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Catching Up:

The Case for Infrastructure Banks in Canada

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Executive Summary

In the slow recovery from the devastating world-wide recession of 2008-9, Canada continues to face a large "infrastructure deficit." Traditional ways of paying for new infrastructure projects or renewal --- property, gas taxes, and government grants --- may not be able to finance all major projects in future. Around the world, countries and subnational political entities are turning to Infrastructure Banks ("iBanks") to provide another kind of capital for infrastructure projects.

Canada possesses world-class expertise in its insurance companies, pension funds and investment banks to lead in the creation of national, provincial or municipal iBanks. This paper urges all levels of government and the private sector to "catch up" to these discussions and to look at various forms of iBanks and ask whether it is time for Canada to create one or more iBanks.

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As the Great Recession mutates into a time of low growth in many of the world's developed economies, an aphorism from the world of business is appropriate: "equity is a pillow; debt is a sword." In most developed economies, the Damoclean sword of sovereign debt "...is increasing in a way that is without precedent except in times of total war." (Larry Summers, *America's Problem is not political gridlock*. The Financial Times, 14 April 2013.) In the "new normal" of 2013, and beyond, it is clear that much-needed infrastructure investment in Canada and abroad can no longer rely entirely on the "pillow" of traditional funding, using the so-called "toolbox" of options like real property taxes, federal and provincial/state gasoline taxes and central government grants (although all of these sources will continue to be important). The "sword" of new, less politically popular ways of financing much-needed infrastructure must now be considered by policy advisers and political leaders. Beyond Canada's shores, many countries and sub national political entities are already seriously discussing whether infrastructure banks (or "iBanks") should be created to replace or supplement older, conventional ways of financing infrastructure, particularly transportation projects.

This paper will make a case for the creation of one or more infrastructure banks in Canada. The paper is written in the form of a "white paper", that is to say, as a call for, or stimulus to, a national debate on iBanks. The paper opens with a brief discussion of the current Canadian infrastructure deficit. Then, the author outlines the options available to governments today for paying for infrastructure repair, renewal or building, the so-called "toolbox" of sources of money. The third section of the paper reviews of some developments relating to iBanks that are occurring in other parts of the world. The fourth, and concluding, part of the paper outlines what a national Canadian iBank might look like and will discuss the possibility of forming municipal-provincial iBanks, whether or not an iBank is created at the federal level.

The Canadian "Infrastructure Deficit"

An important Canadian think tank --- the Canada West Foundation --- while admitting that many opinions exist concerning the "infrastructure deficit" in Canada nevertheless recently pegged the accumulated infrastructure debt of Canada at $123 billion for existing infrastructure and $110 billion for new infrastructure, not including current provincial and federal infrastructure debt. (*At the Intersection: The Case for Sustained and Strategic Infrastructure Investment*) This estimate by Canada West is of the same order as that contained in a 2012 "report card" issued by the Federation of Canadian Municipalities. (*The State of Canada's Cities and Communities 2012*) A more extreme estimate of the deficit was published by an emeritus professor of civil engineering at McGill University in 2012. Dr. Saeed Mirza claimed the Canadian infrastructure deficit was closer to $400 billion and that 30 per cent of Canada's infrastructure was close to 100 years old.

Benjamin Tal and Avery Shenfeld, economists at CIBC World Markets, have also claimed that many billions will have to be spent to bring Canada's infrastructure up to date. Their call echoes similar ones stretching bank in Canada to a paper from 2004 Derek Burleton (*Mind the Gap: Finding Money to Upgrade Canada's Ageing Public Infrastructure.* 20 May 2004. www.td.com/economics). In February, 2013, the Canadian Chamber of Commerce declared that, to remain competitive, Canada needed to develop a long-term national infrastructure investment plan that includes strong and diversified funding models and increased private sector investment. Most informed commentators agree on the existence of a "deficit". The only dispute is over the size of the "deficit." But renewing Canada's infrastructure continues to be an issue that unites both the right and left wings of the political spectrum. The only dispute is over *how* to cure the "infrastructure deficit", not *whether* or not to do it. Canada certainly needs a coherent plan for infrastructure building and renewal, not the ad hoc and scattered systems we now have.

Traditional Methods for Funding Canada's Infrastructure

In the 19th century and early 20th century, much of Canada's infrastructure was built by private interests. The Canadian Pacific Railway is the best example of this kind of initiative. Most Canadian power companies and "street railway" enterprises a century ago were privately-owned and privately financed. And many urban parks --- such as Fleming Park in Halifax --- were given to the public by developers like Sir Sandford Fleming as part of their private real estate developments. In Europe, private toll roads and waterways were the norm for centuries. Accordingly, any policy suggestion that the private sector should become more involved with funding 21st century infrastructure is really a "back to the future" argument.

For most Canadian transportation projects today, the gas tax --- at all levels of government --- has been a principal source of money for building or renewing infrastructure. But unlike the highway trust fund in the United States, Canadian gas taxes have not, until recently, been "dedicated." That meant the American funds were historically protected in a trust so these funds would never therefore fall into the consolidated revenue funds and be used for purposes other than transportation projects. In Canada, senior finance department bureaucrats intensely dislike "dedicated" taxes because of this feature. But despite being against "dedicated" taxes, the federal government in recent years has, in effect, "dedicated" the federal gas tax by agreeing to share it with provinces and municipalities not until 2014 but in perpetuity.

At the provincial level, some provincial governments have already agreed to share their gas taxes with municipalities. But, as petroleum prices rise, consumers may cut back on their driving or turn to hybrid or electric cars or public transit. As trucking and bus companies increasingly convert to compressed or liquefied natural gas-driven trucks and buses, the gas taxes at current levels will inevitably shrink over time. In some countries, the conversion of truck fleets and buses to natural gas is nearly complete. In Vancouver, 80 per cent of transit buses are already powered by natural gas. Finally, new national standards for requiring better gas mileage from motor vehicles will have a serious impact on future gas tax collections.

At the municipal level in Canada, where infrastructure needs are greatest, property taxes cannot keep up with 21st century infrastructure requirements. Most Canadian municipalities appear to have reached the limits of how much their citizens are prepared to pay in property taxes. And general tax revenues at the provincial level that might be used for infrastructure projects are facing unprecedented competition from public health care costs, educational funding and social welfare needs. All of these competing forces were dramatically on display in the spring of 2013 when Metrolinx of

the Greater Toronto Authority (GTA) suggested a list of "recommended taxes" to fund the GTA's long-neglected transit system. The Metrolinx list of tax increases included:

- a one per cent increase on Ontario's HST;
- a 25-cents-per-day levy on GTA's commercial parking spaces;
- a five-cent-a-litre municipal fuel tax;
- a 15-per-cent increase in development charges;
- a 30-cents-per-kilometre charge on high occupancy toll (HOT) lanes;
- $2 to $4 more for parking at GO train stations;
- new land-value capture charges along transit lines.

A more extensive list of sources available in a standard "municipal toolbox "of sources for infrastructure funding would include --- as the list did when developed in 2011 by Vancouver's TransLink:

- Traditional Tax-and-Fee-Based Funding Sources such as general revenues, sales taxes, property taxes, contract or purchase-of-service revenues, lease, vehicle fees, advertising on transit vehicles and concession revenues.
- Common Business, Activity and Related Funding Sources such as employer or payroll taxes, taxes on car rentals or zip cars, higher parking fees, realty tax transfer or mortgage recording taxes, corporate franchise taxes, hotel and business occupancy taxes, higher utility fees, income taxes and donations.
- Revenue Streams from Projects like transit-oriented developments, value-capture charges, extra charges for community improvement districts or community facilities, impact fees, tax-increment financing districts and right-of-way leasing.
- New "User" or "Market-Based" Funding Sources like tolling --- whether fixed, variable or dynamic on bridges or roadways, congestion pricing, emissions fees and variable transit fares.

The funding mechanisms that were listed as part of this TransLink exercise were: general obligation (GO) bonds; private activity bonds (PABs); tax credit bonds (TCBs); Grant Anticipation Notes (GANs); Grant Anticipation Revenue Vehicles (GARVEEs); Revenue Anticipation Notes (RANs); Certificates of Participation (COPs); and, last but not least, State Infrastructure Bank (SIBs) loans.

At the most senior governmental level, the federal government, through the new "Building Canada Plan" that was contained in the 2007 budget financed many local and regional infrastructure needs for both public transit and water-related projects. That plan was followed, in 2009, by the "Economic Action Plan" for infrastructure projects that were "shovel-ready" during the worst days of the recent recession. Roads, bridges, waterworks and public spaces were built or renewed under this Plan. But these Plans stopped short of creating iBanks to fund or manage them.

Going forward, the federal government has pledged $70 billion in various "pots of capital" for public infrastructure in the coming years. (See www.infrastructure.gc.ca/plan-eng) This number includes $53 billion over ten years in a New Building Canada Plan, with $14 billion available --- $4 billion as a "National Infrastructure Component" for provincial, territorial and municipal infrastructure projects and $10 billion for a "Provincial-Territorial Infrastructure Component". The federal government describes this overall plan "the largest and longest federal infrastructure plan in our nation's history", which it is. Whether it is enough is questionable. And what is still lacking, as of the writing of this paper, is how, by whom and for what kind of projects this money will be administered. Already, more than $600 million from this "pool of capital" has been granted to Toronto for the building of the Scarborough subway. This decision appears to have been made in cabinet, not through any transparent, publicly-accountable process.

Some of this money --- $1.25 billion --- will be given to P3Canada for "the delivery of public infrastructure" under the direction of an arms-length, and knowledgeable board of directors and managers, operating through the medium of a federal Crown Corporation. The bulk of the money --- $32 billion --- will be given to municipalities "...for projects such as roads, public transit and recreational facilities, and other community infrastructure." (ibid., www.infrastructure.gc.ca/plan)

At the recent Liberal Party policy convention in Montreal, a significant resolution (No. 36) called for a "Transformative Canadian Infrastructure Investment Plan" that would significantly expand the funds invested or facilitated by the Government of Canada for infrastructure up to a level of 1 pct. Of GDP per year." Given that Canada's GDP is currently about $1.8 trillion per year, that would mean dedicating $18 billion per annum to this Plan. No details were contained in the resolution about by whom or how this money would be administered. An publicly-owned federal iBank in the form of an independent, arms-length Crown Corporation would be one way to do it.

What is clear at present is that this money will only be a drop in the bucket in dealing with Canada's "infrastructure deficit." Until Canada's budgetary deficit is eliminated next year, more federal resources are unlikely to be dedicated to taming the "infrastructure deficit." And borrowing on conventional bond markets for infrastructure projects is not a good option in provinces like Ontario where its provincial deficit has yet to be tamed although a $14 billion provincial debt did not stop Nova Scotia from agreeing to support the borrowing of $150 to $200 million by the Halifax-Dartmouth Bridge Commission for repairs to the two elderly bridges that cross Halifax Harbour.

With all of the "plans" that exist or are recommended for infrastructure building or renewal, some experts suggest that there is a difference in Canada between "funding" and "financing" of infrastructure and that the problem in Canada is with long-term funding, not with the availability of capital. If the provinces and municipalities were

permitted, for example, to hypothecate their federal gas tax revenues and to borrow against them in commercial markets, that would be a major step forward. But that would be a culturally shocking way for Canada to go because it would begin to diminish the public-sector dominated "infrastructure industry." There is no question that the short time lines --- three to four years --- that constrain the P3 Canada Fund should also be re-examined. What everyone in the investment world knows is that there is a huge appetite in the world retail investment market for high quality investments in infrastructure; the question is: why are Canadians --- and particularly, a conservative government --- not responding to this need in a rational way?

Historically, only a handful of infrastructure projects in the latter part of the 20th century and the early 21st century were financed with tolls or value pricing of some kind. And few appear to be on the drawing board today despite the success of projects like Highway 407 in Ontario and the inter-provincial bridge connecting Prince Edward Island and New Brunswick. User fees such as those charged by the Canadian Air Transport Authority (CATSA) and NAV CANADA are adequate to finance those quasi-infrastructure entities but the CATSA fees that are collected from air travellers are neither "dedicated" nor transparent. Indeed, there have been years when more fees than were needed for its operations were collected for CATSA; the excess amounts simply fell into the consolidated revenue fund of Canada.

Other examples of successful Canadian infrastructure projects that could have been financed, in whole or in part by an iBank, are the Cobequid Pass Highway in Nova Scotia and the Coquihalla toll highway in British Columbia. The flaw in the latter project was that it was designed to have tolls pay for the capital costs of *building* the highway --- but not the *maintenance* of the highway. Now that the Coquihalla has been paid for, the tolls have been removed and the highway is deteriorating. The two cross-harbour bridges in Halifax have always been tolled but not at a level that would allow easy financing for a third harbour crossing that many experts believe will be needed in the next decade. The Champlain Bridge in Montreal and the Lions Gate Bridge in Vancouver are examples of old infrastructure projects that should be being tolled today, but they are not. Could both use the services of an iBank to help with repairs or replacements? Perhaps.

Canadian pension funds and insurance companies have, for years, been financing infrastructure projects, or acquiring interests in them, in an attempt to compensate for declining returns from bond markets. Many of the projects financed have been abroad, not in Canada. As a result of this investing activity, Canada has developed considerable expertise inside those pension funds and insurance companies. This expertise should be tapped by governments that are thinking about setting up iBanks. Indeed, the existence of this great pool of knowledge should spur Canada to create one or more iBanks, if for no other reason than to capitalize on our extensive national know-how. But the

insurance companies and pension funds must take a lead in urging a study of iBanks and whether they are appropriate for Canada in 2013 and beyond.

Certainly, as objective observers survey the options available for financing future infrastructure projects, they tend to conclude that "traditional mechanisms for financing infrastructure via fuel taxes and property taxes will not meet financing needs in the future...Both new financing approaches and new revenue streams are needed to solve the infrastructure problem." (David Lewis and Ewa Tomaszewska, *Canada's Infrastructure Network Needs: New Approaches to Investment and Finance* Paper delivered at 2011 Calgary Roundtable on Transportation Policy, p. 9) Or, as another leading Canadian scholar said: "Fuel taxes...are crude instruments for targeting congestion and other externalities that vary strongly with location, time of day and population density. Road pricing in some form is a much more flexible instrument." (Robin Lindsay, *The Case and Opportunity for Efficient Modal Pricing of Urban Transportation.* Paper delivered at 2011 Calgary Roundtable on Transportation Policy, p. 20) Certainly, the political and editorial firestorm that erupted after the issuance of the Metrolinx study referred to earlier in this paper showed that new policy approaches were sorely needed in the transportation sector.

Chapter Ten of the 2000-2001 Canada Transportation Act Review (CTAR) Panel's report, *Vision and Balance* came to a similar conclusion as Lewis's and Lindsay's papers. The CTAR report recommended the creation in Canada of "*dedicated* road funds" that would use transponder technology to price roads and collect tolls thus providing the capital for the building, repair and renovation of all kinds of infrastructure projects. More recently, *A White Paper on Reforming Canada's Transportation Policies for the 21st Century* recommended a similar policy approach, especially in view of the fact that technologies for road pricing have great improved since 2001. Indeed, recent announcements by the vehicle insurance industry indicate that devices tracking the use and movements of motor vehicles will be used in future to determine insurance rates. Privacy issues will have to be addressed as part of this move but they can probably be overcome. So too, the prospect of driverless cars --- a major project being propelled today by Internet giant, Google, and the subject of recent California legislation to permit them on California's highways --- should focus the minds of Canadian policy makers in the transport sector and particularly on the need for transport infrastructure that is responsive to the many technical advances that are coming fast and furious.

iBank Ideas from Around the World

An "Infrastructure Bank" or "iBank" is a corporate entity that raises capital from public, private or mixed public-private sources and then invests that capital in infrastructure projects of all kinds. The recipients of these investments are then required to repay the borrowed money over an agreed term, usually a long term. An iBank allows potential borrowers to apply to a focussed and expert place for infrastructure borrowing, something not available today in many places, including Canada.

All around the world today, there are policy discussions about, or plans to create, iBanks to help countries, or sub national political entities, deal with their infrastructure deficits. In Europe, there have been a number of interesting initiatives in recent years that should be being studied and debated publicly in Canada.

Late in 2011, the government of the United Kingdom signed a Memorandum of Understanding with the National Association of Pension Funds in an attempt to attract more private money to infrastructure projects. This was followed in late 2012 by an announcement by Local Government Secretary Eric Pickles of a plan that was designed to "unlock" 22 billion pounds from public sector pension funds for infrastructure projects. This would be accomplished by changing the limit of 15 per cent of those pension portfolios that was allowed to be committed to infrastructure to 30 per cent. Prior to these moves, the Association for Consultancy and Engineering in the U.K. Proposed the establishment of a *United Kingdom Infrastructure Bank* that would be capitalized by selling bonds to the public rather than using current government revenue streams for infrastructure projects.

In September, 2012, the Cameron government introduced the Infrastructure *(Financial Assistance)* bill in Parliament but that law, if and when passed, would only backstop with government guarantees various projects deemed of "national significance" that are ready to start in12 months; that are "financially credible"; and that are "good value" for taxpayers. In late 2012, the Institute for Public Policy Research (IPPR) in Britain called on the U.K. Government to merge any plans for an iBank with a business bank. The "British Investment Bank" should, the think tank suggested, be 100 per cent state-owned and should be allowed to raise capital on conventional markets by issuing bonds. The IPPR said it was inspired by the creation of the Brazilian Development Bank which has a "dual mandate" similar to the one being suggested by IPPR. The Brazilian bank is able to buy tax-exempt bonds from companies involved in infrastructure projects. Next year, it is expected $25 billion (Canadian) worth of these bonds will be sold. As of the time of writing of this paper, the UK Government has yet to create a full-fledged iBank. The debate in the U.K. continues however.

The European Union (EU) and its predecessor institutions have had an infrastructure bank since 1958 when the Treaty of Rome was signed. The current version of the bank is the EIB or European Investment Bank which is able to issue securities that are traded on European bourses. In late 2012, the EIB announced the "2020 Project Bond Initiative" that is designed to increase the availability of debt financing for large-scale infrastructure projects in transport, energy and broadband. The initiative will enable promoters to attract private money from insurance companies and pension funds. Any bonds that are issued will come from the project companies, not the EIB or EU countries. But the EIB may provide credit enhancement in the form of a subordinated instrument to support the senior debt of the project company. It is expected that this initiative will unlock EUR 2 trillion ($2.6 trillion Canadian) by 2020 with much of the money raised going to transport infrastructure projects.

In Africa, Nigeria has a full-fledged iBank that was established as the *Infrastructure Bank plc* in 1992. This bank is owned by a combination of private interests, the Nigerian Federal Government, State Governments and the Nigerian Labour Congress. The African Development Bank has recently proposed the issuance of infrastructure bonds that would allow other African countries to establish iBanks. In India, iBanks are being established. Some South American countries are, both individually and collectively, considering the establishment of iBanks. Thailand is looking seriously at establishing iBanks. And there are already "green" iBanks in the Netherlands and Germany. In recent days, the Asian Development Bank (ADB) approved a proposal from China to create a "regional infrastructure bank" that would be a major force for promoting growth and employment. China first announced this proposal last October at the APEC meeting in Indonesia and did so to try to lever China's financial and engineering resources in collaboration with national and regional government throughout Asia.

For better contemporary ideas about iBanks, however Canada must look south. Purely public iBanks exist in four-fifths of the states in the United States. They finance public transit and transportation infrastructure. These iBanks --- formally known as State Infrastructure Banks or SIBs --- were created historically using mostly federal funds for their investments. Some attract state money as well. The managers of these iBanks select projects that are funded by low-interest loans or "credit enhancements" of various kinds. Terms of the deals run from 10 to 30 years. Most importantly, loan repayments are recycled for future projects thereby allowing "revolving loan funds" to be created. Many SIBs are embedded in state transportation departments and some, such as the one in Pennsylvania, contribute to projects other than public transit and highway ones. The SIBs in South Carolina, Florida, Pennsylvania, Ohio and Oregon appear to be the most active. (See www.theatlanticcities.com for more analysis of these SIBs)

Many new ideas for iBanks have been both passed by legislatures or proposed by Congressmen, intellectuals and Presidents in the last five or six years. (The best recent

proposal was published by the Brookings Institution in December, 2012, entitled *Setting Priorities, Meeting Needs: The Case for a National Infrastructure Bank.* www.brookings.edu/research papers.) Perhaps the most innovative idea was one proposed by Democratic Congressman John Dempsey of Maryland in late 2012. Delaney proposed establishing a completely private iBank nationally, one that would be designed to lure back to America some of the two trillion-plus dollars being held in the offshore accounts of American companies, money that could be coaxed to come back by allowing some of it to go into an iBank. As an incentive, offshore money could be repatriated without incurring the tax liability that would be paid under existing rules. Delaney suggested the initial capital for such an iBank be set at $50 billion. In Canada, there are billions of dollars lying fallow in company and personal accounts. This money would probably welcome the better returns from secure and reliable iBank investments than sovereign debt instruments or corporate bonds are able to return today. Certainly, the popularity of income trusts in Canada, and the agony felt by investors when they were eliminated showed there is still a strong desire for the kind of returns an iBank could generate and pass on to investors.

The *National Infrastructure Bank* of America was an idea put forward in 2007 and would have contributed to infrastructure projects of regional or national importance, including projects in both the transportation area and water supply. This iBank would have been managed by an independent board of directors and have had its own professional staff. Senators Chris Dodd and Chuck Hagel followed up in 2007 by proposing a *National Infrastructure Reinvestment Bank* that was to go beyond the mandate of the National Infrastructure Bank. President Barack Obama supported this legislative idea in 2008 and repeated his support again in 2010. The suggested level of capital needed to allow the proposed national iBank to operate has varied over the years from $10 to $60 billion. Investments would be required to last for more than 10 years; promoters of the idea claimed that up to $500 billion of private investment could be levered by this new iBank.

One proposal said the new iBank should be an “independent establishment of the federal government” while Obama's policy idea suggested that the U.S. Department of Transportation would be best suited to run his iBank, not an independent board of directors and managers who were accountable to the board. One important feature of these ideas is that the new iBank would complement, not compete with, existing pools of capital such as the Highway Trust Fund or State Revolving Funds in the SIBs. Former Speaker Nancy Pelosi and former Senators John Kerry and Kay Bailey Hutchison also weighed in with support for national, publicly-funded-and-owned iBanks. To date, none of these ideas has gained legislative traction in the United States. Many policy wonks keep going back to the “mother” of all iBank studies in the U.S., one done by Felix Rohatyn and Warren Rudman in 2008 for the Center for Strategic and International Studies (CSIS) and encapsulated in an article in the New York Review of Books. (*A New Bank to Save Our Infrastructure*, NYRB, 8 Oct. 2008, p. 7). The Rohatyn-Rudman iBank

would be similar in structure and power to the World Bank. Some critics of this idea complained that the Rohatyn-Rudman iBank would be democratically unaccountable and not very transparent and therefore should not be created.

Since all politics seems to be becoming more and more municipal in North America today, perhaps the most interesting recent initiative in America has been the creation by Chicago in March, 2012, of the billion dollar-plus “Chicago Infrastructure Trust” (CIT). This Trust is designed to leverage private money and thereby to help finance infrastructure projects in America's third largest city. Being a trust rather than a corporation, this entity has to exercise a higher standard of ethical care in choosing and financing projects. The CIT may also be able to use the vehicle of the tax-free municipal bond that American municipalities possess to make investments more attractive. The Mayor of Philadelphia has recently said he would look at creating a similar trust for his city.

Will this Chicago trust idea or some other kind of iBank appeal to any of Canada's larger cities? Certainly, cities in Canada are where the transportation infrastructure needs are greatest. Looking more broadly in the transportation sector, we can see that the air transport world has developed more and more sophisticated control systems in recent decades. The sea transport world is becoming increasingly advanced in its electronic capabilities. And the world's military machines are models of high-tech capacity. Meanwhile, the roads of Canada --- urban, suburban, exurban, rural and remote --- continue to be as “dumb” as they were half a century ago. The driverless automobile or “auto trains” on highways are almost here. New and massive investment will be needed to make our roads and highways smart. The advent of the age of Big Data analytics will be an important element in making our roads and other transportation systems smarter. For sure, some kind of real time, dynamic and variable road pricing will be needed to get us to this new world of travel in the next decade. And when investments are couched in the language of “smart roads” for the new vehicles that will travel over them, the historic objection by commuters to paying for roads or borrowing money for roads from iBanks will shrink dramatically. Indeed, making Canada's roads “smart” should be seized upon by Canadians as the embodiment of a “New National Dream for the 21st Century,” equivalent to the late 19th century National Dream that built the CPR and united Canada.

The Case for an iBank or Several iBanks in Canada

A. A Publicly-Owned Federal iBank

The most obvious and easily-created kind of iBank for Canada --- the Canadian Infrastructure Bank (CIB) --- is one in the form of a Crown Corporation that is established by an Act of Parliament and is one that is wholly-owned by the people of Canada. Perhaps the Business Development Bank of Canada (BDBC) --- an institution that has outlived its original usefulness and objectives --- could be converted into an iBank. (For an early Canadian call for iBanks, see Michael A. Crockatt and Dr. Barry E. Prentice's paper: *Infrastructure Banks: Innovative Financing for Tapped-Out Transport Budgets*.

The federal government would have a choice of how to capitalize the new entity. It could use money from current or future consolidated revenue funds but it would probably be more politically savvy to encourage the CIB to raise its own capital through the issuance of bonds or other securities that would be sold to the public or to pension funds and insurance companies. It could initially be capitalized by a $10 billion loan that would be repaid to the federal government when new capital was raised on public markets.

A more radical idea would be raising capital by the sale of "non-core" federal government assets like the larger airports of Canada --- currently estimated by experts to be worth $12 billion; or VIA Rail; or Canada Post; or the BDBC mentioned earlier; or federal buildings across the country. Private businesses regularly shed assets that are no longer central to their business plans: it is time the federal government adopted the same policy, especially in a time of restraint. Most transportation gurus in Canada agree that the rent that Transport Canada extracts from Canada's big airports is excessive and, as a policy, being a landlord is not a healthy or rational way for the federal government to regulate airports.

The author believes that, as the capitalization of the new CIB is thought through, the levering of private money for projects will increasingly become a prime objective. If provision were to be made in the CIB legislation for the creation of "road funds" or the issue of the kinds of instruments envisaged by TransLink (see pp. 5-6 above) would relieve the federal government of responsibility for continuing to fund the new CIB beyond its inception. Legislation for the CIB could also allow for the issuance of RRSP-eligible and TFSA-friendly bonds or other financial instruments that would be offered to the public. The power to create and sell preferred shares that are eligible for the dividend tax credit under Canada's tax laws might even be considered. Finally, the new CIB should have the power to offer full or partial guarantees as credit enhancements to

special projects of national importance. (This has been done successfully in Canada, with the building of the Confederation Bridge.)

The CIB would have to be professionally managed and be independent of the Public Service of Canada, although the federal government might be given the right to appoint one director, perhaps the deputy minister of transport and infrastructure to the board. It is crucial that the CIB have a clearly capable, independent and experienced board of directors. CATSA's legislation called for key stakeholders --- Canada's airports and airlines --- to be able to nominate four directors; perhaps CIB's legislation could allow the same privilege for pension fund and insurance company infrastructure professionals and for companies that have a long record of infrastructure investments like Maquarie Infrastructure. An independent selection process headed by someone like Gwyn Morgan, and similar to the one proposed by the Harper government in his last minority mandate, should be used to appoint CIB directors. The CIB must be as transparent and accountable to the public as any publicly-traded, TSX-listed company. That means having public annual general meetings (AGMs) and the issuance of regular quarterly and annual reports with independently audited accounts plus a management review and analysis that is similar to those required by public companies. Finally, the Head Office of the new CIB should not be in Ottawa. Calgary or Toronto --- Canada's two principal financial capitals and places where private infrastructure expertise already exists --- should be the preferred possibilities for the Head Office.

B. A Federal Mixed Public-Private CIB or Trust

Alternatively, Parliament could create a hybrid corporation that, from day one, would be capitalized by a mixture of public and private money that would be invested in long-term infrastructure projects on a project-by-project basis (as is done by SIBs in the United States). The public money could come from the potential sources of capital outlined above while the private money could come from the many pools of capital that already exist for infrastructure investments in Canada. The board would have to be as described earlier for the CIB. It should be equally composed of private-interest nominees and public-interest nominees and the chairman should be chosen by the unanimous vote of the two sets of nominees to the board. Both the CIB described should have the power to deal directly with provinces and municipalities. Indeed, incentives should be built into the legislation that would encourage these connections and perhaps even to allow the federal entity to help provinces and municipalities to establish their own iBanks.

C. Provincial-Municipal iBanks

Because municipalities in Canada's antiquated constitutional structures are creatures of the provinces in which they are located, the idea of creating iBanks that are jointly owned and operated by both of these levels of government is one that should be

carefully examined. The establishment of these kinds of novel institutions would encourage a healthier kind of cooperation between provincial and municipal governments that frequently are at odds with one another. This kind of iBank could only be created by provincial legislation, but the capital for such a body could come both from discrete bond issues for that purpose or even from pooling some or all of the gas tax or HST funds that are already in the exchequers of provinces and municipalities. In some provinces, this kind of iBank might encourage provinces and municipalities to create better transport authorities for large cities to coordinate investments in a rational, politics-free way. The recent deal by the Province of Nova Scotia to finance multi-million repairs and renovations of Halifax's two ageing bridges would have been better done in a more transparent public forum like a transport authority. That kind of process would have allowed the question of future bridge tolls and the possibility of a third crossing of the harbour to have been discussed in a more public manner.

A provincial-municipal iBank, in partnership with civic transport authorities --- under the rubric of creating a “smarter” transportation system --- would be in a position to advocate openly, if it chose to do so, for the institution of variable, real-time road pricing for private vehicles and transparent subsidization for public transit that uses variable distance pricing. Provinces such as Quebec and Nova Scotia that have fully-funded public sector pension funds could be encouraged to dedicate more of their money to projects within their borders rather than sending it to be invested elsewhere. Nova Scotia, for example, could raise more than $2.5 billion in capital for an iBank simply by privatizing its publicly-owned liquor commission. Many of the governance and capital-raising attributes of the two iBanks described above should be incorporated into these new entities, including the ability of the general public to invest in projects that are funded by the provincial-municipal iBanks.

Conclusion

There is no question that Canada and Canadians should be debating the creation of iBanks in this country, not as a cure-all for every infrastructure problem or deficit but as another "tool" in the "toolbox" of possibilities for those public officials who are wrestling with great needs and limited funds. And, because Canada is one of the few countries left in the world with "AAA" ratings from rating agencies, the ability of the federal government to raise money for infrastructure projects at the most favourable rates makes the central government the ideal candidate to create an iBank. What may be lacking in these strange and cautious policy times in Canada is the political will --- a.k.a. leadership --- for Ottawa to move forward on this idea.

If a national, publicly-owned iBank is to come about, the insurance industry, the big pension funds and discrete infrastructure companies may have to offer some of the leadership needed to get the debate and discussion going. At a minimum, the federal department of finance should be consulting with these knowledgeable entities to get their views of how Ottawa should proceed. The time may also be ripe for the appointment of one or more respected citizens like Hon. David Emerson or Hon. Jim Dinning, who have recently examined key policy issues for the feds, to examine the iBank issue. At the very minimum, this subject should be on the list of issues given to the reviewers of the Canada Transportation Act who must be appointed by June, 2015.

Whatever path is chosen for debate or action on iBanks, it is clear that Canada is far behind the rest of the world on this subject. We need to catch up now.

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About the Author

Brian Flemming, CM, QC, is a Senior Fellow of the Van Horne Institute and Counsel to the law firm of McInnes Cooper in Halifax. He chaired the Canada Transportation Act Review Panel in 2000-1 and, since then, has spoken and written frequently about transportation policy in Canada. In 2003, Brian was given the National Transportation Week "Award of Achievement." He was founding CEO and Chair of the Canadian Air Transport Security Authority and a founding member of the federal Advisory Council on National Security. He is an Honorary Fellow of the Marine and Environmental Law Institute at the law school at Dalhousie University in Halifax.

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