

PAPER E

SuperBuild: Building Ontario's Future

A. Infrastructure and the 21st-Century Economy

Infrastructure Is Key to Economic Growth and Quality of Life

As we begin the 21st century, Ontario has one of the highest standards of living in the world. To keep our high standard of living, we must be prepared to meet the competitive challenges of the 21st-century global economy.

Our prosperity depends on good economic management. And good economic management includes making sure that we have the right kind of infrastructure in the right places at the right time, and at an affordable cost.

The purpose of this paper is to provide some insight into SuperBuild's approach to infrastructure investment. Section A explains why we need to plan now for future investments in infrastructure. Section B describes how SuperBuild will contribute to better capital planning, financing and management throughout the public sector. Section C provides an overview of SuperBuild's key initiatives and policy priorities.

Infrastructure is fundamental to our quality of life. Infrastructure is not an end in itself; it is a means to provide people and businesses with the services they need. It consists of the roads that enable us to travel; the pipes and wires that bring us water, electricity, gas, telephone and cable TV services; the schools, hospitals and other buildings that provide education, health and government services; and all of the equipment associated with these services. From hospitals to highways to hockey rinks, the people of Ontario use infrastructure every day.

These networks, buildings and equipment are capital assets, meaning they generate services over a relatively long period of time. Infrastructure is provided by governments, utilities or non-profit organizations (such as hospitals) as an essential part of delivering their services. Ontario has about \$210 billion worth of infrastructure. This is the depreciated value of the assets (taking age and wear and tear into account), not what it would cost to replace them.

Close to half of the province's infrastructure assets are owned by private companies, primarily utilities regulated by the federal or provincial governments. The public sector owns 52 per cent of Ontario's infrastructure, and almost half of this is owned by municipalities.

The Province directly owns about 17 per cent of public infrastructure (8.9 per cent of all infrastructure), but it has provided significant funding to help build the capital assets in the health, education and municipal sectors.

Infrastructure contributes to our standard of living through its impact on productivity and by enabling the provision of services that improve our quality of life. Investment in infrastructure can raise productivity by increasing returns to private capital and

by enabling the private sector to adopt new methods of organization. Similarly, in the public sector, investment in infrastructure can raise the quality and efficiency of health, education and other public services.

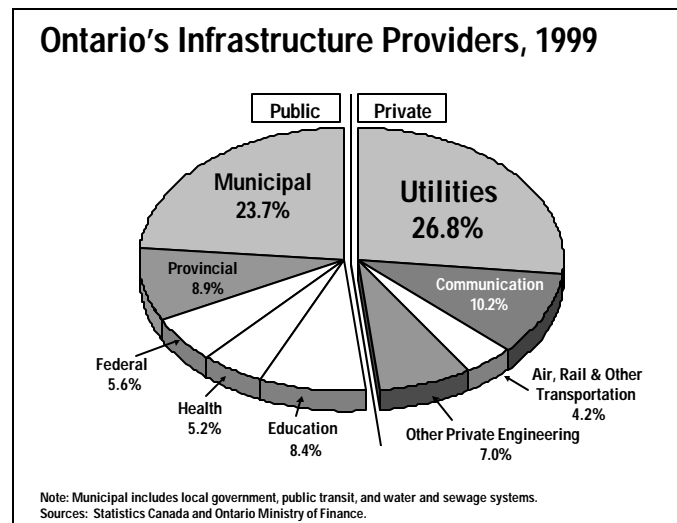
Total capital investment consists of all of the investments in buildings, networks (such as roads and fibre-optic cable), and machinery and equipment by companies, governments and other organizations. In Ontario, investment in infrastructure by both the private and public sectors makes up a significant share of total capital investment—averaging 40 per cent through the 1990s. The public-sector share alone averaged over 20 per cent.

The Ontario economy of tomorrow will require significant infrastructure investment:

- , to accommodate new economic and population growth;
- , to keep our existing infrastructure in good condition;
- , to remedy infrastructure deficits that may have arisen as a result of past underinvestment; and
- , to improve the efficiency and quality of public services, as technology and methods of delivering services change.

The Infrastructure Investment Challenge

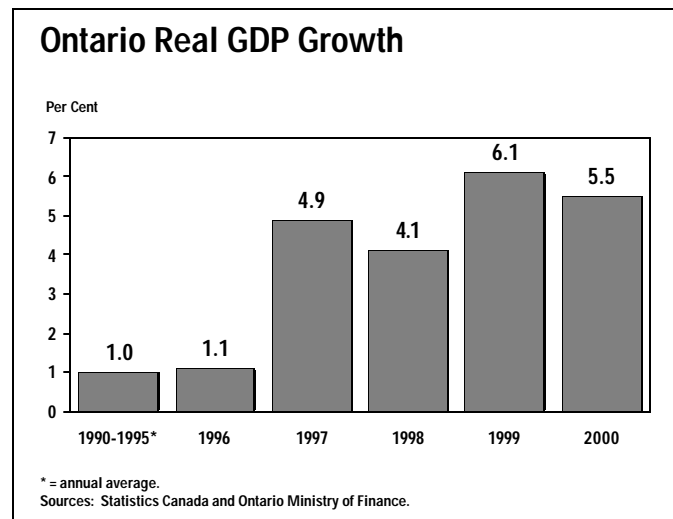
Like many other North American jurisdictions, Ontario faces a significant infrastructure investment challenge over the next 30 years. In Ontario's case, a large part of our need for



investment is attributable to growth. Some of it is a result of changes such as new technology or an aging population. And some of it is because infrastructure needs to be replaced when it reaches the end of its useful life.

Ontario's Rapid Economic Growth

Ontario has had extraordinary economic growth in the past four years, averaging more than five per cent annually. Real GDP is now 23.5 per cent higher than it was in 1995. This growth brings with it a need for more infrastructure investment, especially to relieve the congestion and gridlock in rapidly growing urban centres. Highways, bridges and other infrastructure need to grow with the economy to meet the increased demands placed upon them, and rehabilitation investment is required to keep them in good condition as their use intensifies.

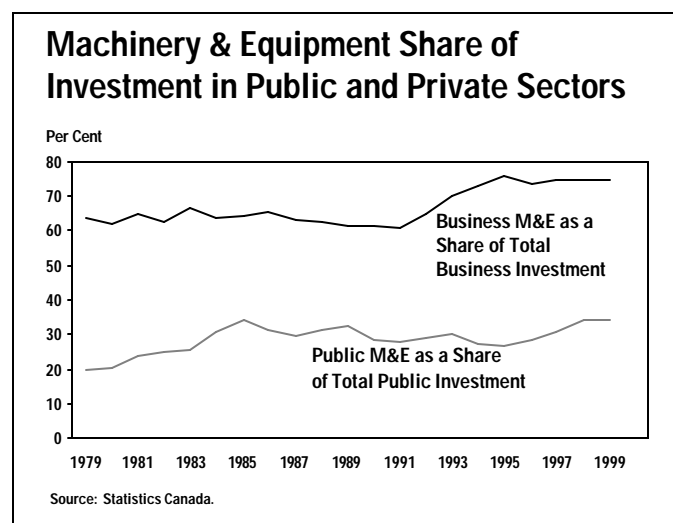


Rising Technological Intensity

New technology is changing infrastructure, and infrastructure needs, just as it is changing the rest of the economy. There are at least three aspects to this change.

First, it is changing the delivery of government services. ServiceOntario kiosks, traffic-monitoring cameras and computers in the classroom are a few examples.

Second, the composition of public capital investment is shifting towards new technologies—as opposed to “bricks and mortar” investments. The private sector is making this shift more quickly, as it seizes the opportunities new technologies present to deliver new and better services, and to do so more efficiently.



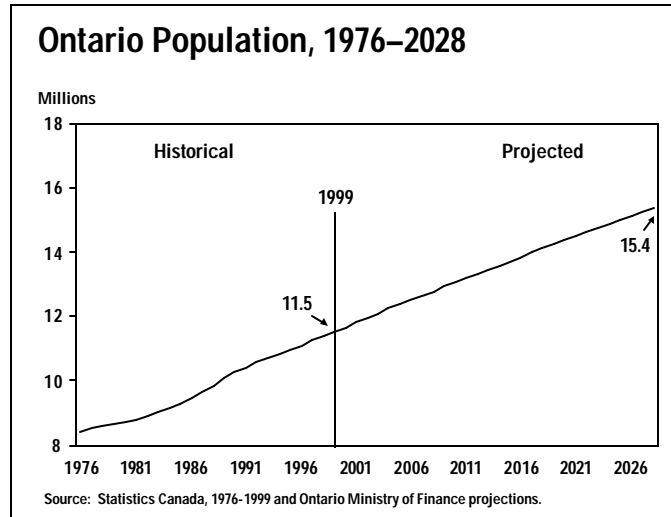
Third, technology assets typically have a shorter life than other capital assets. As a result, they have to be replaced more often, the average age of the capital stock falls, and more investment is required to keep our infrastructure in good condition.

Ontario's Population Growth to Remain High

In the next few decades, Ontario's population will grow more rapidly than any other province, except British Columbia. Ontario will also grow faster than any G-7 country.

In the last three decades, the province's population has risen from 7.8 million in 1971 to 11.5 million in 1999. By 2028, the population will have grown by another 3.8 million people—a 33 per cent increase. Since there will be about as

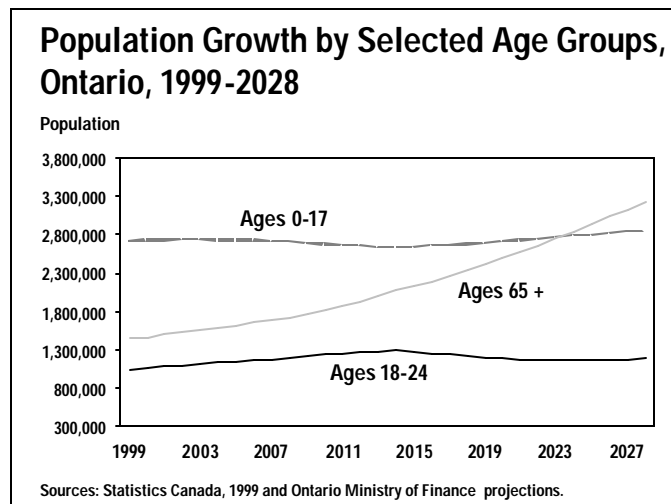
much population growth over this period as there was in the past three decades, a comparable level of infrastructure investment will be needed.



Aging Population Means Increased Pressure on Health Care Services

The future age structure of Ontario's population is already largely determined because of the sheer size of the baby-boom generation.

The number of people aged 65 and over will more than double by 2028. In 2011, the baby boomers will begin to turn 65. By 2028, one in every five people in Ontario will be a senior.



Although seniors currently account for

12.6 per cent of the population, they account for 43 per cent of provincial health care expenditure. Increasing demands on health infrastructure are inevitable as the baby-boom generation ages.

GTA and the Golden Horseshoe: A Growing City Region

City regions are increasingly the key to competitive advantage in the global economy, and their competitiveness depends upon complex and sophisticated infrastructure systems. The Greater Toronto Area (GTA) has become one of the top 10 city regions in North America.

Although every region in Ontario is expected to grow, about 85 per cent of the increase in Ontario's population is expected to occur in the Greater Toronto Area and the Central Ontario region, including Simcoe, Waterloo and Hamilton. Today, the GTA and Central regions account for two-thirds of Ontario's population. By 2028, these regions will be home to over three million additional people and have a combined share of 71 per cent of Ontario's population. The Ottawa and Windsor-Essex areas will also contribute significantly to Ontario's population growth.

City Regions in Canada and the United States

Area Name	Census Population		Population Change	
	in 2000	Rank	1990-2000	Rank
New York—Northern New Jersey—Long Island	21,199,865	1	1,650,216	2
Los Angeles—Riverside—Orange County	16,373,645	2	1,842,116	1
Chicago—Gary—Kenosha	9,157,540	3	917,720	7
Washington—Baltimore	7,608,070	4	881,020	8
San Francisco—Oakland—San Jose	7,039,362	5	786,051	9
Philadelphia—Wilmington—Atlantic City	6,188,463	6	295,526	25
Boston—Worcester—Lawrence	5,819,100	7	363,697	19
Detroit—Ann Arbor—Flint	5,456,428	8	269,257	26
Dallas—Fort Worth	5,221,801	9	1,184,519	3
TORONTO Census Metropolitan Area	4,751,408	10	750,993	10
Houston—Galveston—Brazoria	4,669,571	11	938,440	6
Atlanta	4,112,198	12	1,152,248	4
Miami—Fort Lauderdale	3,876,380	13	683,798	12
Seattle—Tacoma—Bremerton	3,554,760	14	584,432	14

Sources: Statistics Canada and U.S. Census Bureau.

Notes: Data for Toronto include revised boundary, final inter-censal estimates and preliminary post-censal estimates.

The U.S. 1990 Census population counts are as published in the 1990 census reports and do not include changes published subsequently due to boundary or other changes.

Toronto population is for the Census Metropolitan Area. U.S. populations are for the appropriate Consolidated Metropolitan Statistical Areas and Metropolitan Statistical Areas.

Government Role Is Changing as Infrastructure Changes

“Around the world, governments are transforming their roles from the exclusive financiers and providers of infrastructure services to the facilitators and regulators of services provided by private firms. Growing experience shows that private sector participation in infrastructure can improve the quality and quantity of infrastructure services, while reducing the burden on constrained public finances.”

World Bank, Private Participation in Infrastructure.

Major investments in infrastructure by governments have helped shape the economic history of Ontario, including railways to the west, hydroelectric power from the Sir Adam Beck Station at Niagara Falls, the building of Highway 401, the growth of the university and college system in the 1960s and 1970s and many others.

Ontario must continue to invest in infrastructure to support our expanding economy and to provide services for the province’s growing and aging population. But the government’s role in the provision of infrastructure is changing.

In the past, governments and government-regulated utilities were primarily responsible for the provision of public infrastructure for sound economic reasons:

- , Network systems such as water and sewer pipes are what economists call “natural monopolies,” where it is not efficient to have more than one provider competing in the same area (i.e., one pipe serves all the houses on a street).
- , There are economies of scale, which means that per-unit costs decline as the size of the system increases.
- , Investments tend to be “lumpy”—large investments that take place once in a while, such as a water-treatment plant or a new highway.
- , Direct billing of customers for their use of services is sometimes difficult, leading governments to pay for infrastructure from general tax revenues.

While some of these conditions still hold, innovations in technology, industry regulation and capital markets have made it possible to involve the private sector in the provision of infrastructure while still protecting public interests. In the right circumstances, this can result in lower costs for taxpayers and more efficient delivery through:

- , the application of beneficiary-pay principles, so that those who use the infrastructure more pay more towards its capital and operating costs (e.g., highway tolling, water and sewer metering);
- , “unbundling” of infrastructure, so that parts of an infrastructure system are subject to competition and parts that remain natural monopolies are not;
- , transfer of risk to the private sector, so that financial and construction risks are not borne by taxpayers;
- , securitization of future revenue streams, which allows private investors to buy and operate large infrastructure assets; and
- , separation of regulatory and delivery responsibilities, which enables the government to protect the public interest more effectively than if it were responsible for both regulation and delivery.

To meet the infrastructure investment challenge facing Ontario, more investment is needed. This challenge cannot be met by the Province acting alone. More investment from the private sector and from other public-sector partners will help to ensure that Ontario has better and more infrastructure sooner to meet growing and changing needs. At the same time, the Province recognizes its responsibility to continue to invest in its own right, to help find better ways of delivering and financing infrastructure, and to ensure that the public interest is protected.

B. The Ontario SuperBuild Corporation

SuperBuild's Goals

The government established the Ontario SuperBuild Corporation in December 1999 as part of the Ministry of Finance. SuperBuild's mandate is to act as a catalyst for the changes needed to ensure that Ontario has first-class infrastructure in the 21st century.

Ontario is already on the way to adopting some of the (capital management) best practices—for example, through the new SuperBuild agency, it has created a clearinghouse for proposed capital projects.

—Ontario Financial Review Commission, 2001

SuperBuild, as the government's central agency for capital, is responsible for strategic management of the government's entire capital infrastructure envelope, including transfers to municipalities, hospitals and educational institutions for capital purposes.

SuperBuild has five main goals:

- , to increase the amount invested in infrastructure to accommodate growth, to bring existing assets into good condition and to keep them in good condition;
- , to develop strategic policy for key infrastructure sectors;
- , to make long-term capital planning, wise asset management and open financial reporting a priority throughout the public sector;
- , to develop new and better ways of financing infrastructure, including public-private partnerships and user-pay arrangements; and
- , to advise the government on potential privatizations.

While these goals sound straightforward, they require a major commitment on the part of both the province and its partners to change the way we plan, finance and deliver infrastructure.

Ontario Financial Review Commission

The government asked the Ontario Financial Review Commission to report to the Minister of Finance on options for reporting the government's investment in tangible capital assets.

As a result of its review of the financial reporting of capital assets, the Commission recommended that the government begin immediately to develop the information needed to show the cost and depreciation of existing tangible capital assets and evaluate deferred maintenance needs, and move to adopt the Public Sector Accounting Board's standards for reporting tangible capital assets as soon as possible.

As well, in its 2001 report, the Commission recommended that the government follow best practices in its internal budgeting for capital expenditures and the maintenance of capital assets. These best practices include:

- , co-ordination of plans through a central agency, meaning that long-term plans are developed at the agency level and submitted to a centralized authority, which sets priorities for consideration at the level of elected officials;
- , life-cycle costing estimates at the time of capital budgeting requests for any expensive and long-lived asset;
- , estimates of ongoing project costs;
- , mechanisms to identify and address maintenance backlogs, such as facility audits;
- , alignment of capital budgeting with policy goals and with optimal resource allocation; and
- , consideration of private-sector involvement where appropriate.

The Ministry of Finance and SuperBuild intend to implement these recommendations.

Knowing Our Assets

Most people expect that any responsible organization would know what assets it owns, what they are worth and what kind of condition they are in. Unfortunately, this is often not the case in the public sector.

The following table provides an overview of some of Ontario's infrastructure assets. What it does not show is either the book value or the replacement value of these assets. Both of these measures are needed to allow for accurate financial reporting and to make financial provisions for the replacement of large assets with long lives.

Net book value is a measure based on the historical cost of the asset less accumulated depreciation. Depreciation is an annual allowance that reflects the wear and tear on the asset associated with use and age. For example, if an asset has a 40-year expected life, it would depreciate at a rate of 2.5 per cent of the original value per year (assuming straight-line depreciation methodology). After 40 years, it would be fully depreciated and its net book value would be zero (assuming no salvage value). The historic cost/net book value method is widely accepted in the international accounting community for reporting purposes.

However, it is very difficult to develop an accurate set of historical cost accounts for infrastructure because most governments have neither the historical records necessary to identify the original purchase price of many of their assets nor records of improvements to those assets. Sophisticated estimation methods are therefore necessary to implement historic cost accounting for existing capital assets.

Ontario's Capital Assets (Selected Overview)

Sector	Asset	Description
Transportation	Provincial Highways	38,622 lane km
	Bridges/Structures	3,440
Environment	Sewage Treatment Facilities	452 facilities
	Water Treatment Facilities	630 facilities
Education	Elementary Schools	4046
	Secondary Schools	892
	Provincial Schools	9
	Universities	18
	Colleges	25
Health	Hospitals*	213
	Long-Term Care Facilities	503
	Community Health Centres	56
General Government**	Ministry and Agency Office Buildings	7.5 m sq ft
	Institutional Buildings	13.4 m sq ft
	Special-Purpose Buildings	9.1 m sq ft
	Other Buildings	13.1 m sq ft
	Land Banks	55,000 to 60,000 acres

* 159 corporations on 213 sites.

** Includes government-owned buildings managed by the Ontario Realty Corporation. Includes justice facilities. Does not include property owned by the Ministry of Natural Resources, the Ministry of Transportation or the Ministry of the Environment.

Source: Ontario SuperBuild Corporation.

Information on current replacement costs is useful because it indicates the actual investment required to obtain a new, similar asset, and therefore enables more accurate analysis of the current cost of the services provided by the asset.

SuperBuild is beginning the process of collecting information on capital assets in the public sector. This will require significant and sustained effort on the part of both government ministries and the rest of the public sector. It is our intention to establish systems that will track historic cost, replacement value, asset condition and deferred maintenance needs.

For example, at SuperBuild's request, the Ministry of Training, Colleges and Universities has asked colleges and universities to submit an annual capital plan and investment report. The report will, at a minimum:

- , report on all capital investment(s) at the institution for the year regardless of funding source;
- , clarify how the institution is maintaining and renewing existing infrastructure (for example, through the establishment of an annuity or other funding commitment);
- , provide details on planned and continuing projects for creating more student spaces through capital investment and other efficiency improvements; and
- , report on the progress and performance of the capital plan during the previous year.

The first capital plan and investment report is due this summer.

Open and Accountable Financial Reporting

The Canadian Institute of Chartered Accountants defines tangible capital assets as "non-financial assets having physical substance that are acquired, constructed or developed, and: (1) are held for use in the production or supply of goods and services; (2) have useful lives extending beyond an accounting period and are intended to be used on a continuing basis; and (3) are not intended for sale in the ordinary course of operations.

The government's current accounting practice is to expense the full cost of tangible capital assets in the year of acquisition or construction.

The impact of this practice is that the cost of an asset is not expensed over its useful life, potentially resulting in underinvestment in capital. Once acquired, assets no longer appear on the government's books, their condition is not reported and deferred maintenance needs are not identified. As a result, it is difficult for the government to determine whether it has the right mix of assets and whether its capital investment strategy will lead to the desired policy outcomes.

Ontario will account for and report on tangible capital assets as part of its financial statements. The Province intends to report on its tangible capital assets on its Statement of Financial Position. The Statement of Operations will include amortization of tangible capital assets instead of expenditures on those assets.

The Province also intends to require that all public-sector organizations, including municipalities, hospitals, universities, colleges and schools, report on their tangible capital assets on a basis consistent with the Province. The Ministry of Finance is currently developing an implementation plan for the introduction of these changes.

The Concept of Economic Capital

Public financial accounts report on capital investment by individual organizations or ministries and do not reflect the total investment being made by all contributors in a given sector. For example, SuperBuild invested almost \$40 million at Queen's University to build a new chemistry building and expand teaching space for the School of Business. In addition to the SuperBuild funding, Queen's University contributed \$15.6 million and business and other partners contributed \$39 million for a total capital investment of \$94.6 million. Only \$40 million shows up on the Province's financial statements, not the true total investment of \$94.6 million.

As part of our commitment to greater accountability and more open reporting of capital, SuperBuild is also providing initial reporting on economic capital investment for 1999-2000. Economic capital is defined as investments in tangible capital assets that constitute public infrastructure, regardless of accounting classification or source of funds.

The advantage of economic capital is that it provides a more accurate picture of all capital investment activity, so that long-term planning can be carried out, life-cycle costs can be taken into account, funding tradeoffs can be made and all sources of funding are counted.

The economic capital concept overcomes the problem of different accounting classifications for different types of capital investments. For example, Provincial funding for both school and long-term care capital is classified as an operating expense, even though it is provided to transfer partners for capital purposes.

The capital investments table provides a preliminary overview of economic capital investment. According to Statistics Canada, total capital investment in public infrastructure was \$7.7 billion in 1999-2000 (excluding federal investment). The data are shown by sector to the extent possible. SuperBuild hopes to be able to publish this information by source of funds in the future.

Investment in transportation accounted for more than one-third of total investments. More than \$1 billion was invested in health infrastructure, and more than \$1.7 billion in education infrastructure.

Capital Investment in Public Infrastructure in Ontario 1999-2000

(\$ Millions)

Transportation	
Highways ¹	1,032
Municipal Roads ²	993
Transit ²	776
Other Provincial Transportation ¹	71
Health ³	
Hospitals	960
Long-Term Care and other health services	127
Education	
School Boards ⁴	1,343
Post-secondary ⁴	382
Natural Resources ⁵	127
Justice ⁶	186
Water ⁷	457
Recreation and Culture ²	392
Social and Family Services ²	82
Other	752
Total Investment ⁸	7,680

Notes:

- (1) Ministry of Northern Development and Mines, Ministry of Transportation, 407 International Inc. Other transportation includes transfers to municipalities, funding for ferries and Ontario Northland Transportation Corporation, winter and access roads, and Intelligent Transportation Systems.
- (2) Financial Information Returns (FIR) data from Ministry of Municipal Affairs and Housing.
- (3) Statistics Canada data for 1999.
- (4) School Board Financial Statement data (school year 1999-2000), Statistics Canada, and Financial Report of Ontario Universities 1999-2000 (fiscal year ended April 30, 2000).
- (5) Public Accounts of Ontario 1999-2000.
- (6) Ministry of the Attorney General and Ministry of Correctional Services.
- (7) Statistics Canada data for 1999. Does not include sewers.
- (8) Statistics Canada data for 1999. Does not include federal government infrastructure.

Source: Ontario SuperBuild Corporation.

New Approaches to Infrastructure Financing

Governments around the world are looking for new ways to finance and deliver public infrastructure more effectively. With the creation of SuperBuild, Ontario signalled its intention to increase its use of public-private partnerships to finance and deliver infrastructure.

Public-private partnerships have several potential benefits when applied in the right circumstances:

- , Increased total infrastructure investment because the private-sector investment is in addition to government investment.
- , Lower costs due to more efficient construction and management, and the transfer of construction and management risks to the private sector.
- , The ability to make large infrastructure investments sooner than would otherwise have been possible.
- , The introduction of new technology and service innovations.
- , More efficient use of capital assets and a fairer distribution of costs as a result of the application of beneficiary-pay principles.

Britain's Private Finance Initiative

Britain has established a program called the Private Finance Initiative (PFI) to increase the role of the private sector in delivering and financing infrastructure and other public services.

A key principle of PFI is to transform government departments and public-sector agencies from owners and operators of public assets to purchasers of services from the private sector. The private-sector partner undertakes the capital investment. For example, rather than building roads, the government purchases kilometres of maintained highways.

Projects with a combined capital value of over \$31 billion Cdn have been signed since May 1997 in such diverse areas as schools, colleges, hospitals, local authorities, information technologies and property management.

Experience has shown that public-private partnerships work best when the cost of services is clearly known and there is a dedicated revenue stream for the private partner to earn an adequate rate of return.

From a government perspective, a genuine transfer of risk to the private sector is required, and it must be possible to protect the public interest through regulation and the terms of the contract. Insofar as possible, the government intends to set appropriate standards and outcomes that must be achieved rather than prescribe particular design solutions. We will be seeking ideas from the private sector and others in achieving this objective. The Province also intends to maintain its commitment to fair, open and competitive bidding processes for capital infrastructure.

SuperBuild is seeking opportunities for public-private partnerships that make sense from a financial and public policy perspective. For example, SuperBuild and the Ministry of the Attorney General have retained advisers to assess the redevelopment needs for courts in various communities, examine courthouse planning and partnership models, and review architectural standards. The Durham consolidated courthouse will be the first to benefit from the partnership approach. The Archives of Ontario is pursuing a public-private partnership for the management and operation of an off-site storage facility. The successful firm will also provide related moving and records-handling services.

In May 1999, Ontario undertook the largest highway privatization in the world with the sale of Highway 407 ETR, the world's only open-access, fully electronic toll highway. The highway was sold for \$3.1 billion to a private-sector consortium. This is an example of a privatization opportunity that SuperBuild intends to pursue in the future with other highway projects.

The Ministry of Transportation and the Ontario SuperBuild Corporation will lead an inter-ministry task force to review financing options associated with the expansion of our province's 400-series highways.

SuperBuild Investments

SuperBuild represents a commitment to invest at least \$20 billion over five years, consisting of \$10 billion of provincial funding and at least \$10 billion from private- and public-sector partners.

SuperBuild's capital investment in the last two years totals almost \$7 billion, well on the way to the government's commitment of \$10 billion over five years.

This year, SuperBuild's investment in the province's infrastructure will be almost \$2 billion.

1999-2000 to 2001-02 SuperBuild Capital Investments

(\$ Millions)

	1999-2000	2000-01	2001-02
Highways and Other Transportation			
Highways	937	1,049	906
Other Transportation	102	62	78
Health and Long-Term Care*	1,342	351	200
Post-Secondary Education	1,028	202	48
Justice**	186	139	162
Environment and Natural Resources	259	91	127
SuperBuild Partnership Initiatives			
Sports, Culture, Tourism Partnerships		1	50
Ontario Small Town and Rural Infrastructure			50
Millennium Partnerships		4	100
Ontario Innovation Trust	500	-	-
Other	478	176	323
Year-End Savings	-	-	(100)
Total Investment	4,832	2,075	1,944

* Health and Long-Term Care does not include ELDCAP investment. This investment is provided by MNDM.

** Justice does not include investment for Young Offender System provided by MCSS.

Source: Ontario Ministry of Finance.

C. SuperBuild's Policy Priorities and Initiatives

1. SuperBuild's Support for Smart Growth

Investments in infrastructure strongly influence the way in which urban growth takes place and the future costs to taxpayers of supporting it. SuperBuild, as the government of Ontario's lead agency for strategic infrastructure investment, has a significant role to play in implementing the government's Smart Growth strategy.

Over the next few months, the Minister of Municipal Affairs and Housing will lead consultations across the province to gather ideas on our made-in-Ontario Smart Growth strategy. The results of these consultations will help to determine SuperBuild's regional investment priorities and to identify the Smart Growth criteria to be applied in evaluating major infrastructure investments.

In addition, the government is announcing some immediate SuperBuild initiatives to support Smart Growth and help manage the challenges of growth in our most rapidly growing urban areas. These initiatives will invest in strategic infrastructure in Ontario's large urban centres, expand transit to address congestion gridlock, and protect corridors for the next generation of 400-series highways and transit services.

What kind of life do we want for ourselves and our children...5, 10 or 15 years from now? Will we live in cities or in the suburbs? Will we take transit or will we drive? Will the roads be tolled? Where will we park? What about the quality of our air? What about the quality of our lives?... I believe that we must consider these tough questions now—before it is too late....

Inefficient growth means higher infrastructure costs. Higher taxes. More pollution... That's what happens when we don't plan for the future...The simple fact is that—without the right vision to foster growth—Ontario's growing and aging population will present major challenges for our towns, cities and infrastructure...

Our made-in-Ontario vision of Smart Growth will foster growth—not stop it. Our plan is based on three main principles. A strong economy. Strong communities. And a healthy environment. Most of all—our vision means a better quality of life for men, women and children in every corner of Ontario.

—Mike Harris, Premier (2001)

2. Strategic Infrastructure Investments in Municipalities

Public-Private Partnerships for Strategic Infrastructure

The government will invest \$250 million from the Millennium Partnerships Initiative in strategic infrastructure projects in eight major urban areas: Ottawa, Waterloo Region, London, Windsor, Niagara Region, Hamilton, Sudbury and Thunder Bay.

Millennium Partnerships will invest in four project categories:

- , address gridlock, including transit expansion projects;
- , environmental protection, including water and sewer upgrades and environmental remediation projects;
- , access to strategic highway corridors and international border crossings; and
- , urban revitalization projects, including “public realm” components of downtown and waterfront renewal projects.

One of the main goals of the Millennium Partnerships initiative is to develop new ways of financing and delivering municipal infrastructure. To encourage municipal innovation, public-private partnerships will be given priority for funding. All projects will require a sound business case and a compelling public policy rationale. Projects that support Smart Growth will be given preferential consideration.

Up to \$70 million of the \$250 million allocation will be used to cost-share infrastructure priorities in the City of Ottawa. These investments could include new and expanded interchanges on Highway 417 to serve “Silicon Valley North” in Kanata. Recognizing the need to relieve gridlock, the government will examine the options and timing for widening the Ottawa section of the Highway 417 corridor from Highway 7 in the west to Anderson Road in the east.

The government will also use this investment to cost-share other projects determined in consultation with the City of Ottawa. These projects could include light rail or transitway expansion to support Smart Growth.

The government will soon announce how the remaining Millennium Partnership funding will be distributed among the other major urban areas. Project selection will be negotiated among the Ontario SuperBuild Corporation, municipalities and their funding partners. Municipalities will be expected to determine their infrastructure investment priorities. The government will determine funding awards based on the advice of SuperBuild.

Ontario invites the federal government to also partner with Ontario municipalities to support these Millennium Partnership projects.

Toronto Waterfront Revitalization

The Ontario Government's \$500 million investment in the \$1.5 billion Toronto Waterfront Revitalization initiative will result in significant provincial support for environmental remediation, new parks and open space, transportation and other essential infrastructure in Ontario's capital city—all linked to Smart Growth. Ontario's investment is being provided through the SuperBuild Millennium Partnerships initiative. The waterfront plan directly supports the city's bid for the 2008 Olympic and Paralympic Games, as well as providing lasting benefits independent of the Games.

The Province and its federal and city partners have agreed to commit and equally cost-share up to \$290.7 million towards four initial waterfront capital priorities:

- , \$170.0 million to extend Front Street West from Bathurst Street to a new interchange with the Gardiner Expressway near the Canadian National Exhibition grounds;
- , \$60.7 million to undertake soil remediation and site preparation activities in the Portlands and West Donlands, to make these areas of the waterfront attractive for development;
- , \$58.0 million to add a second TTC subway platform at Union Station and to expand the pedestrian connections between the subway station and the GO Transit concourse; and
- , \$2.0 million to begin environmental scoping and assessment to "renaturalize" the Don River Mouth area and implement flood-control solutions.

The three levels of government have also agreed to establish a Toronto Waterfront Revitalization Corporation that will be responsible for implementing the waterfront projects, cutting red tape in the planning approval process, leveraging private-sector investment and participation and continuing to develop the overall master plan and supporting business cases for the waterfront vision.

SuperBuild OSTAR Initiative

High-quality infrastructure is part of Smart Growth. SuperBuild's Ontario Small Town and Rural development (OSTAR) initiative will provide \$600 million over five years for infrastructure and economic development. The infrastructure component of OSTAR will invest in strategic infrastructure critical to the future economic growth and quality of life of small cities, small towns and rural areas.

The priority for Round 1 of OSTAR is public health and safety, including projects to comply with the new Drinking Water Protection Regulation. The government has committed a minimum of \$240 million for Round 1.

The province is currently reviewing about 380 proposals. Approximately 55 per cent are projects to enable municipalities to comply with the new Drinking Water Protection Regulation. The remainder are mostly other water and sewer projects or municipal road and bridge projects. Except for projects to come into compliance with the new drinking water regulation, proposals will be evaluated through a competitive, criteria-based process that emphasizes the need for the project, good value for money and the ability to lever investment from partners.

The Province may nominate projects approved through OSTAR for federal funding under the Canada-Ontario Infrastructure Program.

SuperBuild Sports, Culture and Tourism Partnerships Initiative

Sports, culture and tourism facilities are part of the fabric of community life throughout Ontario. SuperBuild's Sports, Culture and Tourism Partnerships (SCTP) initiative will invest \$300 million over the next five years to rebuild and enhance sports, cultural, recreational, and tourism facilities throughout the province.

The top priority in Round 1 is public health and safety projects. Municipalities were required to provide assurance that they are in compliance with the new Drinking Water Protection Regulation.

Over 450 project proposals were received for Round 1 of the SCTP initiative. In light of this overwhelming interest, the approval process will be extremely competitive. Proposals were due April 12, 2001, and they are currently under review.

The Province may nominate projects approved through SCTP for federal funding under the Canada-Ontario Infrastructure Program.

3. Addressing the Gridlock

Supporting Transit Expansion

The government recognizes that strategic transit investment is key to addressing congestion gridlock in the GTA and the surrounding Golden Horseshoe region.

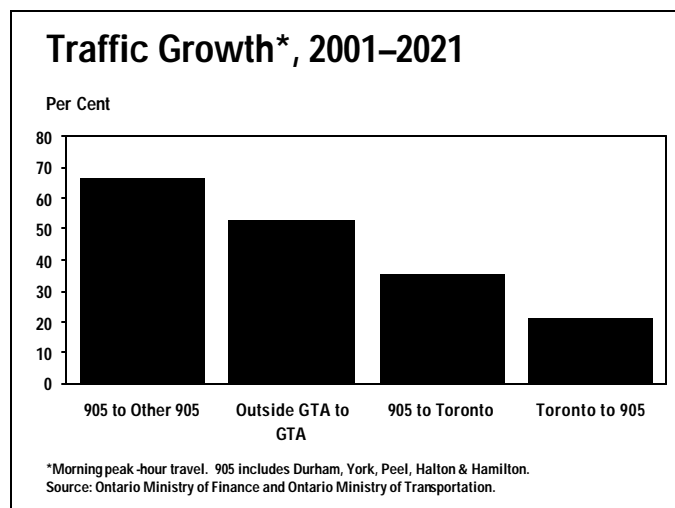
Many indicators of congestion reinforce what commuters experience every day. Approximately 80 per cent of the GTA expressway network is currently congested during peak periods, and the peak periods themselves have become much longer. GO Transit rail service is operating at full capacity during peak periods. Union Station, the GTA's transportation hub, has already reached its peak-period capacity limit and is a constraint on future GO Transit rail service expansion. Cross-border commuting among the 905 regions is expected to increase by 67 per cent in the next 20 years.

To help alleviate gridlock, the Province will create a Golden Horseshoe Transit Investment Partnerships (GTIP) Fund by allocating \$250 million from the five-year \$1.0 billion SuperBuild Millennium Partnerships initiative.

The GTIP will support the expansion of inter-regional transit infrastructure such as commuter rail, light rail and dedicated transitways. New rolling stock, signals, station infrastructure and advanced fare collection and passenger information systems will be eligible provided they create region-wide network service benefits.

GTIP investments will be awarded on a competitive, business-case basis for projects in the following categories:

- , service intensification in existing inter-regional commuter rail corridors;
- , new extensions to existing inter-regional commuter rail corridors;
- , new inter-regional commuter rail corridors;



- , new inter-regional rapid transit corridors using light rail or bus transitway infrastructure;
- , new or significantly improved regional transit hubs and gateway stations; and
- , advanced transit technologies.

GTIP projects that meet these criteria may be proposed by municipal governments in the GTA and surrounding Golden Horseshoe region, transit service providers and the private sector. Public-private partnerships will be preferred.

The federal government has indicated that it is considering investing in transit but so far has not made a funding commitment. The U.S. government is investing over \$200 billion US in transportation, including urban transit, through its *Transportation Equity Act for the 21st Century*. A comparable commitment by the government of Canada would be over \$20 billion. Ontario invites the federal government to take a first step by becoming a highway and transit funding partner. Matching commitments from the federal government and municipalities, along with an expanded role for the private sector, could significantly add to the GTIP investments in new and expanded transit services throughout the Golden Horseshoe region.

A co-ordinated approach to transit planning, service delivery, fares and financing is needed to ensure both a seamless transit system in the GTA and beyond, and that transit becomes increasingly attractive and efficient. While there has been considerable effort over the last two years to improve co-operation among GTA municipalities, it is clear that provincial leadership is necessary.

The government has received a number of submissions that reinforce the need for a new approach to transit planning and co-ordination, including proposals from the Urban Development Institute and the Ontario Chamber of Commerce. A report from the Greater Toronto Services Board is also expected shortly. Taking these proposals and other advice into account, the government will consider options for meeting future inter-regional transit needs in the GTA and the surrounding Golden Horseshoe regions, including the most appropriate governance and financing options.

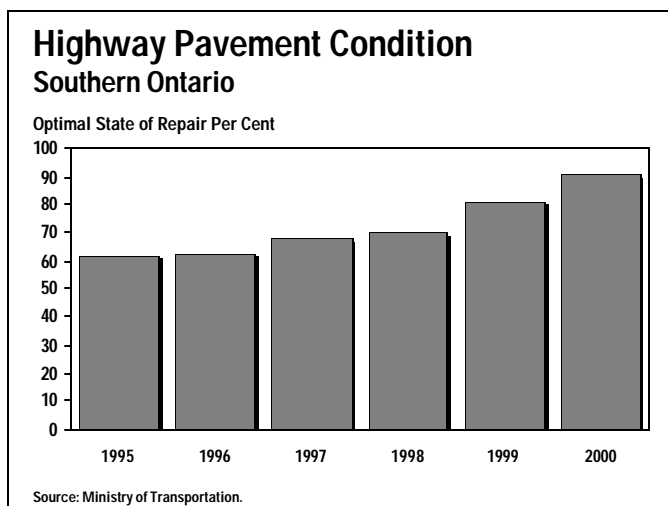
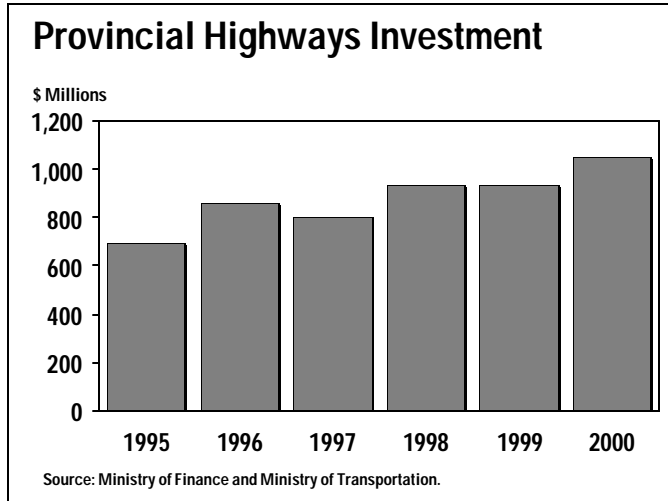
Strategic Highway Investment

The provincial highway network is a strategic asset that helps Ontario compete successfully in the global economy. With an estimated replacement cost of \$27 billion, proper planning and investment is vital to preserve this asset and to promote the safe, efficient movement of people and goods.

To ensure that Ontario remains competitive, the government has invested more than \$5 billion in the highway network since 1995. Approximately 90 per cent of the network in southern Ontario is now in good condition, up from 62 per cent in 1995. Highway conditions have also improved in the North.

As part of its support for the Smart Growth strategy, the government is undertaking a series of major transportation corridor assessment studies to help prepare Ontario's transportation network for the future:

- , extending Highway 427;
- , extending Highway 407 East;
- , extending Highway 404 and establishing a Bradford bypass;
- , providing additional capacity at the Windsor-Detroit border crossing;
- , a new east-west corridor in the GTA;
- , a new mid-peninsula Niagara corridor; and
- , a proposed Ottawa ring road.



These new transportation corridors are critical elements in ensuring that economic growth in the GTA and the surrounding Golden Horseshoe region continues and that major environmental and agricultural features can be protected. As part of the planning exercise, the government will examine public-private partnerships as a way to finance, build and operate highway infrastructure, including tolling options.

For example, if the needs assessment currently underway confirms the need for a new highway link in Niagara, the government will proceed with environmental assessment work for a new Mid-Peninsula Niagara Expressway corridor between Hamilton and the Niagara International Gateway. The new corridor would parallel the QEW along an east-west alignment south of the Niagara Escarpment. This corridor would be designed to make the land above the Escarpment a choice location for future urbanization and development in the City of Hamilton and Niagara Region.

4. Enhancing Municipal Capability

Brownfields Redevelopment Strategy

As part of its made-in-Ontario Smart Growth strategy, the government will take steps to encourage the redevelopment of brownfield sites across the province. Brownfields are sites on which industrial or commercial activity took place in the past, but are currently abandoned or underused. These properties may or may not be contaminated. They are often located in prime locations where infrastructure and other urban services already exist.

Brownfields redevelopment can revitalize older urban areas. Many waterfront municipalities in Ontario are looking for ways to replicate Cobourg's harbour redevelopment in which four adjacent, heavily contaminated brownfield properties were redeveloped. An investment of \$2 million for remediation and \$3 million for municipal improvements resulted in \$162 million of construction projects, a new marina, and a new clean public waterfront that draws thousands of tourists annually. Unfortunately, millions of dollars in annual property tax revenue is still being lost to municipalities through abandoned and underused properties. For example, the City of Toronto's Treasurer has estimated that the city is losing at least \$50 million in annual property tax revenue from vacant and underused properties.

The Minister of Municipal Affairs and Housing will be introducing new legislation that would remove the most important impediments to brownfields redevelopment. The legislation would address environmental liability issues and the environmental requirements associated with cleanup.

Brownfields redevelopments in major urban centres will also be eligible under the strategic infrastructure component of SuperBuild's Millennium Partnerships initiative.

Urban Economic Development Tools

Large urban areas or city regions, as dynamic centres of innovation, production and consumption, are increasingly becoming a primary focus of the global economy. Ontario's urban centres compete with metropolitan economies across the United States to attract investment, innovation, people and jobs.

The government commissioned a study to evaluate the economic development tools that could be made available to municipalities to help them compete more effectively with American jurisdictions. The study evaluated economic development best practices in U.S. and European jurisdictions and their potential application to Ontario. It identified several tools that could promote investment in complex urban infrastructure projects, including urban redevelopment corporations, new powers to allow municipalities to be full partners in public-private partnerships and tax incentives for private investment in infrastructure.

The study will be released as part of the Minister of Municipal Affairs and Housing's consultations on the made-in-Ontario Smart Growth strategy. Many of the urban economic development tools identified in the study would require legislative or regulatory changes, and their implications for Ontario will have to be evaluated carefully.

5. Long-Term Water and Sewer Investment and Financing Strategy

On August 10, 2000, as part of Operation Clean Water, the Province announced that the advisory board of the Ontario SuperBuild Corporation would guide the development of a long-term water and sewer infrastructure investment and financing strategy. As part of the strategy, the board will be evaluating the options and implications of moving towards full cost recovery for water and sewer services.

Investment Needs

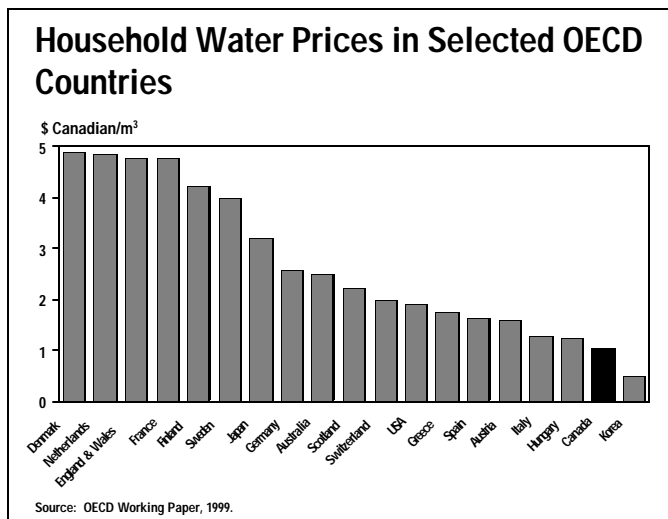
Ontario's water and sewer sector is facing large infrastructure investment and renewal requirements. Various needs estimates have been developed with varying degrees of credibility. More research and analysis is required to obtain a better understanding of the current condition of Ontario's water and sewer infrastructure. However, it is safe to say that several billion dollars worth of investment in above- and below-ground infrastructure will be required to meet future needs. Under current water pricing, it is clear that the system is not financially sustainable and will not be able address future investment needs.

Price of Water in Ontario Versus Other Jurisdictions

The people of Ontario pay relatively less for their drinking water than people who live in other OECD countries. Lack of metering is one of the reasons for Ontario's underpricing of water. Meters would enable service providers to appropriately charge users for the water and sewer services they consume.

Few, if any, municipalities recover all capital and operating costs for water and sewer services through user charges. The costs of underground pipes are often subject to the "out of sight, out of mind" adage. Some communities have already taken steps to address this issue. For example, the City of Hamilton has developed a long-term investment plan and is adopting water prices that will provide sustainable funding for water and wastewater infrastructure. This is a

step in the right direction and a model for other municipalities to consider.



Role of Ontario SuperBuild Corporation Advisory Board and Consulting Studies

The SuperBuild board of advisors has been asked to:

- , recommend the best option(s) for the investment and financing of water and sewer infrastructure in Ontario's circumstances;
- , identify options for moving to the new ways(s) of investing and financing water and sewer infrastructure; and
- , advise on the merits and feasibility of restructuring the water and sewer infrastructure business in Ontario to improve service delivery and reliability, and to identify options the Province could consider for beginning the restructuring process.

In January 2001, the Ontario SuperBuild Corporation released terms of reference for eight studies on the water and sewer sector. The studies cover a wide range of topics, including an inventory of assets in Ontario, financing, pricing and asset-management practices in the province, and best practices in other jurisdictions. Information from the studies will make an important contribution to the province's long-term investment and financing strategy for water and sewer infrastructure. The studies will be shared with the Walkerton Inquiry and made public.

The government's goal is to find the best way to deliver water and sewer services in the future. Ontarians deserve nothing less.

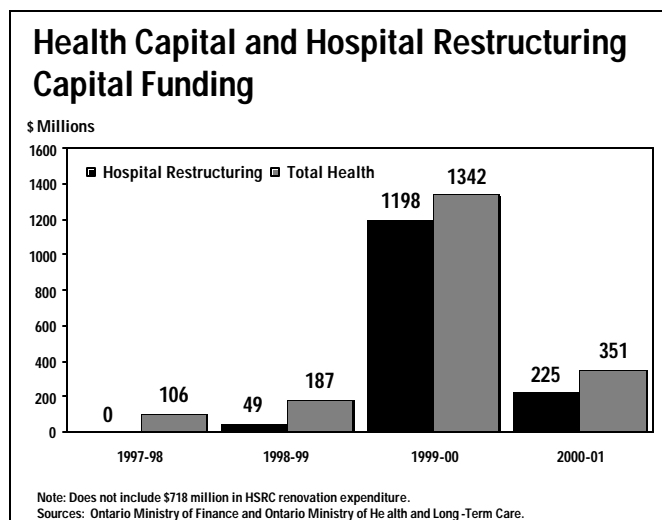
Consultant Studies

Study	Purpose
Asset Inventory	Collect information on Ontario's water and sewer infrastructure assets and compile it into a comprehensive database. This will help assess Ontario's existing and future water and sewer infrastructure investment needs.
Economics	Provide a description, analysis and synthesis of the economic principles applicable to water and sewer infrastructure.
Financing	Describe and evaluate current financing, asset management and accounting practices with respect to water and sewer infrastructure in Ontario.
Pricing	Provide a comprehensive database of water and wastewater pricing in Ontario and describe and analyse current pricing practices in Ontario.
Organization	Describe and analyse how water and wastewater systems are organized in the province and identify emerging organizational models.
Best Practices	Identify a range of best practices in other jurisdictions with respect to water and sewer infrastructure and assess their applicability to Ontario.
Business Model Analysis	Describe the organization of regulated utility industries and determine their applicability to water and sewer infrastructure in Ontario.
Industry	Identify and describe national and international private-sector water and wastewater investors and suppliers and analyse their market strategies.

6. Health Care Renewal

Provincial Investment in Health Infrastructure

In 1996, the government appointed the Health Services Restructuring Commission (HSRC). Over the 1996 to 2000 period, the HSRC provided directions for change to hospitals in 22 communities across the province and advised the Province on other changes needed to improve the accessibility, quality and cost-effectiveness of the health care system. The purpose of hospital restructuring is to ensure that the size and location of hospitals is efficient, and to support the shift to community-based health care resulting from current and emerging clinical practices.



To date, the government has invested \$2.2 billion to modernize and upgrade hospitals in 22 communities across the province, including \$1.1 billion in SuperBuild investments to help accelerate restructuring. Together with our partners, this commitment will provide over \$3 billion in new hospital construction and renovation. Over the next few years, this investment will continue to expand hospital emergency rooms, build new cancer and cardiac care centres, and help provide a better mix of acute care, mental health and rehabilitation beds for the communities served by these hospitals.

The government is also implementing other reforms to modernize the health care system. Currently, 20,000 long-term care beds are being added to our health care system, and 16,000 existing long-term care beds are being upgraded. In addition, community-based care is expanding and Telehealth is being implemented across the province.

Developing a Long-Term Strategy for Health Infrastructure

Despite these sizable investments, challenges remain. A variety of factors are influencing the need for investment in health infrastructure, including changing demographics, changing technology and changing clinical practices (see table).

Drivers Changing the Health Care System

Pressures	Impact	Challenges / Opportunities
Growing and aging population	Increasing demand on health services/shifting services as our population ages	Meeting the rising demand for health care services Partnership approaches for financing health care infrastructure and services
New medical technologies	Adapting clinical practice to take advantage of new technology	Funding new technology at appropriate levels, changing clinical practice and infrastructure Private-sector financing and provision of technology and related services
New drugs	Treating illnesses more effectively, with less intervention	Funding new drugs at appropriate levels, changing clinical practice and infrastructure
New information technologies	Allowing doctors to co-ordinate better care for their patients, using the latest treatments and services	Expensive and difficult to implement, must ensure the privacy of patient and other information Private-sector financing and provision of technology and related services
Changing clinical practices	More frequent use of a broader range of health care practitioners and treatment options.	More co-ordination required between health care partners with various roles better defined
Informed consumer (through Internet, etc.)	Patients more aware of treatment options	Patients demanding the latest most effective treatments

Over the next year SuperBuild will work with the Ministry of Health and Long-Term Care and other health care partners to develop a long-term health infrastructure strategy that will include:

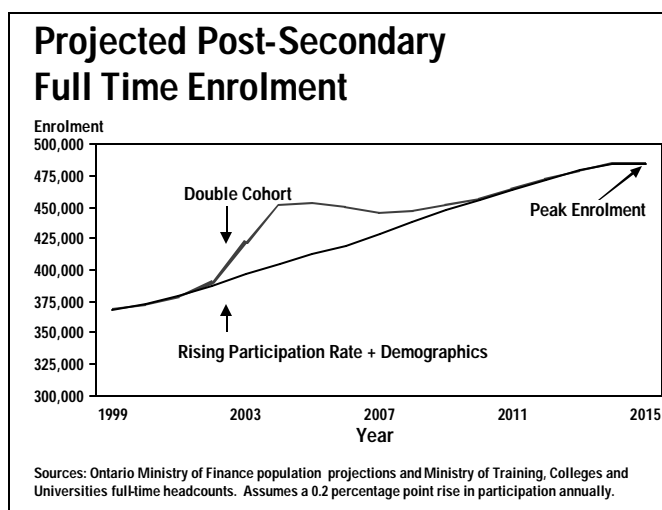
- , evaluating long-term needs for health care infrastructure;
- , analysing the relationship between capital investment and the quality of health services;
- , evaluating public-private partnership options where appropriate, subject to the provisions of the *Canada Health Act*;

- , investigating alternative methods of financing health care infrastructure and technology; and
- , finding better ways to invest in new technologies.

7. Post-Secondary Education Enrolment Growth

About 380,000 students are currently enrolled in Ontario's post-secondary system. Enrolments at colleges and universities are projected to increase due to growth in the 18-24 age group, rising participation rates and secondary school reform. The Ministry of Training, Colleges and Universities estimates that 78,000 additional students will be enrolled at colleges and universities by 2005-06, an increase of 21 per cent from today's level. While the effects of secondary school reform will subside, enrolment is expected to continue to rise due to demographic factors.

In 1997, the Province announced a new four-year high school program. In 2003, the first set of graduates of the new four-year program will leave high school at the same time as the last set of graduates of the old five-year program. This "double cohort" of Ontario high school graduates will cause a steep rise in full-time enrolment between the years 2003 and 2005.



Once-in-a-Generation SuperBuild Investment in Post-Secondary Education

In order to accommodate the expected increase in enrolments, the Province invested over \$1 billion through SuperBuild in post-secondary education capital in 1999-2000. Combined with partner contributions, this investment will result in a total investment of \$1.8 billion and the creation of more than 73,000 new student spaces at colleges and universities. This is the largest capital investment in Ontario's post-secondary system in more than 30 years.

Colleges and universities have agreed to create additional student spaces through better use of existing facilities. To help them achieve this objective, the Province invested over \$140 million in 2000-01 for the renovation and renewal of existing post-secondary facilities.

This funding will support the investments institutions are making to upgrade existing buildings to accommodate more students.

Following the advice of the Ontario Jobs and Investment Board to strengthen the link between theoretical and applied post-secondary education, the government provided support for nine joint college-university partnership projects in 1999-2000.

Building on this investment, the Province has provided \$60 million as an essential first step in the establishment of a new Ontario Institute of Technology that would provide university and college level programs and link post-secondary education and skills training with the needs of the marketplace. Building on the excellent track record of Durham College, this new institution will address the skill requirements needs in the eastern GTA.