Intelligence MEMOS

From: Benjamin Dachis

To: Finance Ministers across Canada

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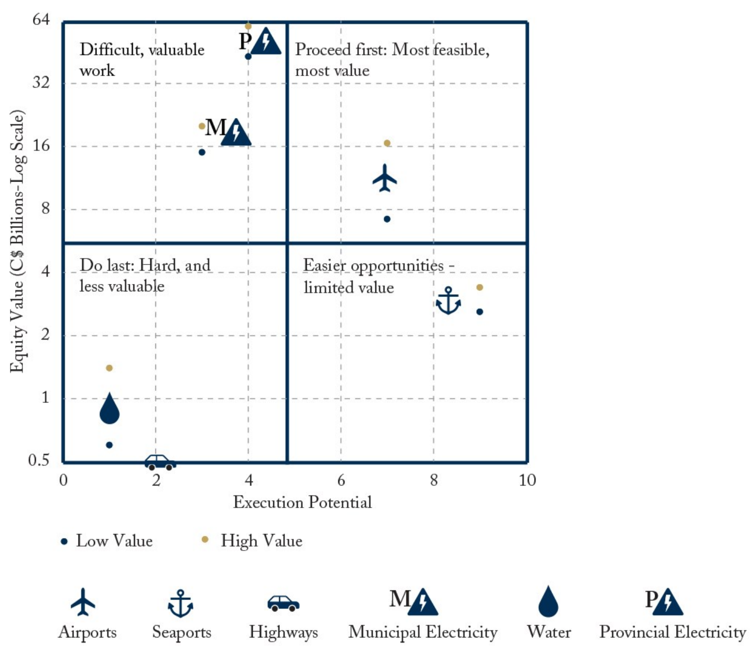
Re: **How to Kickstart the Infrastructure Spending Boom**

Governments across Canada are planning one of the largest collective infrastructure investments in history. With hundreds of billions of dollars of infrastructure investments on the books, governments need to find a way to pay for their plans. Ottawa's newly created infrastructure bank has great potential as a way to encourage private investment in some new assets. But, governments will need to find new sources of funds to finance the many more projects in which private investors won't want a stake. Asset recycling, but only of the right assets, is a solution that is shovel-ready.

Over the last few months, Institute author Steve Robins has investigated which government assets have the greatest potential sale value for different levels of government. There are four government-owned infrastructure classes that can most easily generate up to $85 billion in up-front financing for new investments without affecting customers (see chart).

- Municipalities in Ontario, along with Edmonton and Calgary, could sell all or part of their equity stakes in local electricity companies – worth between $15 and $20 billion. The main impediments are provincial policies that, unless removed, discourage cities from selling.
- Ottawa could raise between $7 and $17 billion by selling equity in the airports. Most importantly, selling equity can improve the airport experience for travellers by creating more opportunities for services at airports and removing the onerous airport rent that leads to higher costs for travellers. The rent the federal government charges airports increases costs and decreases the incentive for airports to seek ways of defraying costs for travellers. A sale can eliminate the rent once and for all.
- The potential equity value of Canada's four largest port authorities is around $3 billion. Due to the competitive landscape, port users are unlikely to see significant changes in pricing and customer experience if the federal government chooses to involve private capital.
- B.C., Ontario and Quebec have $31-$45 billion in equity invested in their provincial electrical utilities – and other provinces have significant investments as well, although they are not likely valuable to investors. Public ownership is not necessary to achieve government objectives of affordable prices for consumers. Governments can put in place strong regulators to protect consumers from abuse of monopoly power in the same way that natural gas prices are currently controlled.



Source: Steven Robins.

All four groups look to be feasible options, with seaports and airports the most primed for private investment while electricity has the most revenue raising potential for governments willing to do the hard work. In other government assets, such as highways or water utilities, governments will need to increase prices and install appropriate regulation before they can contemplate involving private investors. But for the prime four classes, let the auctions begin.

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