



Investing in Public Transit: The Challenge of Funding in Tough Times

Submission in response to

**The Hon. Dwight Duncan
Minister of Finance**

2012 Pre-Budget Consultations

Prepared by the

Ontario Public Transit Association

and the

Canadian Urban Transit Association

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SUMMARY AND RECOMMENDATIONS

Public Transit is a vital link in how our communities function, our competitiveness, and our attractiveness as a place to invest and do business. Investment in transit not only has a positive ripple effect in our communities, but supports other forms of economic growth. Because Public Transit is also a vital link in the provision of a host of other public and private sector services, it plays an important “enabler” role in our communities. While our associations acknowledge the increased support that this government has shown for transit in recent years, we also note with concern that despite increasing ridership numbers, transit funding has not kept pace with other policy envelopes such as health and education. If this trend is allowed to continue, transit’s ability to support and enable these other social and economic objectives will be jeopardized. Recognizing the constrained fiscal position of Provincial coffers at this time, we respectfully make the following recommendations:

1. Maintain the dedicated provincial gas tax allocation for public transit funding at the current level as a minimum, and consider an increase in such funding in support of assisting the transit infrastructure needs across the province as the economic climate and the Provincial fiscal position improves.
2. Provide a full exemption for all public transit with respect to mobile communication devices as prescribed in regulations implementing Bill 118.
3. Amend over the medium to longer term the Development Charges Act 1997 which currently places transit services at a relative disadvantage in a number of areas, accordingly:
 - The basis of the standard for transit growth should be changed from a retrospective standard to a progressive standard.
 - The arbitrary 10 percent reduction for transit capital growth costs should be eliminated.
 - The requirement to offset growth transit capital costs by the amount of related funding received from the provincial and federal governments should be eliminated.
4. Review the transportation component of various programs provided across government ministries to ensure such funding is being effectively utilized for the provision of transportation services.
5. Work with the federal government, other provincial jurisdictions and municipalities to establish, implement and fund a Canadian Transit Policy Framework (National Transit Strategy).

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Introduction

Our associations appreciate the opportunity to provide input on the fiscal priorities of the provincial government for the 2012/13 Budget. We further appreciate that despite recent signs of economic recovery in Canada, the global economy continues to face uncertain and difficult times, combined with higher than normal debt levels by governments – including Ontario's -- around the world.

OPTA and CUTA gratefully acknowledge and appreciate the support and increased financial commitment that this government has provided to public transit systems over the past few years, notwithstanding the decision in a previous Budget to discontinue the Ontario Bus Replacement Program, or OBRP. Many systems throughout the province are experiencing near record levels of ridership, with growth levels approaching 5% for conventional transit and even higher rates for specialized transit, a trend we see continuing. This growth in transit ridership is attributable to a number of factors including:

- current transit customers increasing the number of trips they are taking;
- a number of new and first time transit customers who are making conscious lifestyle choices to leave their cars at home and opt for a more sustainable form of transportation;
- an aging population which will continue to need the services of both conventional and specialized transit in the years ahead;
- the investments in public transit that have been made by the Provincial government in the past few years that have helped to make public transit a more viable option in many communities;
- the investments that local transit systems are making in areas such as real-time scheduling information to ensure a more satisfying 'customer experience'.

Transit plays a vital role in the lives of millions of Ontarians. Each day, people depend on public transit for access to activities such as work, school, shopping, health care and leisure. At the same time, businesses depend on the transportation network to deliver supplies and bring products and services to market. Transit is therefore a vital link in how our communities function, and is critical to our competitiveness and our attractiveness as a province and country in which to invest and do business.

We commend the government on its integrated approach to sustainable development in recent years and recognizing the role which transit can play in that very important policy objective. We therefore challenge the government to

continue to support the investments in transit infrastructure it has made in the past and to engage the federal government and other provinces to fully participate in funding transit and implement a Canadian Transit Policy Framework.

Fiscal Realities

Our associations recognize the difficult balancing act that the Minister has had in recent years, and this year is no exception, with respect to allocating scarce public resources to competing but worthy objectives. That being said, it is important to continue to invest in all forms of infrastructure – particularly transit -- as it will lay the foundation for future growth and prosperity, besides creating jobs and other spinoff effects in the local economy. The economic benefits associated with public transit as outlined in a 2010 report by CUTA include:

- The transit industry directly employs over 45,000 Canadians and indirectly creates an additional 24,000 jobs;
- Transit reduces vehicle operating costs for Canadian households by about \$5 billion annually, or close to one thousand after tax dollars per household per year;
- Transit reduces the economic costs of traffic collisions by almost \$2.5 billion annually and reduces annual greenhouse gas emissions by 2.4 million tons; and
- Transit saves 115 million dollars in annual health care costs related to respiratory illness.

The above produces a very positive return on transit investment - a ratio of well in excess of 2:1 and supports a number of other government priorities including job creation, the environment, and health care.

Need for Continuous Sustainable Funding

While the current state of provincial finances is an important consideration, we also need to place the ongoing and future needs of the public transit sector in context, given the economic, environmental and social mobility objectives of Ontario communities. In that sense, it is important to understand the infrastructure investment needs of Ontario transit systems, which were outlined in a recent report by CUTA which we cited in last year's pre-budget submission. The survey in question gathered data from 23 transit systems across the Province, representing 97% of transit operations as measured by annual operating costs (See Appendix 1).

The total public transit infrastructure investment needs for the 5-year period from 2010 to 2014 stand at \$ 35.2 billion, of which \$ 6.7 billion is for rehabilitation and replacement of existing vehicles and fixed assets, and \$28.5 billion is for identified expansion and ridership growth.

The infrastructure needs cited here include the replacement and expansion of the vehicle fleet, maintenance facilities, parking facilities, stations, customer amenities and new technologies. The survey found that about 70% of the needs are fundable from currently available sources, based on existing provincial, federal and municipal programs. However, 30% of the requirements – or almost \$10 billion, – would need to come from new, as yet unidentified sources. Since this analysis was undertaken prior to the elimination of the OBRP, this figure is certain to be even greater today.

If it is fair to assume that this infrastructure investment should be shared equally between provincial, municipal and federal partners, the unfunded provincial share would be about \$660 million per year – a figure that represents about double the revenue currently derived from the provincial gas tax dedicated to public transit.

Given these projections, it is hard to escape the conclusion that the transit sector's financial requirements are sizeable and not going to get smaller in the years ahead. This reinforces the need for continued, long term sustainable investment, regardless of the form in which it comes.

Transit – Part Business, Part Social Service

One of the initiatives the industry has undertaken in recent years is making internal investments to improve the level of efficiency of its operations. For example, transit systems have been and are investing in new technologies such as AVL, GPS, scheduling, and smart bus systems as well as investing in more training in order to ensure the efficient and effective delivery of transit services and to enhance the customer experience. These new information-intensive technologies will yield valuable information to transit managers that will assist in a host of ways including more efficient route planning, maintenance scheduling, and better deployment of both mobile and fixed assets.

Transit systems in Ontario generally recover upwards of 50% of their operating costs from the fare box. Few if any other municipal/public services provide that level of revenue in return for the services they provide. Similarly, transit systems are measured and monitored in a number of different ways to ensure proper accountability for every dollar spent.

With this in mind, we present the following recommendations:

Dedicated Provincial Gas Tax Funding for Transit

As we have said before, the public transit industry has called for a strategy which provides sustainable, long term and dedicated investment. We recommended that the Province improve the predictability and sustainability for public transit funding by first maintaining the current level of funding and putting in place a

strategy to expand the dedicated provincial gas tax allocation for transit as the economy and fiscal position of the Province improves. The introduction of the provincial gas tax program was initially aimed at improving service growth in terms of routes and number of passenger trips. Since coming into effect, however, gas tax funds have also had to be used to meet new regulatory requirements related to the environment, labour relations, accessibility, and other regulatory or legislative requirements.

Given the brief description of the sector's long term requirements noted above, we recommend that, at a minimum, the government maintains the current gas tax allocation, particularly if there is no intention of restoring the OBRP. Moreover, we would recommend an increase to address the transit infrastructure needs such as new buses and facilities alluded to earlier.

With respect to the administration of the program, we recommend:

- continued flexibility in terms of how the dedicated gas tax funds are used: in any given year, transit system priorities will vary. Provincial funding must allow for local system flexibility depending on how that money is divided between, for example, capital projects, repairs, new facilities, or meeting transit operating requirements. This is critical so as to ensure that the gains made to date are not compromised.
- ensuring that municipalities, as a condition of continued receipt of Provincial gas tax funds, continue to fund their proportionate share of required operating and capital investment.

Full Exemption for Transit under Bill 118

During the consultations leading up to the release of the regulations for Bill 118, the transit industry requested a full exemption for communication devices (such as on-board radios) on all transit vehicles. Concise and timely "in service" communication is a critical element in supporting the delivery of an effective, efficient and safe service. Such communications employ a variety of on-board technologies and are used for a variety of purposes from service changes, operator status, customer information and of course emergencies.

When the regulations were announced in October of 2009, the MTO decided against a full exemption, opting instead to provide the transit industry with a 3-year exemption period, pending the availability in the marketplace of acceptable "wireless" options necessary to comply with the new regulations.

Transit systems in Ontario have extensive practices in place to ensure the proper use of these communication devices, and the use of cell phones for personal use while operating a vehicle has always been prohibited. The rationale for not granting an exemption in the first place was based on data gathered for a study

of the trucking industry, and did not take into account the fact that transit vehicles operate in considerably different environments characterized by substantially lower speeds and usually brief, clipped conversations involving well-trained operators.

The additional resources that will be required to comply with this regulation – and to date there is no acceptable wireless alternative on the market – are not justified by any potential increases in driver safety records. Finally, in other Canadian jurisdictions where similar legislation is in existence, public transit has been provided with an exemption in respect of their on-board communication systems.

We urge the government to re-consider this aspect of the regulations and make permanent the exemption for all public transit vehicles with respect to Bill 118.

Development Charges Act 1997

For the past several years, OPTA and CUTA have requested amendments to the current Development Charges Act. While the Province has indicated that there are to be no substantive changes to the Development Charges Act in the short to medium term, we urge the Province not to lose sight of the previously recommended amendments. Without these amendments, the legislation places municipal transit service at a considerable disadvantage compared to other municipal services. The specific recommended amendments are:

- The basis of the standard for transit growth should be changed from a retrospective standard to a progressive standard.
- The arbitrary 10 percent reduction for transit capital growth costs should be eliminated.
- The requirement to offset growth transit capital costs by the amount of related funding received from the provincial and federal governments should be eliminated.

These amendments would provide for the equitable treatment of transit related growth costs, which in turn support the principle of “growth paying for growth”.

Re-Assess How Transportation-Specific Funding is Allocated

Over the past few years, the most notable trend in transit growth has been in the area of specialized services. Many specialized trips are medical-related, transporting passengers to and from health-care facilities of various kinds. In fact, in some municipalities, upwards of 70% of trips are for such purposes, placing a strain on the ability of the system to provide service for other community needs.

We would encourage a government-wide re-assessment of transportation funding and how it is provided to ensure that any funds intended for the transportation needs of a ministry or agency's client base is actually going to the agencies which are providing the transportation.

Conclusion

This submission recognizes the current fiscal challenge facing all governments in Canada, and Ontario in particular. We are encouraged at the priority the Province has given to transit investment in past years, and we applaud the recognition of transit's role in supporting economically and environmentally sustainable communities. However, transit will continue to require funds not only for capital improvements, such as new buses and other facilities, but also for operating an expanded capital base to meet the growing demands of the public, and to meet additional statutory and regulatory obligations which the province has been enacting. While transit provides a very valuable service to communities, we remain concerned at the long term trend which is characterized by uncertain and increasingly inadequate operational funding, decreased access to capital funding, and growing demands for our services.

Appendix 1: Transit Infrastructure Needs, 2010-2014

Infrastructure: Rehabilitation and Replacement	Existing Plans	Requiring External Funding	Total
Bus Purchase or Refurbishment	\$1,153,103,104	\$125,040,021	\$1,278,143,125
Other Rolling Stock	\$1,684,869,248	\$34,589,654	\$1,719,458,901
Fixed Guideway or Rights-of-Way	\$1,811,250,501	\$281,191,762	\$2,092,442,262
Maintenance Facilities	\$933,433,258	\$21,630,693	\$955,063,951
Other	\$571,396,744	\$64,054,915	\$635,451,658
TOTAL	\$6,154,052,854	\$526,507,044	\$6,680,559,898
Infrastructure: Expansion and Ridership Growth	Existing Plans	Requiring External Funding	Total
Bus Purchases	\$623,783,295	\$100,354,652	\$724,137,946
Other Rolling Stock	\$2,079,326,010	\$628,077,582	\$2,707,403,592
Fixed Guideway Construction or Enhancement	\$13,850,995,695	\$6,922,194,208	\$20,773,189,903
Stations or Terminals	\$779,924,653	\$630,997,824	\$1,410,922,476
Parking Facilities	\$637,026,643	\$70,957,116	\$707,983,760
Transit Priority Measures	\$93,827,711	\$172,827,196	\$266,654,908
Customer Amenities	\$278,918,843	\$28,958,202	\$307,877,045
Maintenance Facilities	\$376,134,472	\$46,670,059	\$422,804,531
Advanced Technology	\$212,268,039	\$75,603,426	\$287,871,465
Other	\$447,258,526	\$487,629,679	\$934,888,205
TOTAL	\$19,379,463,887	\$9,164,269,944	\$28,543,733,831
GRAND TOTAL	\$25,533,516,741	\$9,690,776,988	\$35,224,293,728

Source: CUTA, 2009