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Chamber of Commerce
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July 21, 2010

The Honourable Sophia Aggelonitis
MPP Hamilton Mountain
952 Concession St.
Hamilton, Ontario L8V 1L2

Dear Minister Aggelonitis:

Re: The MetroLinx Investment Strategy

Hamilton Chamber of Commerce comprises almost 2,100 individuals who represent 1,200 employers of 130 different sectors employing 75,000 Hamiltonians within our districts, which include Ancaster, Dundas and Glanbrook.

As members of the Ontario Chamber of Commerce ("OCC"), we are writing to you in support of the OCC's position regarding to the current and foreseeable future need for new transportation and transit infrastructure. As you are already aware, travel times are increasing, productivity is lost, and pollution and greenhouse gas emissions are rising, all of which is taking a toll on our economy and environment.

For instance, according to MetroLinx, people traveling in the Greater Toronto Hamilton Area ("GTHA") experienced an average excess travel delay of 11.5 minutes per day per commuter in 2006. MetroLinx has suggested this translates into each commuter spending an average of 50 hours too many caught in traffic that year. That same year, traffic congestion cost the economy $6 billion and 26,000 fewer jobs. If uncontrolled, congestion costs could cost $15 billion and the economy 58,000 fewer jobs, by 2031.

In addition, in our community, future development is underway introducing a new north/south rapid transit line, as well as a modernized east/west rapid transit line that may consist of light-rail or dedicated bus lanes. The anticipated economic growth from these initiatives is expected to garner new jobs to the City, as well as provide greater connections within the GTHA.

Transportation is a key economic driver, and as a result the province should seek alternative means of financing transportation and transit infrastructure and services. There are credible alternatives to funding infrastructure across the GTHA and Ontario in the short and long term.

First, Ontario could seek to lower costs in other government spending areas and redirect the crucial funding towards transportation and transit infrastructure. Simply decreasing spending and/or controlling costs in other government areas could be a solution. Ontario should re-examine spending in other areas/ministries and see where funding can be shifted towards transportation and transit infrastructure.

Secondly, we recommend the Ontario government consider a number of financing tools, including public bond issues, and private-public partnerships.

As per the attached public policy statement, Ontario should consider the use of "*various revenue tools, including* (possibly) *consideration of the use of tolls and fares to either pay down the bond issue, or to provide a stream of revenue to the private capital sources*". In addition, Ontario could implement at least one pilot project wherein the private company winner of a public competition, finances, builds and operates either a toll road or a high-capacity public transit service entirely itself – subject only to the terms of the bid as set by the Ontario government.

For your perusal, you will find enclosed a copy of the OCC's 2010 policy recommendation that addresses this issue further. The Hamilton Chamber is also fully supportive of this resolution.

(Indeed, while it originated at the Mississauga and Toronto Boards of Trade, when brought the floor of the recent Ontario Chamber Convention, the Hamilton Chamber was instrumental in introducing an amendment, now incorporated into the Recommendations, which made it fully acceptable to, and hence eventually adopted, by to all voting delegates from Chambers of Commerce throughout Ontario.) In short, we view this as at least an equally vital issue for sustainable jobs and prosperity in Hamilton, as well.

A recent OCC questionnaire provided feedback with respect to other options, which includes: the extraction of development fees as part of the zoning and approval discussions in areas of growth; the examining of options which relate to advertising revenues, payroll taxes, and a consistent consumer fare structure.

Replies to the OCC questionnaire also suggested a shift in defining transit, so that there is a shift from *public transit* towards *mass transit* initiatives. This shift in mindset could help remove a number of implications and provide a transition to alternative financing procurements. There is a clear link between economic development and goods movement when discussing mass transit investment strategies.

We ask you to share any or all of these recommendations and options with the Minister of Transportation and fellow MPPs with respect to MetroLinx's Investment Strategy.

We look forward to continue working on behalf of our member businesses to engage with government and stakeholders to ensure that our community and Ontario continue to be attractive places to invest.

Thank you for the opportunity to provide our input on these issues. Please do not hesitate to have your staff contact me at the Hamilton Chamber office at **(905) 522-1151 ext. #229** or **j.dolbec@hamiltonchamber.on.ca**, if you would like to discuss this further, or to arrange a meeting.

Yours sincerely,

John Dolbec,

CEO, Hamilton Chamber of Commerce

CC: The Hon. Dalton McGuinty, Premier of Ontario

The Hon. Kathleen Wynne, Minister of Transportation

Mr. John Howe, Vice President, Investment Strategy & Project Evaluation

Mr. Bruce McCuaig, Deputy Minister, Ministry of Transportation

The Hon. Brad Duguid, Minister of Energy and Infrastructure

Mr. Tim Hudak, PC Leader, Leader of the Opposition

Mr. Frank Klees, PC Party Critic, Transportation and Public Infrastructure Renewal

Ms. Andrea Horwath, NDP Leader

Mr. Gilles Bisson, NDP Critic, Transportation

Mr. Howard Hampton, NDP Critic, Public Infrastructure Renewal

The Ontario Chamber of Commerce

Hamilton Chamber's Board, including Chairs of our Ancaster, Dundas & Glanbrook Divisions, plus Members of our Transportation Committee.

John Best, Southern Ontario Gateway Council

Rob MacIsaac, Chair, MetroLinx

Local media.

Encl: OCC Policy resolution entitled:

"Alternative Financing for Transportation/Transit Infrastructure and Services"

(Policy Resolution adopted by the Ontario Chamber of Commerce– 2010-2013

<u>Alternate Financing For Transportation/Transit Infrastructure and Services</u>

(Policy Resolution adopted by the Ontario Chamber of Commerce– 2010-2013 Submitted by Toronto Board of Trade & Mississauga Board of Trade, including recommendation amendment proposed by Hamilton Chamber of Commerce)

<u>Issue:</u>

The current and foreseeable future need for new transportation and transit infrastructure is staggering. Public finances are in the worst disarray since the great depression. The Ontario Government should transition away from the antiquated and ineffective public financing and operating of such infrastructure, and look to alternative means. There are ample credible alternatives available for consideration.

Background:

Ontario's infrastructure, and in particular its transportation and transit infrastructure has not kept pace with the past few decades of population growth, nor with its distribution.

Most of this growth has occurred in and around the GTA. The city of Toronto has an admirable public transportation system. However it is aging, has insufficient capacity to serve a much larger population, and was primarily built to facilitate movement into and out of the city center.

The former "bedroom suburbs" surrounding Toronto now have a larger population than the amalgamated city itself. More commuters leave the city to work in the surrounding belt of municipalities than travel into it. Toronto's city center is progressively becoming a less significant locus of employment.

As a consequence, more and more citizens are forced to resort to the automobile as the primary means of traveling between their work and their residence. There simply are no other practical choices.

With the decades-long neglect of the road system, this simply increases congestion. Travel times are increasing, productivity is lost, and pollution and greenhouse gas emissions are rising.

A provincial agency, MetroLinx, has been created to develop and implement a regional transportation plan for the Greater Toronto and Hamilton Area. MetroLinx's bold 25-year, $50-billion plan, called The Big Move, is meant to address these concerns. Currently, the provincial and federal governments have committed about $10-billion toward building this plan, but there is no strategy yet in place for how the remaining $40-billion needed for capital construction will be financed. With historic deficits at the federal and provincial levels, it is unlikely that significant new funds from general government revenues will be forthcoming in the near-term.

The Federal government has made substantial sums available, as part of its greater strategy to alleviate the recent global economic downturn. It appears that this funding has facilitated many short-term transportation infrastructure projects and will bring forward many more medium-term projects on area municipalities' wish lists.

Helpful as this is, Ontario cannot build a sustainable and responsive transportation infrastructure on a financing plan as transitory as the federal government's stimulus deficits.

One hopes that one day soon, the federal government will cease to run deficits purely to stimulate the economy, and will turn its efforts to eliminating its deficit and once more reducing debt. Similarly, the Ontario government already has a disproportionately large deficit, and one hopes, will turn to the same task.

To minimize the size of future budgetary deficits and large additions to the public debt, the Ontario government cannot fund these projects out of general revenues. It must make use of alternative financing sources for both highways and for public transit. Two of these – there possibly are others – are targeted bond issues, and private financing in return for parts of the revenue stream. The bond issues should be tied to the assets that they finance, and therefore the assets should generate sufficient revenues to retire them – in the form of tolls or fares, as appropriate. Similarly the revenue stream from the transportation asset can compensate private financing sources.

There are many precedents in Canada but especially in the United States, of using public bond issues and private financing to finance transportation infrastructure – not only the capital cost of construction, but also the operating and maintenance costs.

Large parts of the management of the current transportation infrastructure have already been outsourced to the private sector. Just two examples of this are:

- The Highway # 407 toll highway north of Toronto; or
- Go Transit operations management has been outsourced to Bombardier since late 2007.

There are many large global companies including Bombardier, SNC Lavalin, Alstom (France) and others that operate and manage many elements of many of the world's public transit systems – as well as manufacturing the rolling stock, switching and control systems. It is time for the Ontario government to consider a complete utility outsourcing, on a pilot or a demonstration basis. That is, the government would set the outcomes that it wants – as to quality and reliability of service, capacity delivered, utility rate of return, and so forth. It would then entertain bids from private companies or consortia to deliver.

There is no reason in theory why governments should be paying for and operating any part of the transportation infrastructure. This is a relatively recent practice, essentially a post-second world war assumption.

There is a growing public realization of the need for, and corresponding public support for "Public Private Partnerships" which has been well-documented by the Canadian Council for Public-Private Partnerships in a study it had commissioned from Environics Research Group (1). On the question of whether the private sector should be involved in delivering services and providing financing to address the infrastructure gap, nationwide support has steadily grown to a majority of 64% in favour in 2006. In general, the public has been receptive to these new revenue tools, particularly when there has been a clear link between the money raised through the revenue tool and new infrastructure construction. For example, in the 2008 US election, there were 32 referendums across the country asking voters to approve various revenue tools to enable new transit construction.

Three-quarters of these measures were approved, often receiving over 2/3 of the voters' support. Significantly, 67% of voters in Los Angeles County approved a sales tax increase that will go toward mass transit expansion, including subway construction. Similarly, after the improved effects on their mobility, voters in Stockholm voted overwhelmingly to keep a congestion-pricing scheme in place following a trial period in 2006.

In fact, the PPP approach is heavily used by the Ontario Government under the term "Alternative Financing and Procurement" (AFP), which is a self-admitted euphemism for PPP (2). It is being used to finance billions of dollars worth of nuclear power plants, hospitals, courthouses and much other public infrastructure.

This is not a terribly new approach either. In the late 1990s, University Health Network's Dr. Alan Hudson successfully arranged for the bond financing for $280 million worth of infrastructure upgrades to the hospital infrastructure, based on an energy-savings cost reduction business case (3).

Foreign capital markets view the operations and financial methods of Ontario's vehicle for AFP/PPP favorably as evidenced by a Moody's analysis of the workings of the Ontario Infrastructure Projects Corporation (4).

Given the foreseeable future of constrained public finances, and the current urgent need for transportation infrastructure, all of the alternatives should be vigorously pursued.

RECOMMENDATIONS:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Use alternate financing methods for transportation infrastructure. Two methods could be public bond issues, and private consortia;
2. Include among various revenue tools, consideration of the use of tolls and fares to either pay down the bond issue, or to provide a stream of revenue to the private capital sources;
3. Implement at least one pilot or demonstration project wherein the private company winner of a public competition finances, builds and operates either a toll road or a high-capacity public transit service entirely itself – subject only to the terms of the bid as set by the Ontario Government; and
4. Incorporate the recommendations above into MetroLinx's Investment Strategy, with a view to having this Investment Strategy unveiled no later than December 31, 2011.

References:

(1)Trends in Canadian Support for Public-Private Partnerships

(2) Presentation by Steven Richards

(3) UHN – Energy Innovators Case Study

(4) Ontario Infrastructure Projects Corporation (Moody's)