cents per litre of federal fuel road use excise tax - yielding roughly \$1 billion annually - towards the NHP, as an annual, sustained, predictable policy requiring matching funds from provincial governments, while at the same time requiring incrementality at the provincial level towards the remaining provincial highways system;
- Allocate the funding in a manner which accounts for population, congestion, reinvestment need tempered by equity and remoteness of location, all designed to rebuild the NHS to modern engineering standards.

Benefits?

- Stand alone program;
- Provides Canada with an efficient national transportation corridor whose footprint has already been agreed upon and includes strategic commercial and tourism objectives;

- Creates stable jobs and career opportunities in the design, engineering and construction communities;
- Allows for target equity employment and new training;
- Should require the application of new technology, materials and practices to:
 - Advance research & development - e.g. Intelligent Sensing for Innovative Structures (ISIS) Canada headquartered at the University of Manitoba faculty of Engineering with nodes of research spread throughout universities across Canada. ISIS Canada focuses on advanced composite materials and fiber optic sensing systems which significantly extend design life capacity a reduce life cycle maintenance costs;
 - Advantage the design and engineering communities;
 - Lengthen the design life of the system while at the same time reducing its life cycle maintenance costs thereby extending the value of the initial capital investment;
 - Associates investment with new, innovative leading edge technology;
 - Wins the support of the R&D communities including engineers, design and universities;
 - Creates a knowledge based export opportunity for Canadians;
 - Still retains eight cents of the federal fuel tax - \$4 billion - for other application;
 - Addresses green gas house emissions and responds to Kyoto Accord responsibilities – environmentally friendly.

Safety

- “Roadways must be of a standard that the likelihood of a crash is significantly reduced and for those crashes that do occur, the roadway and the immediate roadside environment, is more tolerant and forgiving, making crashes survivable. There is a huge potential to reduce fatalities and injuries through enhanced capacity and better road design and maintenance.

In its 1998 report, the Council of Ministers Responsible for Transportation and Highways Safety estimated that reduced congestion and improved highway standards from the NHS could be expected to reduce the number of fatalities by as many as 247 and injuries by up to 16,000 each year. This potential is staggering and should not be overlooked.

In the United States, travel on highways, particularly interstate highways, is often safer than travel on other roads because of the high design standards imposed during construction and maintenance phases. As a result, the fatality rate for interstate highways is nearly 60 per cent lower than the rest of the system, and the injury rate is 70 per cent lower on interstate highways than on the rest of the system. An estimated 6100 fatalities and 440,000 injuries were avoided in 1994 through the use of the interstate highways.

Regrettably, the quality and safety of roadways in Canada is not given as public policy priority. Given the ambitious target of 30% reduction in fatalities and injuries contained in the *Road Safety Vision 2010* document and making our roads the safest in the world, we risk setting ourselves up for failure if measures are not taken quickly to upgrade and improve our roads and highways to be as safe as possible.

These statistics reinforce the point that good design and safety-related operational practices can be incorporated into Canada’s roadway system, in particular the National Highways System.

By taking on the issue of safer roads as a health concern, and as a priority for *Road Safety 2010*, the federal and provincial governments would realize significant cost savings to our healthcare system from having to treat crash victims. The reduction of traffic fatalities and injuries should therefore be regarded as a public health opportunity rather than an unfortunate but “acceptable” risk of driving on our roads.¹

2. Municipal Infrastructure Program

How?

- Allocate up to five cents of the federal fuel excise tax – approximately \$2.5 billion – towards reinvestment of Canada’s crumbling core municipal infrastructure;
- Share the program funds as between two distinct “municipal” groups – Big City Mayor’s and Rural Municipal governments based upon population, remoteness, need and equitable considerations – do not ignore the problems of rural Canada – they are real and are part of the municipal infrastructure investment deficit.

Benefits?

- Demonstrates political understanding of the nature of the problem coupled with policy driven action;
- Stand alone program providing predictable, sustainable funding tied to requirements for incremental municipal funding;
- The NHP Agreement above referred to provides incentive for provincial governments to allow the “flow through” of funds for the municipal program;
- By sourcing fuel tax, program funding is transparent, accountable, predictable subject to public scrutiny and tied to benefit for taxes paid;
- Should the magnitude of the problem continue to grow, the transparency tied to the initial program allows governments in the future to increase taxes for these stated purposes; and
- Reaches all constituencies and demonstrates relevance of national government.

3. Strategic Infrastructure Investment (SII)

How?

- Allocate one cent per litre of fuel tax – roughly \$500 million annually to be matched equally by participating partners or public private partnerships which might permit a 30% or lower share by the federal government. Alternatively, access funding from the Petro-Canada share sale reserves.

Benefits include but are not limited to:

- Improved efficiencies and security at border crossings;
- Investment in marine, seaport, air, rail capacity;
- Establishment of “value added tax free economic parks;”
- Key funding for research & development much like the Network of Centers of Excellence (NCE) Program;

¹ Sourced from the Canadian Automobile Association (CAA).

- Investment required to facilitate a seamless multi-modal transportation system, which allows for the cost effective movement of goods and services to/from market, keeping the cost of our exports competitive; and
- Investment in infrastructure assets which provide support to the nation's productivity levels which are ultimately reflected in the cost of labour, productivity, product cost – competitiveness.

4. Border Security Fund How?

- Allocate from general revenues of the federal government an amount appropriate to security and border crossing issues. This area of responsibility should not be funded solely on the backs of road users. This is a national responsibility appropriately shared by all taxpayers.

Public Tendering/Incrementality

The programs being paid for by public funds should be tendered to permit the competitive market system deliver the projects based on lowest qualifying bid. Further strict compliance with incrementality should be ensured to so that the new federal contribution is not used in substitution for or to reduce existing programs. This would ensure that the federal investment is seen to be making a visible and sustainable impact upon the condition of Canada's global infrastructure.

Management

The government could also consider the notion of an arms length corporation which manages these investments much like the Federal Bridge Corporation. Its board should multi-modal in its representation and appointed based upon expertise and merit.

Conclusion

The above "allocates" between seven and eight cents of the current federal fuel excise tax still leaving the federal government with up to \$1.5 billion of revenues for general or other infrastructure related purposes. The above recommendations do not anticipate GST forgiveness – a further saving to government.

There is much more that requires debate. This is indented to template discussions and offers some thoughts on the direction that the national government should pursue.

Respectfully submitted,



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