



**Alberta's Capital Budget 2018– Investing in Jobs**

**Submission of the Alberta Construction Association to the Government of Alberta**

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**Recommendations**

- The Capital Budget should be \$8 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. 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.
- Capital expenditures should be managed within multi-year funding envelopes consistent with Government business plans. This would allow the Government investment in infrastructure to increase when the economy and construction activity is slowing thereby minimizing costs to taxpayers and providing stable employment for construction workers.
- While the ACA is on record being in favour of smart debt to take advantage of favourable construction pricing, the 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 consolidate public sector construction procurement within Alberta Infrastructure and /or recognized centres of expertise 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.

ACA welcomes the opportunity to further discuss these recommendations.

Sincerely,

A handwritten signature in black ink, appearing to be 'K Gibson'.

Ken Gibson, Executive Director, for  
Paul Heyens, Chairman



## Rationale

### 1. Government Investment in Infrastructure Supports Quality Jobs and Alberta Families

Alberta welcomes 50,000<sup>1</sup> new residents each year - comparable to the population of the City of Grande Prairie. These new Albertans rely on the Government of Alberta to provide them high quality services, including schools, health care facilities, water treatment plants and other infrastructure.

While economic recovery is underway, Albertans continue to rely on the Government to support high paying quality jobs. Alberta's construction industry pays weekly earnings 10% higher than the average for all industries<sup>2</sup>.

ACA has examined Alberta's per capita investment in infrastructure, adjusted to remove construction cost escalation. Maintaining this per capita investment in constant dollars suggests an annual plan of approximately \$8 billion per year in current dollar terms.

### 2. Deferred Maintenance Drastically Increases Overall Costs

A recent analysis concluded: *"What is clearly evident is that the Government of Alberta has had a strong bias to underprovide for maintenance, refurbishment and normal replacement of capital. This has led to a backlog of deferred needs"*<sup>3</sup>

Alberta Infrastructure rated only 57% of schools as being in good condition<sup>4</sup>. 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"<sup>5</sup>. Maintaining existing infrastructure often provides a higher return on investment than spending on new infrastructure projects<sup>6</sup>. 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.<sup>7</sup>

Alberta's capital budget provides significant support to Alberta municipalities. Sixty percent of Canada's infrastructure is owned by municipalities, and one-third of that infrastructure is in fair, poor, or very poor condition. Current reinvestment rates fall far below that required to stop this deterioration.<sup>8</sup>

### 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

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<sup>1</sup> Alberta Economic Dashboard

<sup>2</sup> Alberta Government, *Industry Profiles 2017, Construction Industry*, p.6

<sup>3</sup> David Dodge, *Report to the Government of Alberta on the Development, Renewal and Financing of the Government's plan for Spending on Capital Projects to 2019*, Alberta Budget 2015, Government of Alberta, 2015, p 51.

<sup>4</sup> Alberta Infrastructure. *2016-17 Annual Report*, p. 22

<sup>5</sup> Alberta Chamber of Commerce. *Vision 2020, Population and Fiscal Stress in Alberta Municipalities*, p. 10

<sup>6</sup> Canada West Foundation. *At the Intersection, The Case for Sustained and Strategic Public Infrastructure Investment*, p. 8

<sup>7</sup> Alberta Roadbuilders and Heavy Construction Association. *A White Paper on Transportation Infrastructure Debt in Alberta - August 2014*, 2014, p. 8

<sup>8</sup> \_\_\_, *Canadian Infrastructure Report Card, Informing the Future*, 2016, p. 10-13



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. This aligns with the Dodge report which recommends, “[T]o promote sustained growth, and government spending on capital should vary in a clearly countercyclical fashion. It should be curtailed during periods of strong private sector expansion and increased during periods of weak private sector investment.”<sup>9</sup>

The value for taxpayers can also be maximized by consolidating public sector construction procurement within Alberta Infrastructure and/or recognized centres of expertise for funded bodies (for example, Edmonton Public Schools on behalf of other Alberta school districts).

### **What Industry is Doing to Provide Value**

- 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. Alberta’s construction industry is also seeking to enhance productivity through initiatives of the Canadian Construction Innovation Council (CCI), Lean Construction Institute of Canada, and BuildingSMART Canada.
- Investing in the future construction workforce - 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 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 (ACSA), 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<sup>10</sup>

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<sup>9</sup> David Dodge, *Report to the Government of Alberta on the Development, Renewal and Financing of the Government's plan for Spending on Capital Projects to 2019*, Alberta Budget 2015, Government of Alberta, 2015, p 5.

<sup>10</sup> Alberta Labour, *2016 Workplace Injury, Disease and Fatality Statistics Provincial Summary*, p 5.