



INVESTING IN TRANSIT: A GOING CONCERN

In April 2006, dignitaries from the City of Toronto, Toronto Transit Commission, Province of Ontario and Government of Canada celebrate the first of 150 new hybrid buses to hit the streets of Toronto, an initiative made possible with provincial and federal investment

For several years, Canada's transit industry and municipalities have jointly advocated for stronger national investment in public transit. CUTA highlighted some signs of change in a 2005 issue paper, including a rise in government investment levels above the historic lows of 2001. Further shifts have occurred since then, with Canada's new federal government implementing its own fresh perspective on transit investment.

Despite recent advances, critical needs persist. Canada remains the only OECD nation without a federal policy that ensures long-term, predictable transit investment. With national transit ridership on the rise—surging more than 10% between 2001 and

2005—there is a continued need for stronger investment in transit infrastructure renewal and growth, and in expanded operations.

Who pays for transit?

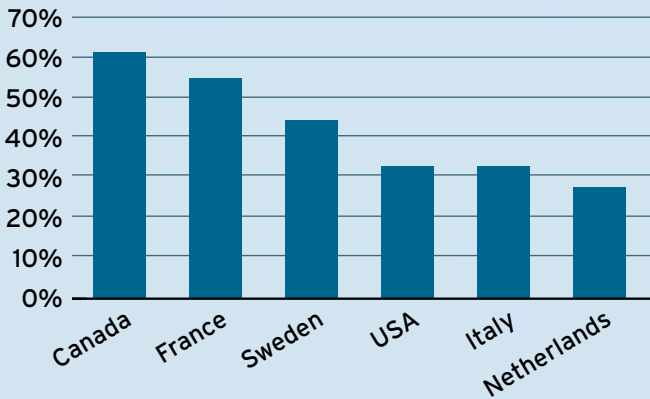
Operating investment. Canada's transit systems invest \$3.9 billion annually in operations, including staff salaries, fuel, parts and maintenance. Most of this investment is funded by passengers, whose fares pay for 61% of operating needs. This is an extraordinary level of cost recovery from customers that exceeds recent rates in the United States, Sweden, Italy, the Netherlands, France and many other countries (see Figure 1).^{a,b,c}

In most provinces, the remaining operating costs are covered almost entirely by municipal taxpayers (with exceptions including British Columbia and Manitoba). In 2004, Canadian provinces funded just 6% of operating costs nation-wide, although there was significant variation among them. The federal government makes no operating investments at all. Provincial and federal support for transit operations is far less than in the United States, where federal and state governments contributed 30% of operating costs in 2003.^b

Note: This CUTA issue paper is an update of Issue Paper 1, *Investing in Transit: Canada at the Crossroads* (November, 2001) and Issue Paper 13, *Investing in Transit: Promise and Progress* (August 2005). Unless noted otherwise, data on transit operations and finances data are taken from CUTA's annual *Summary of Canadian Transit Statistics* (available from www.cutaaactu.ca).

Figure 1

Proportion of operating costs covered by fare revenue



Capital investment. In recent years, municipalities have been the principal investors in Canada’s national transit infrastructure (i.e. vehicle fleets, rapid transit facilities, passenger terminals, park-and-ride lots, garages and maintenance shops). Low levels of federal and provincial capital funding have compared poorly to those in United States, where long-term federal and state transit investment programs covered 53% of capital costs in 2003.^b

The provincial share of direct capital investments has grown in the last few years, reaching almost 38% in 2004 compared to less than 15% in 2000. (It should be noted that several provinces also transfer fuel taxes or vehicle licensing revenues to cities for use in addressing infrastructure needs including those related to transit).

For years, Canada was the only G-7 nation without a dedicated federal program of direct transit support. While the federal government contributed nothing to transit capital needs across the country as recently as 2001, a series of investments in transit infrastructure projects increased its contribution to 8% of the national total by 2004. A major leap occurred in 2005, when the federal government committed to transfer \$5 billion of gas tax revenues to Canadian communities for environmentally sustainable infrastructure (including transit) by 2010. In the same year, the government also committed to dedicate up to \$800 million in short-term public transit infrastructure investments by 2007.

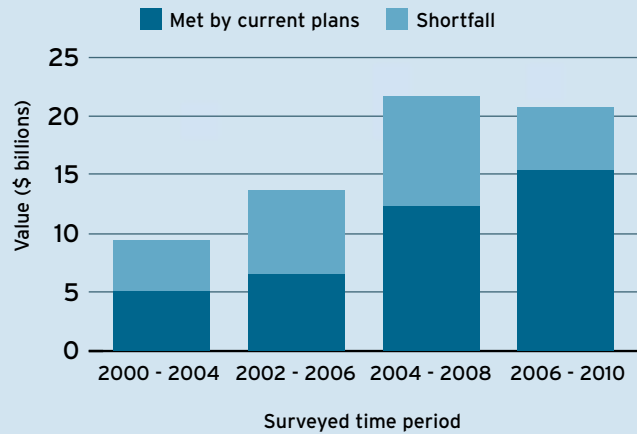
Canada’s transit investment deficit

The substantial “infrastructure deficit” faced by Canadian transit systems is monitored by CUTA through a regular survey of local needs.^d The most recent survey identified \$20.7 billion of transit infrastructure requirements over the 2006-2010 period, with about 75% of that amount being affordable under existing funding programs. While this is a significant improvement over previous surveys, the country still faces a major investment shortfall of \$5 billion.

CUTA’s survey found that infrastructure requirements related to service expansion fell 18% from the previous survey, from \$14.1 billion to \$11.6 billion. However, 31% of these needs cannot be met with existing budgets—placing at risk the ability of transit systems to meet growing demands for service.

Figure 2

Canadian transit infrastructure needs



At the same time, 2006-2010 infrastructure replacement and renewal needs rose to \$9.1 billion, an increase of 32% from the previous survey. This leap follows previous survey-over-survey increases of 44% and 50%, yielding almost three-fold growth over six years. This fact, combined with the knowledge that 20% of today’s replacement and renewal needs cannot be met without new external funding, highlights the mounting challenge faced by Canada’s transit systems as they struggle to maintain their assets in a state of good repair.

While infrastructure investment is a vital concern to Canada’s transit industry, the need for new operating investment is also growing rapidly. In fact, because infrastructure expansion often leads to higher operating costs downstream (e.g. larger fleets need more staff to operate and maintain them), growing federal and provincial infrastructure investments will only increase the urgency of enhancing current operating budgets.

Between 1999 and 2004, national transit operating costs rose by 35%. While this upward trend will continue as cities expand transit services to fight congestion and air pollution, ridership growth and fare increases will not generate sufficient funds to pay for the increased costs of operation. Because most provinces deny municipalities the ability to raise money through measures like road tolls and levies on parking spaces, Canadian cities rely on property taxes to fund operating costs. Transit fare increases can generate new revenue, but they make transit less competitive and threaten to undermine the national trend toward increased ridership.

Federal investment in transit

Only a few years ago, Canada’s federal government confirmed a strong national interest in public transit. There were Throne Speech commitments to improve transit infrastructure, transit-focused recommendations from the Prime Minister’s Caucus Task Force on Urban Issues, and three major strategic research studies on public transit. The government subsequently followed up with meaningful new transit investment initiatives, of which the most important are summarized below.

Infrastructure funds. Announced contributions from federal infrastructure funds to transit projects grew from zero in 2001 to over \$800 million in 2004. The Canada Strategic Infrastructure Fund (CSIF) has funded a number of transit initiatives in the Greater Toronto Area (for York Region, GO Transit and the Toronto Transit Commission), Vancouver (Canada Line rapid transit) and Ottawa (O-Train light rail expansion). A new \$2-billion allocation to CSIF is scheduled to start in 2007-2008.

Gas Tax Fund. In 2005, the federal government committed to a New Deal for Cities and Communities that included a five-year, \$5-billion transfer of gas tax revenues to Canadian municipalities for investment in public transit and other environmentally sustainable infrastructure. The Gas Tax Fund is the mechanism for this investment, and makes public transit an eligible investment with candidate projects including rapid transit lines, transit vehicles and intelligent transportation systems.

While the degree to which the Gas Tax Fund will benefit transit systems is not entirely clear, there are positive signs. In Greater Vancouver, the entire allocation of \$307 million has been committed to public transit. Other initiatives enabled by this fund include light rail expansion in Edmonton, fleet rehabilitation in Toronto, subway refurbishment in Montreal, and a bus rapid transit project in Saint John, NB.

Public Transit Fund. This \$400-million fund, announced in 2006, is intended to improve air quality and reduce greenhouse gas emissions. Federal funds are allocated to provinces and territories on a per-capita basis, and then flow to municipalities in amounts proportional to local transit ridership. Municipalities and transit agencies can identify local priorities, with eligible projects including rapid transit lines, transit stations, rolling stock and intelligent transportation systems.

Public Transit Capital Trust. Funds from this \$900-million trust, also announced in 2006, are allocated to provinces and territories on a per-capita basis. Supported capital investments include those eligible under the Public Transit Fund, as well as complementary infrastructure such as high-occupancy vehicle lanes.

Transit pass tax credit. In July 2006, the federal government implemented a non-refundable tax credit for monthly (or longer-term) transit passes. The credit of 15.25% in 2006 and 15.5% thereafter yields annual savings of up to \$150 per individual, and taxpayers can also claim transit pass expenses of any dependants. The estimated cost of this tax credit to the federal government is \$150 million in 2006-2007 and \$220 million in 2007-2008.

Transit-Secure Program. In 2006, the federal government allocated \$95 million to enhance security in passenger rail and urban transit operations. As part of this funding, Transport Canada launched a two-year, \$80-million contribution program called Transit-Secure to address immediate high-risk security priorities in Canada's major urban transit systems. The program helps commuter rail and public transit operators accelerate the implementation of new and enhanced security measures, with an initial focus on needs in Vancouver, Calgary, Edmonton, Toronto, Montreal and the National Capital Region.

Urban Transportation Showcase Program. This \$40-million demonstration program will run through 2009, providing support for investments like transit priority in Greater Vancouver and bus rapid transit in Halifax and Waterloo-Kitchener-Cambridge.

Provincial investment in transit

Provincial investment in transit has grown over the last few years. Provincial operating funding of \$47 million in 2001 rose steadily to \$177 million in 2004, while provincial capital funding of \$146 million in 2001 grew to \$331 million in 2004.

Provincial transit funding mechanisms include fuel tax transfers to improve local infrastructure that may be used for public transit (e.g. in British Columbia, Manitoba, Alberta and Quebec). Several communities receive provincial gas tax revenues intended specifically for transit or transportation improvements (e.g. 12 cents per litre for roads and transit in Greater Vancouver, 2.5 cents per litre for transit in Victoria, and 1.5 cents per litre for transit in Montreal).

Ontario and Quebec have made substantial commitments to improving transit investment in recent years. In Ontario, municipalities with transit systems now receive a two-cents-per-litre gas tax transfer to improve transit assets or operations and increase ridership.

In 2006, Quebec announced a comprehensive transit policy to boost ridership by 8% by 2012.^c New initiatives included a \$130 million annual contribution for transit development from the province's Green Fund to combat climate change, a full refund on fuel tax paid by transit systems, and more funding for existing infrastructure and operating programs. These steps complement the \$30 annual motor vehicle registration fee that Quebec has collected for several years in nine communities (\$40 in Montreal) to support transit investment.



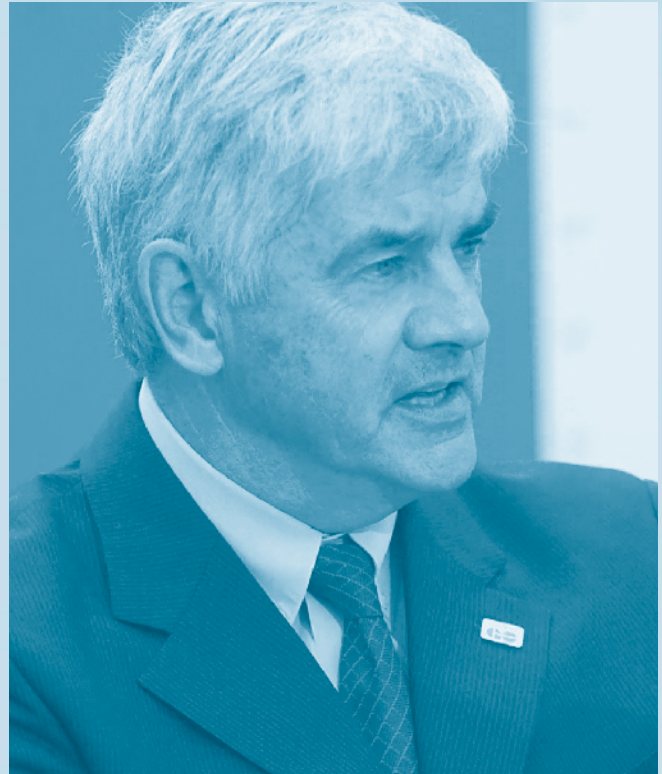
Québec's comprehensive public transit policy report, released in June 2006

A look ahead

Current debate over Canada's "fiscal imbalance" could lead to changes in jurisdictional revenues and spending, and impact the future of transit infrastructure investment. As federal and provincial governments debate the topic, CUTA has urged them to remember public transit's key role in making Canada's cities more economically, environmentally and socially sustainable, and has made several key recommendations:

- The federal government should create a new permanent program of direct investment in transit expansion and renewal, as well as the creation of new transit systems.
- Infrastructure investment mechanisms that can support major rapid transit projects, like the Canada Strategic Infrastructure Fund, should be preserved. They should focus on transit and other environmentally sustainable infrastructure, and give local governments the flexibility to select priority projects.
- Federal and provincial governments should give tax-exempt status to employer-provided transit benefits. This would complement the current federal tax credit for transit pass purchases, encourage employers to financially support transit commuters, and "level the playing field" with employer-provided parking benefits which are generally not taxed.

As Canada's transit industry rolls into the future, it can celebrate signs that Canada's long-standing transit infrastructure deficit is being addressed. Transit infrastructure needs have stabilized for 2006-2010, and the proportion of needs that are unaffordable with current funding is in decline. Nevertheless, many transit infrastructure needs remain unfunded, and the new streams of federal and provincial investment are tenuous. The ultimate goal of a reliable, long-term transit investment program for Canadian communities continues to be a work in progress.



The Honourable Lawrence Cannon, Minister of Transport, Infrastructure and Communities, announces a major federal transit investment in May 2006

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The Canadian Urban Transit Association (CUTA) is the voice of Canada's public transit industry. For additional information including research reports, industry updates, news bulletins and more, please contact us or visit our website.



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