



Intelligence MEMOS

From: Alexandre Laurin
To: Pierre Lavallée President and CEO, Canadian Infrastructure Bank
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Re: RAIL INVESTMENT MAKES GOOD SENSE

The Canada Infrastructure Bank (CIB) announced yesterday that it will provide up to \$2 billion in debt financing to the winning bidder – most likely a consortia of local and international companies – for the procurement process of the Ontario's GO Expansion - On Corridor project.

The CIB was set up two years ago in legislation to “invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects in Canada or partly in Canada that will generate revenue and that will be in the public interest.” Today’s announcement fits well within the CIB legislated intent. From a public policy standpoint, the CIB provides opportunities to improve the delivery of new infrastructure projects and produce a socially beneficial result. The investment in Ontario's GO Expansion fulfills those goals.

First, CIB is expected to pursue revenue-generating infrastructure projects, supported by user fees. User-paid infrastructure is an efficient way to operate for cash-strapped governments. When users do not fully support the cost of using a public service, they tend to use it more, because part of the private cost is shifted to others. This results in congestion and inefficient allocation of resources. As well, the remaining costs of operations must be absorbed by government budgets.

Raising tax revenues to cover this infrastructure can have economic costs because it reduces incentives to work, save or consume. The Ontario's GO Expansion project is expected to be supported mainly by user fees through new fare revenues, which fits well within the CIB preferred investment model.

Second, the value of social benefits from the GO Expansion project – in terms of reduced travel times, increased frequency of travel, automobile traffic decongestion, automobile savings, traffic accidents’ reduction, improved air quality, and increased physical activity – is expected to exceed capital, operating, and maintenance costs by a ratio of 2.6. If the result of this cost-benefit analysis proves to be reliable, CIB’s involvement is highly socially desirable.

Third, the GO Expansion project delivery model goes beyond traditional public-private partnerships. The winning bidder will be required to operate and maintain the train service throughout the 30-year contract term, which ensures long-term incentives are in place to design and build of an integrated infrastructure solution with quality equipment and materials properly installed, fully operable and maintainable for the longer term. This is an opportunity for the CIB to support an improved PPP delivery model, one that transfers long-term operational risks to the private sector, in addition to design and building risks.

Public transit investments often yield economic benefits that outweigh their funding and financing costs. Only the future will tell whether the CIB’s involvement is a success, but for the moment, the announced investment in the GO Expansion project certainly provides external validation and will help build public trust around the soundness this \$16 billion project.

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