FOUNDATIONS FOR SUCCESS

Québec
Infrastructures Plan

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QUÉBEC INFRASTRUCTURES PLAN

Québec

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MESSAGE FROM THE PREMIER OF QUÉBEC

Wealth creation is the priority of our government. Stimulating wealth creation means empowering ourselves to make choices and live as we choose. This is what makes everything else possible.

Our government is working on all fronts to develop this productive and wealth-creating economy. We are making our tax system more competitive. We are supporting innovation. We are developing the skills of our workforce. We are investing in promising sectors that sustain prosperity, such as renewable energy. We are opening up new markets for Québec business in Europe and in other provinces. And we are renovating our infrastructures.

This is part of an overall plan. Quality infrastructures are essential to a modern, wealth-creating economy, and a focal element in a Québec that will be a new centre of prosperity.

Successive governments in Québec over the past 30 years failed to maintain our public infrastructures. As a society, we had other things in mind.

Our government has reversed this trend and is stimulating investment in infrastructures. But now, we are doing more.

Today we are putting an end to the negligence of the past and doing what is needed to leave our children a Québec that is strong.

With this Québec Infrastructure Plan, we are launching the largest renovation project in Québec history. But it doesn't end there: we are also taking steps to ensure that the maintenance of our public infrastructures in Québec can never again be postponed indefinitely.

Within 15 years, Québec will have completely renewed its public infrastructures. In the future, these infrastructures will be a source of pride.

Jean Charest

MESSAGE FROM THE MINISTER OF FINANCE AND CHAIR OF THE CONSEIL DU TRÉSOR

This Québec Infrastructure Plan is a rigorous and transparent continuation of a process launched in 2003 with the establishment of an asset maintenance policy in the health and education networks. With this Plan we are taking further steps: in the interest of intergenerational fairness, we are doing what is needed to leave our children a Québec that is strong; and we are ensuring a better quality of life for all Québecers by, at last, revitalizing our public places, buildings and works.

By investing $30 billion over five years, we are launching the first phase of a huge construction project which, over a 15-year horizon, will renew all our public infrastructures.

With the implementation of this Plan, our schools will be more attractive for teachers as well as for students; our hospitals will be more functional and have state-of-the-art equipment; and the condition of our roads will be as good as that of our neighbours.

In order that maintaining and renewing our infrastructures become a priority for every government, we are introducing a bill to ensure that our infrastructures are managed properly. If passed, it will signal an end, once and for all, to the time when Québecers witnessed the deterioration of their public infrastructures.

We will deploy this capital expenditure plan with rigour and discipline, while respecting the government financial framework. Thus, despite the scale of these investments, the government is maintaining its targets for debt burden reduction, with the aim of bringing Québec public debt down to 25% of our GDP by 2025. The increased payments to the Generations Fund announced in the last budget will contribute to achieving this objective.

Together we will build foundations for a successful Québec that will create a good place to live, grow and prosper.

Monique Jérôme-Forget

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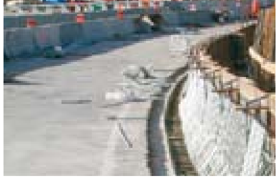


INTRODUCTION
THREE CHALLENGES TO MEET

Since 2003, the government has stepped up its efforts to improve public infrastructures.

These efforts take on a new dimension with the implementation of the Québec Infrastructures Plan.

Québec's public infrastructures are aging.

> Hospitals are over forty years old.

> Educational institutions, some of which were built in the 1920s, require major investments to bring them up to standards.

> Road network, much of it built between the late 1950s and the late 1970s, necessitates massive budgets to ensure maintenance and quality comparable to the networks of our economic and trading partners.

A major challenge must be met, because it is necessary both to renovate these infrastructures, which often means that they must be replaced, and to meet new needs.

Since 2003 the government has considerably increased the budgets allocated to asset maintenance, by adopting standards that reflect the North American consensus. The budgets allocated to asset maintenance have practically doubled during this period, from $645 million in 2002-2003 to $1.2 billion in 2006-2007, particularly by allocation of an asset maintenance envelope corresponding to 2% of the replacement value of the buildings in the health and education sectors. In addition, substantial funds have been allocated to improvement of the road network. The average annual capital expenditures on the network, which amounted to about $805 million prior to 2003-2004, reached $1.3 billion in 2006-2007 and will rise to $1.7 billion in 2007-2008. Also, the Public Transit Policy will result in over $4 billion of capital expenditures by 2010, particularly to replace existing equipment and renovate public transit infrastructures.

Despite the substantial amounts budgeted since 2003, they are insufficient to repair the negligence of the past. We must do more.

Three challenges

With this plan, the government intends to take on three fundamental challenges:

> Public infrastructure management raises issues of **intergenerational equity**: Today's Quebecers must pass on quality infrastructures to the Quebecers of tomorrow.

> On the **economic** level, modern public infrastructures of good quality are one of the fundamental requirements for harmonious and dynamic development.

> It is imperative to assure the **safety** and improve the **quality of life** of the public who is using aging infrastructures every day.

An unchangeable objective

The plan sets an unchangeable objective for Québec: to ensure the sustainability of our infrastructures.

To accomplish this, the government is taking two major actions:

> The government is announcing that massive investments will be made in renovation and modernization of public infrastructures over the next fifteen years. By 2012, a first five-year plan will result in $30 billion of capital expenditures.

> The government is announcing the tabling of a bill called the "Loi sur la bonne gestion des infrastructures", which will make the future maintenance and renewal of public infrastructures mandatory, according to guidelines based on recognized standards. The Act will also ensure that the accumulated maintenance deficits are eliminated over a maximum period of 15 years and will introduce an implementation and management framework for major infrastructure projects.

1. A FIRST $30-BILLION FIVE-YEAR PLAN

The government is immediately announcing implementation of a first Five-Year Capital Expenditure Plan covering the period 2007-2012.

This plan will cover the following nine sectors:

> the road network,

> public transit,

> health,

> education,

> culture,

> municipal infrastructures;

> public housing,

> research,

> justice and public security.

Close to 80% of the aggregate amount of the five-year plan, $23.4 billion, will be allocated to asset maintenance and to eliminate the maintenance deficits of past years.

Over 20% of the five-year plan, $6.3 billion, will be allocated to infrastructure improvement and replacement.

In addition, $7.6 billion will be invested over the next five years for completion of projects already announced.

CAPITAL EXPENDITURES OF THE FIVE-YEAR PLAN, 2007–2012[1]

(Québec contribution in millions of dollars)

Sectors	Asset maintenance				Improvement and replacement	Total
	Current budget	Additional budget	Elimination of the maintenance deficit over 15 years[2]	Subtotal		
Road network[3]	5,665.5	830.3	2,282.2	8,778.0	1,065.6	9,843.6
Public transit	1,028.9	94.0	437.8	1,560.7	439.7	2,000.4
Health	3,568.0	276.1	808.4	4,652.5	2,474.1	7,126.6
Education	4,104.4	168.3	880.0	5,152.7	442.0	5,594.7
Culture	393.0	145.5	176.4	714.9	-	714.9
Municipal infrastructures	—	1,171.4	778.8	1,950.2	1,200.3	3,150.5
Public housing	—	242.4	168.0	410.4	—	410.4
Research[4]	0.5	13.9	—	14.4	—	14.4
Justice and public security	119.5	32.5	—	152.0	652.2	804.2
TOTAL	**14,879.8**	**2,974.4**	**5,531.6**	**23,385.8**	**6,273.9**	**29,659.7**

[1] Excluding $7.6 billion in capital expenditures for completion of projects already announced and investments by the departments, the budget-funded agencies and the special funds other than the Road Network Preservation and Improvement Fund, which amount to $1.2 billion annually.

[2] In all, the cumulative maintenance deficit assumed by the Gouvernement du Québec stands at $8.6 billion for the road network, $1.6 billion for public transit, $3.0 billion for health, $3.3 billion for education, $0.7 billion for culture, $2.9 billion for municipal infrastructures and $0.6 billion for public housing.

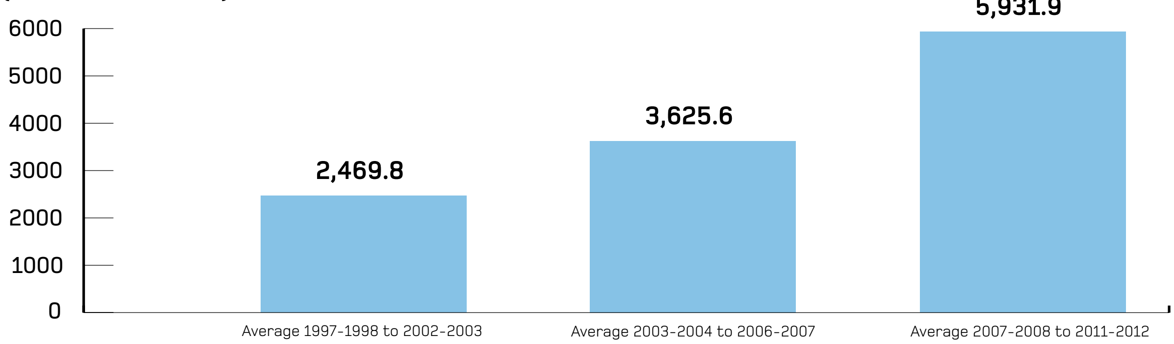
[3] The current budget allocated to asset maintenance for the road network was established on the basis of an annual capital expenditure budget of $1.7 billion.

[4] An additional envelope of $752.3 million is allocated for completion, in order to support financing for infrastructures research, mainly as part of the Quebec Research and Innovation Strategy.

Over the next five years, the Gouvernement du Québec capital expenditures for maintenance and replacement of infrastructures under this plan will be established annually at $5.9 billion, more than double the capital expenditures made over the 1997-2003 period.

EVOLUTION OF CAPITAL EXPENDITURES[1]

(In millions of dollars)



[1] Excluding the capital expenditures made by the departments and budget-funded agencies and by the special funds, except for the Road Network Preservation and Improvement Fund.

2. LEGISLATION TO ENSURE RIGOROUS MANAGEMENT

A bill will be tabled in the National Assembly entitled the "Loi sur la bonne gestion des infrastructures", which will correct the errors of the past by imposing annual allocation of the budgets required for asset maintenance and eliminating the accumulated infrastructure maintenance deficits over a maximum of fifteen years.

It is important that this situation not recur in the future.

The "Loi sur la bonne gestion des infrastructures" will therefore include provisions to ensure future infrastructure maintenance and renewal.

> From now on, the government will have to adopt annual capital expenditure budgets specifying the budgets allocated to asset maintenance and to elimination of maintenance deficits.

> The government will have to account for the use of these funds annually to the National Assembly.

> From now on the annual plans will have to follow the guidelines in terms of compliance with recognized standards, elimination of the maintenance deficit and infrastructure replacement.

GUIDELINES FOR PREPARATION OF THE AN-NUAL CAPITAL EXPENDITURE PLAN

The government undertakes to renovate and modernize public infrastructures, on the basis of the following three guidelines.

Compliance with recognized standards

The government undertakes to comply with the recognized standards in each of the sectors in which the Québec government exercises asset maintenance responsibilities.

This means that the investments necessary to preserve public infrastructures during their life cycle will be made, for example, by annually allocating funds for this purposes corresponding to approximately 2% of the replacement value of the buildings.

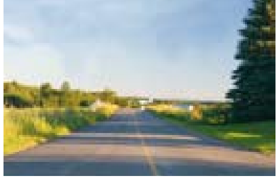
Elimination of the maintenance deficit

For many years, governments have neglected maintenance of public infrastructures. The accumulated maintenance deficit thus is estimated at $27 billion.

Each year the government will mobilize resources earmarked to eliminate this deficit gradually and thus, within 15 years, upgrade all public infrastructures to the condition they should have been in had the budgets required for asset maintenance been allocated to them in the past.

Infrastructure replacement

The government will replace and improve public infrastructures according to the population's priority needs. This upgrade effort will concern, in particular, the sectors of transportation, health and social services, education and municipal infrastructures.



Compliance with costs and deadlines

The "Loi sur la bonne gestion des infrastructures" will also impose the best management and control practices in development of public infrastructures by establishing a governance framework for major infrastructure projects, as foreseen in the 2004-2007 Modernization Plan tabled in May 2004.

> These practices were the object of a vast consultation of the major public works clients and industry representatives. They are inspired by the most significant foreign experiences.

> The projects concerned are projects with an implementation cost of $40 million or more, as well as complex or risky projects, even if their cost is less than $40 million.

To support public bodies in the implementation of major infrastructure projects, the government will make a business case preparation guide available to them. The public bodies will have to produce studies for each project authorization stage stipulated by the Act.

Thus, public bodies that carry out major projects will be subject to a systematic process involving rigorous management, discipline and government consistency. Indeed, during the project planning phase, the strategic presentation document, the initial business case and the detailed business case of the favoured option will be subject, at very specific stages, to quality review by committees of independent experts and to Conseil du trésor or Cabinet authorizations.

Favouring public-private partnerships

In December 2004 the government adopted the Act respecting the Agence des partenariats public-privé du Québec.

The "Loi sur la bonne gestion des infrastructures" will confirm the possibility of public-private partnerships during renovation or modernization of public infrastructures.

It is important that Québec benefit from such partnerships, which have proven their value in the developed countries, particularly in ensuring asset maintenance.

> Reliance on public-private partnerships will be favoured when the analysis of the projects shows that these partnerships involve a financial advantage compared to reliance on a conventional mode of performance. Experience shows that these partnerships can guarantee the costs and faster execution of the work.

> The provisions of the "Loi sur la bonne gestion des infrastructures" will be aligned with the rules defined in the Public-Private Partnerships Framework Policy.

The first public infrastructure projects under public-private partnership are already in progress. In particular, they include:

> Routes 25 and 30;

> a new network of road rest areas;

> a major new cultural complex in Montréal, the Orchestre Symphonique de Montréal concert hall;

> the components of the Centre hospitalier de l'Université de Montréal and McGill University Health Centre projects;

> a long-term and residential care centre in Montérégie.

3. GUARANTEED FUNDING

Funding in keeping with the government's financial objectives

Funding of the Five-Year Capital Expenditure Plan will require a major financial effort. However, the government will ensure that this plan is funded in keeping with the budgetary objectives it has adopted.

Initially, Québec intends to invest fully the funds coming from its partners, namely the federal government and the municipalities.

The federal funds will be used according to the priorities and needs defined by Québec. Therefore, Québec has asked the federal government for its share of new infrastructure funds through a bloc transfer. Negociations on this subject have well begun.

In addition, the government will ensure municipal cooperation in funding of capital expenditures in the municipal infrastructure and public transit sectors.

Impact on debt

For the 2007-2012 period, the Five-Year Capital Expenditure Plan will translate into $30 billion of capital expenditures, to which $7.6 billion of capital expenditures will be added for completion of projects already announced. These capital expenditures will be funded primarily by borrowing, which will be contracted by the government, the health-care and education networks or the municipalities. The following table presents the situation.

IMPACT OF THE FIVE-YEAR INVESTMENT PLAN AND COMPLETION OF PROJECTS ON THE DEBT AS OF MARCH 31, 2012
(Québec contribution in billions of dollars)

	Five-Year Capital Expenditure Plan	Completion	Total	Gouvernement du Québec	Institutions of the networks and other public bodies[1]	Total
Capital expenditures	**29.7**	**7.6**	**37.3**	**16.5**	**20.8**	**37.3**
Minus: depreciation[2]	(1.6)	(0.6)	(2.2)	(2.2)	–	(2.2)
Minus: subsidized debt service (principal of loans)	(2.1)	(0.5)	(2.6)	–	(2.6)	(2.6)
Net capital expenditures – Impact of the Five-Year Capital Expenditure Plan and completion on the debt	26.0	6.5	32.5	14.3[3]	18.2	32.5

[1] In particular, the education and health-care networks, Québec's contribution to municipal infrastructures and various public bodies excluded from the government's reporting entities.

[2] Includes non-capitalizable expenditures.

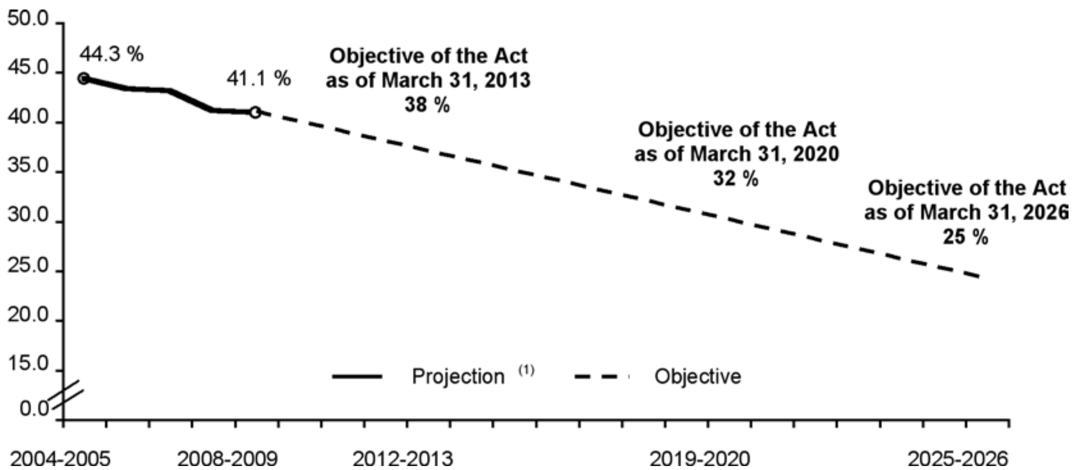
[3] Considering depreciation of fixed assets realized before March 31, 2007, the impact of capital expenditures on the government's total debt will be $12.1 billion over 5 years.

This borrowing will make it possible to maintain or increase the asset value of the Québec public sector as a whole. In this sense, this is productive debt, which will generate substantial and lasting benefits for the entire population and for future generations.

In its last budget the government increased the amounts for the Generations Fund in order to reduce the debt burden. Additional contributions will bring the debt reduction funds close to $42 billion by 2025. This will contribute to the maintenance of the 25% debt-to-GDP ratio reduction targets stipulated in the Act to reduce the debt and establish the Generations Fund.

REDUCTION OF THE GOVERNMENT'S TOTAL DEBT

(As a percentage of GDP)



[1] Actual data for 2005-2006 and previous years.

Impact on program spending and the budgetary balance

The Five-Year Capital Expenditure Plan will also exert pressure on government spending.

The capital expenditures will involve additional expenditures of $264 million in 2008-2009 and $922 million in five years, 2011-2012, for depreciation of infrastructures, cost of debt services and non-capitalizable expenditures.

IMPACT ON GOVERNMENT EXPENDITURES OF THE FIVE-YEAR CAPITAL EXPENDITURE PLAN AND COMPLETION OF PROJECTS
(In millions of dollars)

	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	Total
Current capital expenditures	5,601	5,215	5,220	5,107	5,132	26,275
Five-Year Capital Expenditure Plan and completion[1]	6,028	7,640	8,317	7,955	7,342	37,282
Annual impact of the Capital Expenditure Plan	427	2,425	3,097	2,848	2,210	11,007
Cumulative impact of the Capital Expenditure Plan	427	2,852	5,949	8,797	11,007	11,007
Impact on expenditures	**33**	**264**	**505**	**735**	**922**	

[1] The forecast capital expenditures in the Five-Year Capital Expenditure Plan amount to $29.7 billion, to which will be added $7.6 billion in capital expenditures realized for completion of projects already announced.

Despite the pressure the plan will exert on expenditures, the government will maintain a balanced budget, thus complying with the provisions of the Balanced Budget Act.

To free up the necessary margin, the government will pursue its efforts to modernize the State, review its expenditure plan on the basis of the priority given to infrastructures, and study the possibility of introducing specific new funding sources.

CONCLUSION: RESPONSIBILITY, RIGOUR AND TRANSPARENCY

The Québec Infrastructures Plan marks a turning point in Québec's development. It calls upon our collective responsibility to recognize the urgency to take action and adopt the necessary means to renovate aging public infrastructures and preserve them to meet the needs of future generations.

The first $30-billion Five-Year Capital Expenditure Plan will provide Québec with major economic development leverage.

The purpose of the bill the government will table is to bind governments, both today and tomorrow, to maintain and renovate infrastructures by allocating the required amounts annually. It also provides for measures so that major public infrastructure projects in Québec are managed better, thus guaranteeing compliance with the project implementation budgets and deadlines. This bill follows up the Balanced Budget Act and the Act to reduce the debt and institute the Generations Fund, by imposing rigorous management of public funds to the benefit of future generations.

This is an unprecedented investment effort for Québec, which the government intends to fulfill by maintaining a balanced budget and the debt reduction targets it set when it created the Generations Fund. By combining rigorous management and transparency, the government will restore infrastructures to Quebecers that will ensure their quality of life and the prosperity of society as a whole.

APPENDIX 1

ADDITIONAL INFORMATION ON THE IMPACT OF THE 2007–2012 FIVE-YEAR CAPITAL EXPENDITURE PLAN

The following are the general features of the first Five-Year Capital Expenditure Plan covering the period 2007-2012, for each of the nine sectors concerned.

CAPITAL EXPENDITURES UNDER THE 2007–2012 FIVE-YEAR PLAN BY SECTOR OF INTERVENTION[1]
(In millions of dollars)

Sectors	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	TOTAL
Road network	1,164.9	1,904.0	2,158.0	2,210.6	2,406.1	9,843.6
Public transit	352.0	438.4	453.1	381.4	375.5	2,000.4
Health	774.1	1,233.8	1,730.7	2,045.8	1,342.2	7,126.6
Education	1,060.7	1,204.2	1,112.2	1,099.9	1,117.7	5,594.7
Culture	89.0	154.8	156.8	157.0	157.3	714.9
Municipal infrastructures	575.3	703.2	570.4	624.2	677.4	3,150.5
Public housing	36.8	92.1	92.8	93.8	94.9	410.4
Research	0.1	4.0	3.7	3.6	3.0	14.4
Justice and public security	90.4	121.4	211.7	191.5	189.2	804.2
TOTAL PLAN	**4,143.3**	**5,855.9**	**6,489.4**	**6,807.8**	**6,363.3**	**29,659.7**
COMPLETION	1,884.1	1,784.5	1,827.5	1,147.6	978.4	7,622.1
AGGREGATE CAPITAL EXPENDITURES	6,027.4	7,640.4	8,316.9	7,955.4	7,341.7	37,281.8

[1] Added to these capital expenditures are those of the departments, budget-funded agencies and special funds, other than the Road Network Preservation and Improvement Fund, which add up to $1,170.4 million in 2007-2008.

ELIMINATION OF THE MAINTENANCE DEFICIT OVER A 15-YEAR PERIOD
(Québec contribution in millions of dollars)

	Cumulative maintenance deficit[1]	Forecast elimination for the period 2007–2012	Balance of the cumulative maintenance deficit to be eliminated
Road network	8,560.0	2,282.2	6,277.8
Public transit	1,640.0	437.8	1,202.2
Health	3,032.0	808.4	2,223.6
Education	3,300.0	880.0	2,420.0
Culture	662.0	176.4	485.6
Municipal infrastructures	2,921.0	778.8	2,142.2
Public housing	630.0	168.0	462.0
TOTAL	**20,745.0**	**5,531.6**	**15,213.4**

[1] The total accumulated maintenance deficit is $27 billion. Québec's contribution to its elimination will be $20.7 billion, and the partners – mainly the federal government and the municipalities – will contribute $6.3 billion.

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