Alberta Construction Association

18004-107 Avenue NW
Edmonton, AB T5S 2J5
t:780.455.1122/f:451.2152
www.albertaconstruction.net
info@albertaconstruction.net

Infrastructure Investment

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With the development of a new Budget for Fall 2015, the Alberta Construction Association urges all MLAs to consider the following:

Recommendations

- The Capital Budget should be 6-$7 billion per year. This amount reflects historical provincial per capita capital investment averaged over the business cycle and adjusted to remove the effects of inflation.

- Capital spending should be budgeted and held in an account separate from operating budgets and funds. Capital expenditures should be managed within multi-year funding envelopes consistent with Government business plans.

- The Province consider the value of smart debt to take advantage of favourable construction pricing and favourable spreads between the costs of debt and the returns on provincial savings funds. However, ACA strongly urges that the use of debt be for limited duration with the intent that principal and interest obligations remain limited and appropriately funded within the Capital budget.

- The Province implement a policy whereby Government investment in infrastructure increases when the economy and construction activity is slowing thereby minimizing costs to taxpayers and providing stable employment for construction workers. A separate Capital Account would allow funds to be raised when revenues (and typically private investment) are high, and spent when private investment is lagging.

- The Province consolidate public sector construction procurement within Alberta Infrastructure to maximize value to taxpayers and extend procurement best practices to health care, schools, and post-secondary institutes.

- Public-Private Partnerships (P3s) should supplement, not replace, traditional levels of funding and project delivery.

Rationale

1. Government Investment in Infrastructure Supports Quality of Life and Economic Growth

In recent years, the population of the Province has increased annually by 80,000-90,000[1] - comparable to the population of the City of Lethbridge. These new Albertans do not bring with them the schools, health care facilities, water treatment plants and other infrastructure that add to a high quality of life. Immigration trends, combined with internal migration from rural areas to cities means that growth is expected to be concentrated in the corridor between Calgary and Edmonton. Edmonton and Calgary are projecting an infrastructure funding gap of $10.9 billion and $7 billion respectively by 2021[2]. In many declining rural areas a shrinking population can no longer maintain the existing infrastructure. Uneven growth across Alberta is overwhelming the capacity of local governments to address local needs[3].

Modern, high-quality infrastructure contributes to economic productivity[4] to access, process, and export Alberta's resources. Investment in infrastructure provides a return on investment to the Province through jobs, profits, royalties and taxes. Alberta's higher than average per-capita infrastructure investment supports Alberta's higher than average per-capita GDP.

2. Deferred Maintenance Drastically Increases Overall Costs

As the value of Alberta's physical assets grows, so too will the funds required for preventative maintenance. On highways alone, Alberta Transportation spends about 1%[5] of the asset value or more than $490 million per year for maintenance. Approximately 52% of Canada's municipal roads are in very poor, poor, or fair condition. The costs to maintain roadways quickly escalate if early maintenance is not performed; maintenance costs in the first ten years is $1500/km, rising to $163,000/km for rehabilitation and $850,000/km for replacement[6].

Deferred maintenance of Alberta's provincial infrastructure was estimated at $2.8 billion in 2002, growing by $240 million per year[7]. Alberta Infrastructure rated only 56% of schools, 72% of health facilities, and 71% of post-secondary institutions as being in good condition[8]. Without preventative maintenance, the cost of not reducing this backlog grows significantly with each passing year, as "one dollar spent on maintenance of infrastructure, when it is in good condition, delays five dollars of spending for rehabilitation, which then delays twenty-five dollars of spending to replace the asset"[9]. Maintaining existing infrastructure often provides a higher return on investment than spending on new infrastructure projects[10].

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[1] Ministry of Municipal Affairs. *Official Alberta Population Lists 2000-2010*

[2] Alberta Urban Municipalities Association. *Submission to Federal Infrastructure Roundtable,* July 2012, p. 2

[3] Alberta Chamber of Commerce. *Vision 2020, Population and Fiscal Stress in Alberta Municipalities*, p. i

[4] Wulong Gu and Ryan MacDonald, "The Impact of Public Infrastructure on Canadian Multifactor Productivity Estimates", Statistics Canada, 2009; Pedro Antunes, Kip Beckman, and Jacqueline Johnson, "The Economic Impact of Public infrastructure in Ontario", Conference Board of Canada, March 2010

[5] Alberta Financial Management Commission, *Moving From Good to Great*, July 2002, p. 33

[6] Alberta Roadbuilders and Heavy Construction Association. *A White Paper on Transportation Infrastructure Debt in Alberta - August 2014*, 2014, p. 8

[7] Alberta Financial Management Commission, *Moving From Good to Great*, July 2002, p.33

[8] Alberta Infrastructure. *2012-13 Annual Report*, p. 13-15

[9] Alberta Chamber of Commerce. *Vision 2020, Population and Fiscal Stress in Alberta Municipalities*, p. 10

[10] Canada West Foundation. *At the Intersection, The Case for Sustained and Strategic Public Infrastructure Investment,* p. 8

3. Instability Reduces Value for Taxpayers

Developing a highly skilled trades professional can take as much as eight years. Surging levels of investment during times of prosperity strain capacity; industry is challenged to maintain quality of construction and cost inflation reduces value for taxpayers. Conversely, declining infrastructure investment in times of recession discourages young people from choosing a career in construction, discourages existing workers from remaining in construction, and disrupts training of new apprentices, thus nullifying significant public and private investment in recruiting young people to careers in construction. A separate Capital Account would allow funds to be raised when revenues (and typically private investment) are high, and spent when private investment is lagging.

The value for tax payers can also be maximized by consolidating public sector construction procurement within Alberta Infrastructure. Alberta Infrastructure has long advocated that the procurement best practices employed by Alberta Infrastructure be extended to health care, schools, and post-secondary. A promising start has been made with new schools procurement and for health projects valued at more than $5million. More savings can be found by extending this approach.

<u>What Industry is Doing to Provide Value</u>

- Improved planning – Industry is collaborating with public sector owners to publish capital plan forecasts to assist planning by all stakeholders. Our collaborative work on project planning, delivery models, and front end documents all contribute to better projects and increased value for taxpayers.

- Improved Productivity – Industry funds research with the Universities of Calgary and Alberta and partners with Productivity Alberta to adopt best practices for improving jobsite productivity.

- Investing in the future construction workforce – Despite a severe recession in 2009 and 2010, the industry did not reduce wages in order to retain its valued workers. To grow the future workforce, the industry collectively funds over 1000 apprentice scholarships and reimburses an additional $3 million in apprentice tuition fees each year. ACA and the College of Alberta School Superintendents have just published a report of best practices for industry – school district partnerships and will be encouraging initiating and strengthening partnerships through the adoption of these practices.

- A Safety Culture Keeps Workers Safe and on the job – More than 100,000 training spaces are used by Alberta's construction industry each year, through the Alberta Construction Safety Association, an organization fully funded by industry. The commitment for every worker to return safely home to their loved ones is being realized with dramatically improved safety performance over the last two decades.

ACA welcomes the opportunity to further discuss these recommendations.
Sincerely,

Ken Gibson, Executive Director, for
Dave Kinley, Chairman

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