

INVESTING IN TRANSIT: AN ONGOING CHALLENGE



Left: Greater Vancouver Transportation Authority; Top: City of Ottawa/OC Transpo, Société de transport de l'Outaouais, Edmonton Transit; Bottom: Kamloops Transit System, Toronto Transit Commission, Halifax Regional Municipality.

Over the last several years, Canada's municipalities and public transit industry have advocated for stronger national investment in transit. These efforts have contributed to a doubling of annual capital investment from 2001 to 2006. Despite this, Canada still lacks a long-term, predictable approach to transit investment—leaving it alone among members of the Organization for Economic Cooperation and Development (OECD).

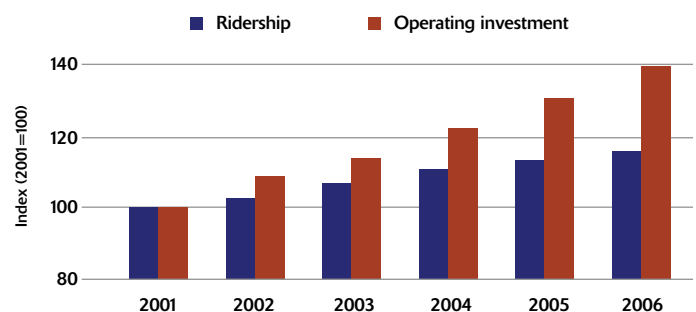
As the transit industry looks ahead, critical challenges loom. The current surge in transit demand (an increase of 16% from 2001 through 2006) has pressured transit systems to add new service. Rising operating costs are a burden for municipalities, which have limited funding sources and numerous competing priorities. Unfortunately, many communities have had to raise fares faster than inflation—a move that suppresses demand, even as transit has emerged as a critical element of Canada's fight against congestion and climate change.

This paper explores these issues in greater depth. It also presents the results of a recent survey on transit infrastructure needs, and summarizes a new analysis suggesting that transit's economic benefits warrant a dramatic increase in service levels—and investment—across the country.

Who pays for transit?

In 2006, Canada's transit systems invested \$4.5 billion in operating expenses including staff salaries, fuel and maintenance. These transit operating investments have risen 40% since 2001—a trend that reflects not only the 16% growth in ridership, but also rapid inflation in the price of key inputs.

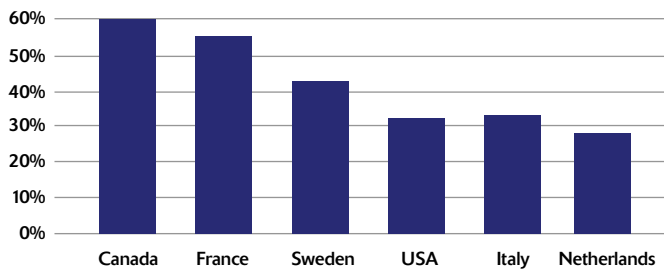
Figure 1. Growth in national transit ridership and operating investment (2001-2006)



This is the latest update in a series of CUTA issue papers that examines Canadian transit investment including Issue Paper 1 (*Canada at the Crossroads*, November 2001), Issue Paper 13 (*Promise and Progress*, August 2005) and Issue Paper 18 (*A Going Concern*, October 2006). Unless noted otherwise, data on transit operations and finances are taken from CUTA's annual *Summary of Canadian Transit Statistics* (available from www.cutaactu.ca).

Despite the resulting fiscal pressures, transit systems continue to recover an average of 60% of operating expenses from passenger fares. This extraordinary cost recovery exceeds rates observed in the United States, Sweden, Italy, the Netherlands, France and other countries.^{a,b,c}

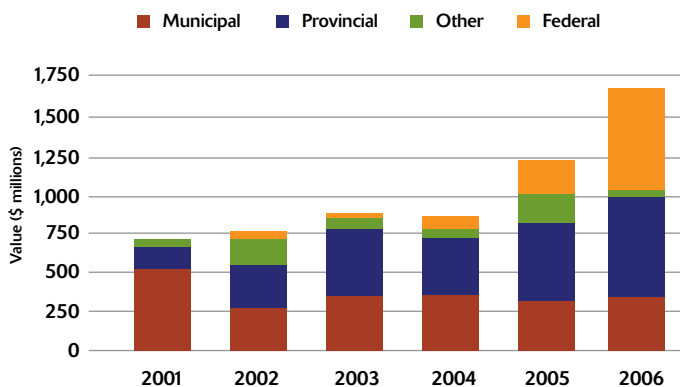
Figure 2. Operating cost recovery from fares



In most provinces, operating expenses not recovered from fares are paid almost entirely by municipal taxpayers. In 2006, Canadian provinces funded just 6% of transit operating costs nation-wide (with significant variation among them) and the federal government made virtually 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 31% of operating costs in 2005.^b

To deliver their services, Canadian transit systems rely on infrastructure like vehicles, rapid transit lines, passenger terminals, park-and-ride lots, garages and maintenance shops. While there have been considerable historical shifts in the funding relationships between provinces and municipalities, the general trend in the past five years has been positive, with several provinces making new commitments to support public transit in their communities. These developments represent a welcome turn of events, and signal the status of transit as an important priority of Canada's senior governments.

Figure 3. Sources of transit capital investment (2001-2006)



Provincial mechanisms for transit capital funding include fuel tax transfers that may be used for public transit and other local infrastructure (e.g. in British Columbia, Manitoba and Alberta). Several communities receive provincial gas tax revenues intended specifically for transit or transportation improvements (e.g. 12.0 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 Greater Montreal).

In Ontario, municipalities with transit systems receive a gas tax transfer of two cents per litre to increase transit ridership by improving assets or operations. Quebec offers an annual contribution of \$130 million for transit development to combat climate change, a full refund on fuel tax paid by transit systems, and other funding for transit infrastructure and operations. Several communities in Quebec also receive a \$30 annual motor vehicle registration fee (\$40 in Montreal) to support transit investment.

To some extent, recent increases in provincial infrastructure investment may be viewed as a return to the status quo of the 1990s. The growth in federal investment is a new story, however, given that the federal government did not invest in transit capital needs across the country as recently as 2001.

In 2002, federal-provincial infrastructure programs began to announce relatively small investments in transit projects. In 2005, the federal government committed to the New Deal for Cities and Communities and the transfer of \$5 billion in gas tax revenues to Canadian communities by 2010 for transit and other environmentally sustainable infrastructure—an arrangement subsequently extended to 2014 through the Gas Tax Fund. Also beginning in 2005, the federal government created two short-term programs dedicating \$1.3 billion to transit capital needs through 2009. In 2007, the new \$8.8-billion Building Canada Fund replaced several older infrastructure funds. It will invest in a variety of project categories including transit until at least 2014, with matching contributions expected from provincial and territorial governments and municipalities.

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, released early in 2008, identified \$40.1 billion of transit infrastructure requirements over the 2008-2012 period. Figure 4 presents the composition of the total required funds for infrastructure needs under current plans and contingent on external funding for both replacement and expansion requirements. While the value of known funding sources over the next four years exceeds those in previous surveys (rising to \$20.1 billion from \$15.3 billion in 2006), fully 50% of short-term infrastructure needs are unaffordable without new funding sources. The shortfall of \$20.0 billion for 2008-2012 represents a significant deterioration in the infrastructure outlook, compared to the previous shortfall of just \$5.4 billion for 2006-2010.

Figure 4. Transit Infrastructure Needs 2008-2012

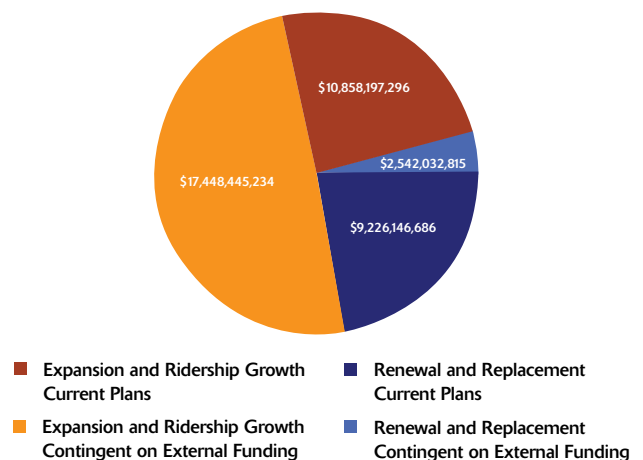
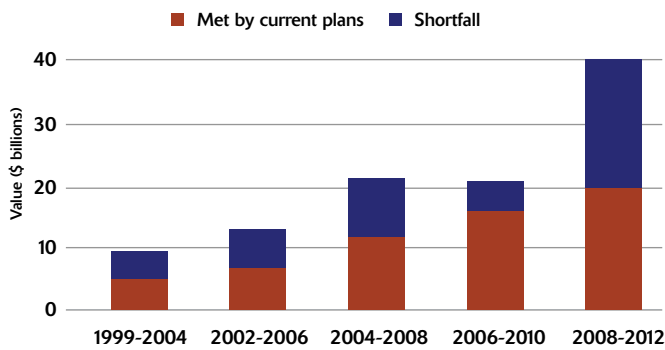


Figure 5. Canadian transit infrastructure needs



Requirements related to infrastructure replacement and rehabilitation grew by 30% since CUTA's last survey—from \$9.1 billion for 2006-2010 to \$11.8 billion for 2008-2012 (of which \$2.5 billion or 22% is not currently funded). Much greater growth was reported in infrastructure needs related to service expansion before, which rose by 144%, from \$11.6 billion to \$28.3 billion. Of this new total,

New study identifies economically optimal transit supply

Is Canada's present commitment to transit about right? Should transit systems provide more service, or less? A study was recently undertaken by HDR|HLB Decision Economics to answer these questions using conventional, peer-reviewed analytical methods.

The study compares 2006 transit operations to a transit service scenario that represents an economically optimal balance between transit and automobile use in urban areas—in other words, one that maximizes benefits (e.g. personal mobility, productivity and economic development) relative to costs (e.g. transit facilities and operations, collisions, congestion, air pollution and greenhouse gases). In economic terms, this balance would be a “second best” approach that substitutes for the economically desirable—but currently impractical—strategy of full-cost transportation pricing, which would involve individuals paying the full social cost of each trip they make, by either automobile or transit.

The report estimates the required level of investment to sustain the economically optimal level of transit service, and summarizes benefits and costs over a 30-year timeframe. The key findings, using 2006 conditions as the basis of analysis, are summarized in the following points.

Service levels. The economically optimal level of transit service in Canada is 74% higher than actual levels.

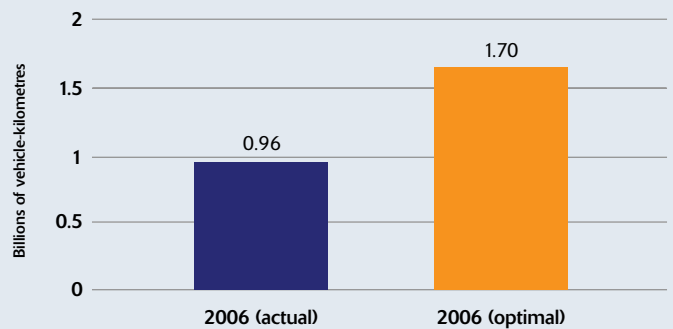
Travel demand. The optimal level of service would increase transit travel by 37%, and reduce automobile travel by 4%.

Operating investment. If fares were held constant, the optimal level of service would require a 126% increase in operating investment to cover costs not returned from the farebox (\$4.1 billion vs. \$1.8 billion, for 2006).

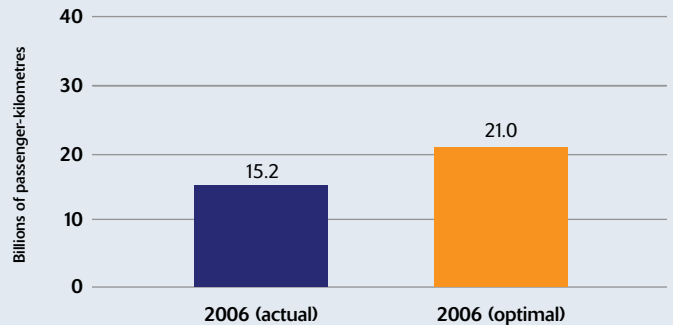
Benefits. The net present value of gross economic benefits over 30 years resulting from an optimal transit service scenario is \$230 billion.

—about \$17.5 billion (or 62%) cannot be met through current budgets—a capital deficit that seriously threatens the ability of transit systems to continue meeting demands at the current pace of ridership growth. It should also be noted that almost three-quarters (73%) of the total infrastructure needs are in Canada's three largest metropolitan areas—Toronto, Montreal and Vancouver—where the most important transit services are already operating at or near capacity at peak times. There is a further implication of these rapidly accelerating infrastructure needs. Transit system expansion inevitably leads to higher operating costs, so today's federal and provincial infrastructure investments will only increase the urgent need to enhance operating budgets. When viewed through the lenses of booming ridership and municipal budget pressures, the spectre of rapidly growing operating deficits will loom as a persistent issue for years to come. Because most municipalities do not have the authority to raise money through measures like road tolls and parking taxes, they rely heavily on property taxes to fund operating costs. Their other main option is to increase transit fares, which ultimately makes transit less competitive and undermines efforts to attract more riders.

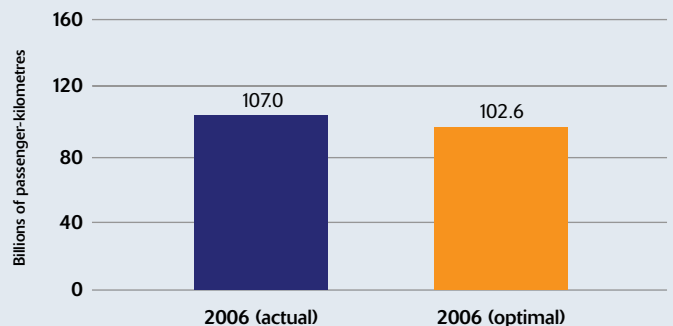
Transit supply



Transit demand



Automobile demand



A look ahead

Canada's transit industry recognizes and celebrates the recent progress made by provincial and federal governments in addressing transit infrastructure needs.

However, the goal of reliable, long-term transit investment remains elusive. Expiry of the Public Transit Capital Trust in 2009 will leave Canada without a dedicated federal program of direct transit support. Transit capital requirements are growing faster than investment, critical infrastructure needs remain unfunded, and municipalities face operating cost pressures due to rapid growth in ridership and day-to-day costs.

With these facts in mind, CUTA urges Canada's federal and provincial governments to support transit through several key actions:

- The federal government should create a new permanent program of direct investment in transit to meet current and future needs related to infrastructure expansion and renewal, as well as the creation of new transit systems.
- Infrastructure investment mechanisms that can support major rapid transit projects, like the Building Canada Fund, are vital to transit's future success and should become a permanent fixture of the federal-provincial-territorial financial landscape. Transit projects should continue to be an eligible category, and local governments should have maximum flexibility to select priority projects.
- Federal, provincial and territorial 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 that are generally not taxed.
- Senior governments should provide greater support to research that enables innovation and helps transit systems become effective and efficient.

These actions would go a long way to overcoming the challenges faced by transit systems, and to helping transit enhance its role in making Canada's cities more economically, environmentally and socially sustainable.

References:

- a) J. Pucher & C. Lefevre, *The Urban Transport Crisis in Europe and North America*, 1996
- b) American Public Transportation Association, *2007 Public Transportation Fact Book*, 2007 (available from www.apta.com)
- c) Information provided by the Italian Public Transit Association (ASSTRA), 2005
- d) Canadian Urban Transit Association, *Transit Infrastructure Needs for the Period 2008-2012*, 2008 (available from www.cutaactu.ca)



Clockwise from top: Calgary Transit, Réseau de transport de la Capitale, York Region Transit, Region of Waterloo-Grand River Transit, Agence métropolitaine de transport, Winnipeg Transit

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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