The Empire Club Presents

JANET ECKER
PRESIDENT AND CEO, TORONTO FINANCIAL SERVICES ALLIANCE:

P3s ARE WORKING: THE ROLE OF THE FINANCIAL SECTOR IN SUCCESSFUL INFRASTRUCTURE PROJECTS AND WHY YOU SHOULD CARE

December 14, 2014

HEAD TABLE:

Distinguished Guest Speaker:

Ms. Janet Ecker, President & CEO, Toronto Financial Services Alliance

Guests:

Mr. Daniel Herscovitch, MBA Candidate 2015, Rotman School of Management, University of Toronto

Mr. Bruce McCuaig, President & CEO, Metrolinx

Mr. Mike Miller, Chief Customer Operations Officer, 407 ETR Concession Company Limited

Mr. Steve Nackan, President, Aecon Concessions

Ms. M. J. Perry, Vice President and Owner, Mr. Discount; Director, Empire Club of Canada

Mr. Dale Richmond, Chair, The Canadian Council for Public-Private Partnerships

Mr. Mark Romoff, President & CEO, The Canadian Council for Public-Private Partnerships

Ms. Andrea Wood, Senior Vice President, Legal Services, TELUS; President, Empire Club of Canada

Welcome Address by Andrea Wood, President, Empire Club of Canada

Ladies and gentlemen, we are here today to discuss two topics that are more relevant today than ever before for most Torontonians. Topic number one: Infrastructure. And topic number two: The financial services industry.

Infrastructure is an important topic for us to consider because, especially, thanks to the newly renewed commitments of our federal and provincial governments to modernize our province's infrastructure, we are about to see the launch of a number of key new infrastructure projects that will shape our city for generations to come. And the role that private financing will play in building that infrastructure is of great interest to Torontonians.

We could not have a better guide to both topics than Janet Ecker. As you all know, Janet is the president and CEO of the Toronto Financial Services Alliance (TFSA), a public-private partnership dedicated to building Toronto as an international financial services centre. She also spearheaded the creation of the Global Risk Institute in financial services as well as the Centre of Excellence in financial services education.

Janet is a leader, an innovator and a team builder. Through the TFSA, Janet was a champion of the highly innovative agreement recently reached between Canada and China, to establish Canada as the first trading hub in the Americas for the Yuan, a deal that should promote trade and generate economic benefits for all Canadians. Thank you for that.

Janet is a former Ontario finance minister and was a cabinet minister under two premiers, Mike Harris and Ernie Eves. Remarkably, she was the first woman to deliver a budget in the province. She currently sits on a number of boards and agencies and is a member of the Ontario Finance Ministers Economic Advisory Panel, the Premier's Advisory Council on Government Assets, and the CD Howe Institute's National Council.

She is the recipient of numerous honors and awards, including, earlier this year, the Excellence in Leadership Award from the Transformation Institute for Leadership and Innovation.

Ladies and gentlemen, please, join me in welcoming our speaker today, Ms. Janet Ecker.

Janet Ecker

Thank you very, very much Andrea, I really appreciate that very warm introduction. And for those that do not know what the Yuan is, it is the Chinese currency otherwise known as the Renminbi, so it was a deal with China which was really, really, cool, and we really were pleased with our financial partners and the governments, federal government, provincial government. And we also worked with BC, with Vancouver, and this is kind of interesting for Canada because, you know, we always have these inter-regional squabbles, and BC and Ontario said, "You know what? Yes, we both want a lot of this business." Vancouver, of course, a little trade finance happens there, etc. We have the industry headquartered here, but we decided we would work together because we thought maybe that would help Ottawa move forward. Maybe the Chinese would not want to get caught in an inter-regional squabble, and we even had Montréal put out a public statement saying they thought what BC and Ontario were doing was really cool, and they wanted to support it. So peace was breaking out all over, and it really helped, and we got the deal, and it was all kind of cool. So, anyway, thank you for mentioning that.

It gives me great pleasure to be here. So many familiar faces from many things that I have been involved in over the years—some former political colleagues of mine. Welcome. There is, indeed, life after politics. I used to meet politicians who had transitioned back out into the "real world," and they always looked ten years younger, twenty pounds lighter, and they were all richer. I am still waiting, but I am optimistic.

But, anyway, I would also like to very much thank the sponsors for this event as well. As a frequent user of the product of the 407, I am quite excited about watching that piece of important infrastructure for our province sort of spread across Durham region, which of course I had the privilege of representing one the ridings out there, so it is

kind of exciting to see that happen.

It is always a great pleasure to be here at the Empire Club, part of Toronto's civil society public engagement infrastructure, if I can put it that way given the topic of my comments today. And you know, it is an interesting fact about Canada's participation in last year's Olympic Games in Sochi—and I do not know if you know—that during the Games, Canadians took to social media to congratulate and support their athletes more frequently than almost all other countries. This does not exactly fit the old Canadian stereotype that we do not readily celebrate our strengths or our successes, and, as I often like to joke, Canadians do not think we are good at something until somebody outside the country says we are. But the Sochi success tapped into some sense of our Canadian identity, which we were all prepared to openly and unabashedly celebrate.

What is also unique about Sochi is how we did it. Our success can be attributed to Canada's relatively new "own the podium" strategy, where public and private investors collaborated to fund our best athletes in our strongest sports to ensure we had medal contenders. Once a country of mediocre podium results, this public-private collaboration propelled our athletes near the top of the medal count, and the successful outcome gave Canadians something to shout about from the rooftops, or, more accurately, these days, to share through our social media channels.

Well, we have another success story we can shout about in this country, and it, too, has benefitted from a similar coming-together of the public and private sectors, our financial services industry, headquartered right here in the Toronto region. The partnership that exists between our financial industry, our policy makers in government, our regulators has helped to build the kind of strong, stable, successful system that we have today, and it was certainly one of the things that kept us out of trouble during the global financial crisis.

Now, through the Toronto Financial Services Alliance, or TFSA for short—just think Tax-Free Savings accounts; we had the initials first—we are leveraging the strengths of both the public and private sectors in the financial sector, in academia, and in government to build, as I like to say, a bigger, better, international financial services centre. We do not take it for granted, but I like to talk about the financial sector's success because, one, it is my job; two, there is a lot to talk about and that success benefits all of us; and, three, it just kind of feels good to talk about a success story here in Toronto, Ontario, Canada. I know it is something that Canadians normally often do not do, but, once in a while, we need to climb up on that roof and give a shout about something that is working, and Canada's financial sector certainly is. Rated safest and soundest in the world, Toronto's now the second largest financial sector in North America. Rated sixth in the world as a financial centre by *The Banker* magazine, Toronto has an industry growth rate

over the last decade that actually beats some other global cities. Toronto is one of Canada's growing exports success stories—there are a lot of strengths to talk about. But, today, I want to look at the industry from a slightly different perspective, and to use that platform as a jumping-off spot, to discuss the need for more infrastructure, particularly, more public-private infrastructure projects, partnerships, or P3s for short. Now, if that sounds like a stretch, let me quickly dispel your worry.

First of all, building and sustaining a top-ten global financial services centre takes a lot of things: A strong, stable financial system, as I have mentioned—check mark beside that one. A competitive business environment. We all like to say that there are things to fix in this regard, but you can put a pretty large check mark there, too: Just last week Bloomberg ranked Canada number two in the world, up from sixth place as one of the most attractive countries for business. A highly skilled and diverse talent base, and an enviable quality of life. Two more check marks.

But there is one area that still needs more work: Building and upgrading our infrastructure from roads and transit lines, to airline links and water pipes. Check mark? Not so much, and this matters for a city region like ours because we are competing fiercely with global financial centres around the world. And jobs, like financial services jobs, high-skilled, high-paying jobs that support other jobs—some 350,000 direct and indirect to be exact—and support

20% of our city's GDP do not have to be here anymore in today's technical age. Financial business can be done in many other cities and regions, and, trust me, many of those cities and regions are here knocking on the doors of our financial industry, saying, "We would love to have you in our jurisdiction." Fortunately, our governments are trying to respond to the challenge in various ways. Both Ottawa and Ontario have announced major infrastructure money and projects. The city is driving us all crazy with all the major construction projects that they have underway. We have a new mayor who actually understands some of these major issues and—whoops. That was a political comment; I am not supposed to do that. But I think we have a really unique sort of "stars-are-aligned" situation where we have a premier and a prime minister and a mayor of this city, who actually get some of this stuff. Are the stars aligned? Is this actually an opportunity for good old Toronto here on catching up on our infrastructure deficit?

We do not need stats to highlight the problem; we see it with our own eyes every day. Overcrowded subways, deteriorating roads, gridlock, busted water pipes, electricity blackouts, and new communities needing new schools, new water and sewer plants, new hospitals, while old schools, hospitals and pipes need replacement or refurbishment. And when I say all that, it does not mean that a lot of good stuff is not happening. But we all know that that need is still out there. For those of you who do need some numbers, the Federation of Canadian Municipalities has estimated that the municipal infrastructure deficit is $123 billion, just to maintain existing municipal infrastructure. The Canadian infrastructure report card estimates the replacement cost for roads and water systems in trouble is about $171 billion, over the next ten years. PwC has estimated—if you add in provincial and federal needs—that you could be as high as $400 billion. With numbers like that, it is clear that no government can handle all of this on their own. And, fortunately, I think there is an answer, and it is a solution with a track record of success not only here, but around the world, and that is my second message: We need to fix our infrastructure, if we are to compete as a global financial centre, and we need to do it with more P3 projects. I think they are a significant part of the solution. Whether it is designing, building, financing, maintaining, operating—even owning in some circumstances—there are many ways to do it, but, at its heart, it is simply leveraging the strengths of the private sector to meet the needs of the public sector on behalf of all of us.

There are some 214 P3 projects across the country under construction or in operation worth about $67 billion. A recent Nanos research poll commissioned by the Canadian Council for Public-Private Partnerships, reported that such projects created almost 300,000 direct jobs between 2003 and 2012—projects that contributed $25 billion in direct GDP and $7.5 billion in government tax revenues. Former finance ministers like those numbers. Perhaps, more importantly, these projects produced almost $10 billion in savings to tax payers versus traditional procurement—not to mention the existence of the projects themselves, now there for the benefit of communities, and delivered in a way that supports innovation, offers value for money and delivers projects on time and on budget.

Canadians recognize this value, as some other public opinion research shows that 62% of Canadians broadly support the use of P3s to build infrastructure and deliver public services. That support can increase when citizens are aware of a P3 project in their community such as with the Moncton Water Treatment Facility. With respect to that project, 73% of residents were supportive. In Sault Ste. Marie, of a hospital project, a majority of Canadians surveyed in those communities believe that the project would never have gotten off the ground without this critical partnership; some 70% in that survey supported it.

And we do not have to look far to see the benefits of P3 infrastructure initiatives here in Canada: The Canada Line in BC, the Regina Wastewater Treatment Plant, Toronto's pedestrian tunnel at the Billy Bishop Airport, the Union-Pearson Airport Express, to name just a few that are under way. That means projects designed to help reduce commuting times for families, enhance economic competitiveness, encourage job creation, strengthen trade corridors. These new and renewed state-of-the-art facilities are critical to the

economic future and quality of life in these communities and will be for decades to come. So the evidence is pretty clear that P3 projects can be a major part of the solution to our infrastructure challenge.

But, here is another important fact about the P3 world, and one that makes it an even bigger win-win for all of us. It turns out that we are rather good at this P3 thing, especially, when it comes to our financial services sector, and that is my third message: Whether it is the internationally recognized expertise that supports us from Infrastructure Ontario, the provincial agency running P3 projects in healthcare and transportation, the global thought leadership of the Canadian Council for Public-Private Partnerships, the federal government's 3P agency, the growing international reputation of our major pension plans and insurance companies as savvy investors in infrastructure projects, we have an asset here that we can leverage more for the benefit of Toronto and the rest of the country, and it is building a global niche for Canada.

Canada is increasingly recognized as a world leader in establishing successful P3s to address infrastructure deficits. And with the experience we have had there is a critical ecosystem of expertise with a steady pipeline of projects and well-respected procurement. We are a popular market for national and international P3 players. As Canada's financial and business capital, Toronto provides a gateway for global public and private sector participants to reach more members of the country's P3 infrastructure community. At the same time, Toronto's P3 community is actively seeking opportunities abroad, to apply its expertise, so we are a centre of excellence, home to leading national and international developers and construction companies, as well as financiers, architects, engineers, lawyers, asset managers, consultants—a whole ecosystem of talent that helps support this.

Three of the world's leading infrastructure developers operate from offices here, along with two of the world's major infrastructure advisory firms, three of the world's 50 biggest pension funds, three of the world's 20 biggest insurance companies. Recognition of our county's leadership has brought governments from around the world to our doorstep, seeking support to undertake their own P3 projects—whether they are representatives of developing countries trying to cope with the demands of over 1 million people a week moving into urban centers, or whether they are leaders from developed nations, whose sustainable economic growth depends on the repair and replacement of aging infrastructure. Both are finding needed expertise and investment from Canadian companies for their P3 projects.

A significant source of this financing comes from our large pension and insurance firms because these companies have long-term investment horizons in order to fund our long-term retirement income and insurance needs. They need long-term investments. P3 infrastructure

projects fit the bill. As the head of one firm once joked, for his company, a business quarter is 25 years.

Canada's largest public pension plans are a Canadian success story, supporting a talent base of excellent managers of quality, large-scale investments. Our ten largest have invested roughly $400 billion in Canadian enterprises, including $100 billion in real estate infrastructure and private equity. We also have four of the top 20 global investors in infrastructure assets here. That investment, as well as supporting pensions for literally millions of Canadians, also supports the direct employment of 5,000 professionals in the financial sector and an additional 5,000 employees in their real estate subs. The firms like Teachers', OMERS, CPPIB, are becoming internationally recognized, but they are not alone in capturing international interest. P3 projects require stable, adequate, long-term financial resources, and other organizations such as RBC Capital Markets, BMO Capital Markets, CIBC Capital Markets, TD Securities, Scotia, and Stonebridge Financial Corp. have developed specialized financial solutions for P3 infrastructure ventures. Insurers like Manulife and Sun Life are also very involved in P3 infrastructure financing. The Canadian insurance industry has approximately $6 billion in direct infrastructure investments, and is one of the largest investors in a number of critical asset classes in the economy.

I would be remiss if I did not highlight how our public sector has been driving P3 partnerships as well. An important feature of the Canadian market's excellence is in the caliber of some of that central infrastructure agencies that I mentioned earlier, with P3 Canada or Infrastructure Ontario. Let us take Infrastructure Ontario, for example, and I have a bit of a soft spot for IO, as it evolved, so to speak, from SuperBuild, which was the Harris government's infrastructure agency, which I had the privilege to chair while I was finance minister. IO works to deliver public benefits through partnerships with the private sector using the principles of transparency, accountability, demonstration of value for money, maintenance of public ownership and control, and the protection of the public interest.

Their expertise has led them to the global stage as well; for example, the agency is assessing opportunities for companies to compete for projects in the United States, through its work with the National Governors Association Advisory Council on Public-Private Partnerships. They are also building relationships with the Inter-American Development Bank, collaborating with Ontario's international trade officers to create opportunities for Ontario companies. So, clearly this is something Canada is good at; and that success, generated by our financial services sector and other infrastructure agencies and partners is a critical economic strength.

And that brings me to my fourth message of the day: It is ironic, that with all this global recognition and success, as P3 infrastructure investors and builders, we still have challenges getting more such projects under way here at

home. Our financial industry is prepared to do more to support infrastructure investments here. We know the need is huge, but despite the success of such projects, despite their clear benefits to the tax payers and communities, despite our growing global reputation as infrastructure investors and builders, such projects can still generate political controversy here at home. Sometimes it can be attributed to a lack of understanding within some in the public sector about what is or is not an appropriate infrastructure project for a P3 approach. For example, a pension fund is usually interested in existing assets, with proven cash flows, not green-fill projects. Sometimes it is driven by the uncertainty that the political process can create, as one government second-guesses its predecessor's decisions. Remember, infrastructure investors think in decades, not electoral cycles. Sometimes it is being driven by unions, who see the move to P3s as a threat to their jobs and compensation packages.

OPSEU's recent publication entitled "Epic Fail: A Short History of Privatization in Ontario" tends to lump a lot of things together, from privatization to outsourcing to P3s, but in their view it is all a "failed policy that just won't go away." Some get hung up on the public versus private ownership or see it all as privatization when it is clearly not. And sometimes it is just a basic lack of understanding, about what a P3 is, what benefits it can bring to the table for the benefit of tax payers and communities; for example, critics will argue that governments can borrow money for infrastructure projects at a cheaper rate than the private sector. They ignore the fact that both provincial and federal governments have quite enough debt, thank you very much. And adding to it, particularly, here in Ontario, where promises of a balanced budget are still some years away, is not helping tax payers.

And such a view also ignores the more important, real reason that one would enter into a P3 partnership: The critical value-add inherent in the private sector's ability to assume risk for the government or its superior discipline in project management, cost efficiencies, innovation and design, and delivery and execution.

Let us try a little test. Close your eyes. Now, think of characteristics like effective project management; on-time, on-budget delivery; innovation; clarity of purpose; measurable results. Now, imagine an organization that personifies all of those characteristics. Hands up: How many of you thought "Government"? The difficulty is that such controversy can discourage governments from accessing the expertise and funds they have at hand, through the private sector, for the betterment of their communities. So we need to stay focused on the advantages that can come from leveraging private sector expertise and delivering projects on time and on budget, while still retaining public ownership, in their ability to assume and manage risk better than government; or the simple fact that no government

has the financial resources to meet all of our infrastructure needs, without such public/private partnerships. There is no question that government and private sector partners need the right skills, expertise and knowledge before jumping into such projects. Inexperienced staff in either sector has a proven track record of dragging projects into trouble, sooner as opposed to later. And it is also clear that no every infrastructure project makes sense as a P3, or that every project will be successful. However, the last time I checked, government-led projects were not always standing on the gold medal podium either.

So let us find the successes and emulate them. Let us examine the failures and learn from them. Let us set aside the controversy and look at the facts. Let us hold the rhetoric, look at the record and stop using infrastructure projects as fodder for collecting political Brownie points, and see how they can be innovatively financed and delivered to solve our problems. This is not an argument about private sector good, public sector bad—quite the contrary. As a public-private partnership itself, TFSA proves every day that the magic trick is leveraging the strengths of both.

We have major infrastructure needs in this region, and, for the financial services industry, it is a major priority; and if we do not meet them, it will undermine the global success this region has enjoyed to date. It will damage the quality of life that attracts and retains the top talent we have now and the talent we need to attract in the future. It will chip away at our value proposition as a growing international financial centre. There is a solution at hand, and one that not only generates much-needed benefits at home, but helps forge our global reputation as financial and infrastructure experts. It is something we can all shout about. It is something that can put us back up there on the podium. It is something that we need, so, together, government and industry, I hope we can get on with it.

Thank you very much, and I look forward to any questions you may have.

Questions & Answers

Q: What are the sources of opposition to P3s? It surprises me to hear you defending P3s in a way that suggests that they are under attack in some fashion.

JE: Well, I think, as I mentioned, there has been some controversy about them in the political world, and, I think, if you talk to some of the folks who are involved in trying to move forward P3 projects, they certainly have encountered a fair degree of opposition in different ways or criticism in different ways, and I think what is important is that we, as I said, look at the record, look at the facts, figure out what works and move forward on it and try to find ways to not use such projects as political footballs which has happened from time to time.

As I said, there is no question that some projects do get into trouble, and often it is because some of the players that got involved in the first place did not do some of their homework at the beginning. But I think anything that the business community can do to help make a case to help—whether it is Minister Oliver, or whether it is the premier or Minister Sousa, you know, who has been trying to provide some leadership, and, hopefully, we will see with Mayor Tory here in the city—is what we need. I think we need to be out there helping to support our governments in moving forward with more infrastructure projects. Thanks.

Note of Appreciation by Mark Ramoff, President & CEO, The Canadian Council for Public-Private Partnerships

Thank you very much. So, Janet, first of all, I think you should be running again to have someone around the cabinet table or actually overseeing that cabinet table, someone who has such a fine understanding, appreciation, and support for P3s. You are number one, so I am not surprised there are no questions. You covered it all.

What I would like to say, though and I think many in the room know this is that we can be very proud as Canadians of our success stories in this area of public-private partnerships. We are recognized globally as very best in class, but these reputations also have a shelf life to them, so it is important that we continue to move ahead with this model in as diversified a way as we possibly can. And we still have lots of work to do in Canada; in fact, our successes are very much at the federal and provincial level, and now the interest is shifting to municipalities and Aboriginal communities, so there is tremendous opportunity to take the lessons learned in some of these bigger projects to communities around the country.

And, again, I think the messages that Janet has delivered here are heartwarming as we move ahead. We can be very proud of an organization like Infrastructure Ontario because they are truly recognized as an organization globally at the cutting edge, when it comes to public-private partnerships.

And it was clear, as many of you know, that the Council held its annual conference just a few weeks back. We had 25 countries represented at the conference, and those other 24 countries were coming to Canada to learn a bit more about the way we do it, and, hopefully, find ways to take our very best practices and adapt them in their markets, so, it is a great opportunity for Canada, and it is wonderful to have a representative like Janet here to lay out the case, and remind us just how good we are at something and make sure that we capitalize on it.

So, again, Janet, on behalf of everyone here, thank you very much, for a very compelling address.

Concluding Remarks by Andrea Wood

I would like to take a moment to thank our very generous sponsors, the Canadian Council for Public-Private Partnerships, for sponsoring our event today; the 407/ETR for sponsoring our VIP reception; and EllisDon Corporation for sponsoring our student table this afternoon.

I would also like to thank the *National Post* as our print media sponsor. This meeting will be broadcast on Rogers TV.

You can follow us on Twitter at @Empire_Club and visit us online at www.empireclub.org.

Thank you all for coming. Please, join us again soon. One of the upcoming events that I would like to highlight for you is a very popular one, and one that sells out every year: On January 8th is our Investment Outlook, so, please, make sure you mark your calendars, and, hopefully, we will see you then, if not before then. This meeting is now adjourned.