

Economic stimulus through infrastructure investment – The 2016 Alberta and federal budgets

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The 2016 budgets recently released by the Alberta and federal governments include commitments to make significant investments in infrastructure as a strategy to stimulate the economy and create jobs.

On April 14, 2016, the Alberta government announced its 2016 Budget, which reaffirmed its plan to spend over \$34 billion on infrastructure projects over the next five years, as originally announced in the Fall 2015 Budget. The 2016 Alberta Budget comes shortly after the release of the federal government's 2016 Budget on March 22, 2016, which included a plan to spend over \$120 billion on infrastructure over the next ten years. Together, these infrastructure spending plans represent a significant opportunity for engineering, procurement and construction firms and other contractors and suppliers over the short- to medium-term.

Alberta budget

The 2016 Alberta Budget continued “the ambitious investment in modern, efficient infrastructure that was introduced in the 2015 Budget”, confirming the Alberta government’s plan to spend over \$34 billion on infrastructure projects over five years to be put towards roads, schools, healthcare, municipalities and other capital projects. This plan “will help stimulate the economy, keep people working and upgrade or expand existing infrastructure.” The 2016 Budget provided additional details on the allocation of those funds, including:

- \$9 billion in support of municipal infrastructure, including water and wastewater management, and community facilities (reduced from \$10 billion announced in the 2015 Budget);
- \$4.6 billion for roads and bridges, including completion of the ring roads in Calgary and Edmonton (reduced from \$4.7 billion announced in the 2015 Budget);
- \$3.5 billion for schools, including plans to build or modernize 200 schools (reduced from \$3.8 billion announced in the 2015 Budget);
- \$3.5 billion to build and expand health infrastructure, including \$1.2 billion for the design and construction of the Calgary Cancer Centre over the next five years (increased from \$2.2 billion announced in the 2015 Budget, including an increase of \$400 million in committed funding to the Calgary Cancer Centre);
- \$2.2 billion for green infrastructure under the Climate Leadership Plan, including \$497 million for carbon capture and storage initiatives;

- \$6.2 billion for capital maintenance and renewal (increased from \$4.9 billion announced in the 2015 Budget);
- \$940 million for new capital projects in relation to post-secondary facilities (increased from \$581 million announced in the 2015 Budget); and
- \$1.2 billion for government facilities including courthouse renewal, wildfire towers and the Alberta First Responders Radio Communications System (reduced from \$1.6 billion announced in the 2015 Budget).

The infrastructure plan was developed in consultation with David Dodge, former Bank of Canada Governor, and adopts his recommendation to spend counter-cyclically to stimulate Alberta's economy during the current downturn in commodity prices.

Federal budget

The 2016 Federal Budget sets out a ten-year, \$120 billion infrastructure plan to be rolled out in two phases, which represents an additional \$60 billion in infrastructure spending to that promised under the former Conservative government. A key focus of the budget is to invest in both green and social infrastructure and "take advantage of historically low interest rates to renew Canada's infrastructure and improve the quality of life for all Canadians."

The first phase of the federal government's infrastructure plan proposes to provide \$11.9 billion over five years, starting immediately, as follows:

- \$3.4 billion over three years to upgrade and improve public transit systems across Canada;
- \$5 billion over five years for investments in water, wastewater and green infrastructure projects across Canada; and
- \$3.4 billion over five years for social infrastructure, including affordable housing, early learning and child care, cultural and recreational infrastructure, and community health care facilities on reserve.

The second phase encompasses the period 2018-2026 and will deliver the federal government's long-term infrastructure plan. While details will not be announced until next year, the second phase will focus on Canada's transition to a low-carbon economy, with spending in Canada's largest cities to develop cost-effective, sustainable, and integrated transportation networks. Further, the second phase aims to deliver fast, efficient trade corridors that will allow Canadian exporters to benefit fully from international trade.

Project structures

Under the previous federal and provincial Conservative governments, we saw a proliferation of the use of the public-private partnership (P3) structure for large public infrastructure projects. However, in November 2015, the federal Liberal government and the Alberta NDP government made separate announcements that indicate a move away from this structure. On November 11, 2015, the NDP government announced that it has completed a review of the costs and benefits associated with the P3 structure, but has not concluded whether or not to continue with the structure on future projects. Shortly thereafter, the Liberal government announced that it would drop the requirement that cities and provinces first consider a P3 structure before funding large infrastructure projects.

These announcements indicate a move away from the P3 structure at both levels of government, at least while they are under review. While adopting a design-build structure

results in a lower up-front capital commitment, supporters of the P3 structure argue that the operating costs outweigh these savings over the longer term. Regardless of the outcome of the review, we anticipate that in the short term, each level of government will implement their infrastructure programs primarily using design-build and other non-P3 structures.

We also note that under the 2016 Federal Budget, responsibility for PPP Canada Inc., a federal Crown corporation formed in 2009 to improve the delivery of public infrastructure by achieving better value, timeliness and accountability to taxpayers through P3s, has been transferred from the Minister of Finance to the Minister of Infrastructure and Communities “to ensure Government institutions are aligned to best support infrastructure innovation.”