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The Glaring Omission in FAO's Hydro One Report showcases the Continuing Undervaluation of Infrastructure Investment

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Amidst the attention surrounding the Financial Accountability Officer's report on Hydro One, too few commentators have focused on the significant and important gap in the FAO's selective analysis. The absence in the FAO Report of the taxation revenue impacts of investing part of the Hydro One share sale proceeds in much-needed Ontario infrastructure is a serious omission.

Strikingly, the FAO Report states early on that it deliberately did not assess the financial returns of investing a major portion of Hydro One proceeds in infrastructure. Specifically, the Report cites 4 areas which are not examined, including: "This report does not seek to … Assess the financial impact of any government spending financed by the sale of Hydro One, i.e. transportation projects financed by the Trillium Trust."

While journalists such as *The Globe and Mail's* Tim Kiladze have pointed out other weaknesses in the FAO Report, we believe that its most serious flaw is the failure to take account of the infrastructure investment's multi-billion dollar returns for Ontario's revenues.

Correcting for the FAO's Partial analysis -- The Canadian Centre for Economic Analysis (CANCEA) just published report last week highlights the impact on government revenues from effective infrastructure spending. CANCEA's October 2015 study, **Investing in Ontario's Infrastructure**, analysed the impact of Ontario's 2014 infrastructure investment commitments that were reaffirmed in 2015.

Over the next 3 decades, every $1 billion invested of Ontario's 10-year $130 billion infrastructure commitment will generate $1.7 billion of Provincial revenue generated (and $1.6 billion of additional Federal revenues). **Using the FAO's own estimates of the total amount of Hydro One share proceeds of $3.3–$5.8 billion, it would be a critical piece of the $130 billion Provincial infrastructure commitment. It would contribute significantly to Ontario government revenues over the next 30 years that are not included in the FAO report. The benefits would persist beyond the single decade assessed by the FAO.**

Adjusting for infrastructure revenues means that 3 of the 4 financial scenarios in the FAO report would change to multi-billion surpluses of net revenues for the Province. Even in the FAO's worst case financial scenario, the costs are far less than shown and may actually be small net revenues if a comprehensive full assessment was undertaken. Put simply, CANCEA's analysis calls the FAO report's financial results and conclusions into serious question.

A NEW MODEL TO PROVIDE A COMPLETE PICTURE OF INFRASTRUCTURE INVESTMENT BENEFITS – while it is beyond the scope of the FAO's stated focus on the financial impacts of the Hydro One sale, its Report usefully highlights the great need for much better measurement and greater understanding of the value of infrastructure investment. More accurate measures of prudent infrastructure investments need to be injected into the media, policy-maker and public debate given what is at stake and the large Provincial and pending Federal infrastructure spending commitments.

Over the past 5 years, researchers have demonstrated that the benefits of infrastructure investment include huge boosts for GDP, incomes, jobs and other crucial socio-economic benefits. Reflecting Ontario's large infrastructure deficit for many years now, our October 2015 Report showed that the $130 billion Provincial infrastructure investment impacts, relative to not making the investment, include:

- **Each $1 billion invested in infrastructure supports a $16.3 billion total increase in Ontario's GDP** during these 30 years; and
- **Each $1 billion infrastructure investment supports 85,000 more job years and $6.5 billion of additional wages** over the next 3 decades.

This raises the crucial question -- why are the huge benefits of good infrastructure investment rarely fully understood when they are so large? Unfortunately, using traditional input-output economic modeling techniques, essential elements of effective infrastructure investment such as supporting population growth, attracting new private investment and making existing and new capital more productive are missed or severely understated. The importance of the movement of capital, people and ideas are features that are largely omitted from conventional models.

Regrettably, by their design, many economic models focus mainly on the near-term effects of infrastructure as economic stimulus. They do not capture many of the decisive advantages and sustained benefits of effective infrastructure investment. Indeed, our latest report shows that **traditional economic models have trouble distinguishing between the economic returns of an investment in infrastructure relative to an investment in something as ordinary as ice cream.**

In contrast, CANCEA's Prosperity at Risk platform uses the immense set of demographic, economic, health and other data that is available to assess the impacts of new infrastructure investment. The systems approach of this platform considers the amount and type of private investment attracted, the greater productivity that new infrastructure and private investment delivers, the type and timing of infrastructure spending, and the increases in wages, jobs, private capital spending and government revenues that occur.

With Canada facing lower economic growth prospects and higher competitive and financial risks, the importance of good infrastructure investment bears emphasis. Effective public capital spending results in much more investment and productivity throughout the economy, leading to greater job growth, higher incomes, stronger corporate profits and much-increased government tax revenues. It is important that policy-makers and the public understand the full extent and long-term nature of these returns from effective public infrastructure investment.