Fiscal Pulse

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The Greater Toronto And Hamilton Area's Transportation Funding Challenge

- **Dedicated revenues emerge as a potential future solution to bridge the financing gap.**

For the Toronto region, with a 5.6 million population (*2011 Census),* traffic congestion was identified by the OECD in 2010 as the largest drag on the city's global competitiveness. The Toronto Board of Trade has estimated an annual productivity loss of $6 billion from traffic gridlock in the Toronto region[1]. Addressing the issue for the Greater Toronto and Hamilton Area (GTHA) is Metrolinx, Ontario's regional transportation authority for the GTHA, presenting in 2008 a 25-year, $50 billion plan, "The Big Move" [2].

For the plan's first wave of projects, more than $16 billion has been allocated from all three levels of government, an historic financial commitment. First wave projects include the new express rail service from downtown Toronto to Pearson International airport, three Light Rail Transit projects in the City of Toronto and Bus Rapid Transit systems for two major suburban regions. Also key to the plan going forward s improving road and highway efficiency and removing intraregional bottlenecks.

Metrolinx by June 1 is expected to provide to the Province and municipal governments an *Investment Strategy* outlining a long-term, stable funding schedule that will cover the remaining $34 billion required for The Big Move. By default, dedicated revenue tools are one proposal for the future to bridge the substantial funding gap *(side box)*. Neither the federal government nor Ontario is likely to be able to provide additional major funds over the next few years as they regain and then maintain balanced budgets.

Municipalities also are hard pressed, in part due to capital maintenance demands and other required investments, such as meeting the new federal wastewater standards. Other financing sources are expected to have a role in The Big Move, such as public-private partnerships, and possibly land value capture instruments such as a "transit district benefit tax" or Tax Increment Financing, a tool currently being piloted for a subway extension. Enhanced efficiencies, such as better aligning procurement, already are under way.

Metrolinx Investment Tools Shortlist

Listed after each option is a possible level for the levy and estimated annual revenue.

A Payroll Tax would be paid by employers as a percentage of employees' gross pay, or as a flat tax per employee *(at 0.5%, $700mn).*

A Property Tax increase, on residential and non-residential properties *(a 5% revenue increase, $670 mn).*

Vehicle Kilometres Travelled (VKT) Fee for each kilometre travelled in a designated area or all areas *($0.03/km, $1.6 bn).*

Highway Tolls per kilometre travelled on designated highways *($0.10/km, $1.4 bn).*

Fuel Tax, an excise tax on transportation fuels *($0.05/litre, $330 mn).*

High Occupancy Tolls, for one-person vehicles using high occupancy lanes *($0.03/km, $25 mn).*

Development Charges, one-time levies determined by formula on new developments or re-developments could be adjusted *(+15% increase on existing levies, $100 mn).*

Transit Fares could include a dedicated surcharge for each transit trip in the GTHA *($0.15 per ride, $50 mn).*

Source: Metrolinx website[2].

[1] Toronto Region Board of Trade, *A Green Light to Moving the Toronto Region: Paying for Public Transportation Expansion,* March 2013.
[2] Cost of $50 billion in constant dollars. Metrolinx: http://www.metrolinx.com/en/regionalplanning/bigmove/big_move.aspx

The Toronto Board of Trade has proposed four revenue options: a 1% regional sales tax, a $1 per day parking space levy for non-residential properties, a 10¢/litre regional fuel tax and a "high occupancy" toll of 30¢/km for single-occupant vehicles wishing to use high occupancy lanes. The Board based its selection on several criteria including: the size and stability of the revenue stream; the tool's implementation and operation costs; the tool's performance in other regions; equitable tax distribution across GTHA firms and households; the tool's net economic cost; and, its ability to spur better network performance and greater transit usage. A sunset clause to re-evaluate each revenue tool is critical. While not a welcome solution, the use of dedicated revenue tools by other major urban regions around the world is telling. London England, for example, has a congestion charge; northeastern Illinois, including Chicago, has a dedicated sales tax; and, closer to home, Translink in Vancouver has accessed several dedicated revenue sources.

The issue of adopting dedicated levies — the timing, their size and their longevity — to accelerate transit and transportation investment is, of course, controversial. Comments from the GTHA municipalities to Metrolinx are due in late May as the agency completes its Investment Strategy, due June 1. The report from the City of Toronto's Manager recommends a regional sales tax, a gas tax, a parking levy and development charges. Toronto's Mayor, however, has indicated that efforts to economize must precede any new levy. The Mayor of Mississauga, one of Toronto's suburban regions, has ruled out raising property taxes or transit fares, but will consider other dedicated charges. In general, the suburban regions support the introduction of several dedicated levies, but their support depends upon the City of Toronto's acquiescence. Ontario's new Premier also has endorsed the need for some type of dedicated funding to alleviate current gridlock

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