REGION OF OTTAWA-CARLETON REPORT
RÉGION D'OTTAWA-CARLETON RAPPORT

Our File/N/Réf. Your File/V/Réf.	47-98-0035
DATE	04 May 1999
TO/DEST.	Co-ordinator Transportation Committee
FROM/EXP.	Planning and Development Approvals Commissioner
SUBJECT/OBJET	**FUNDING TRANSPORTATION IN OTTAWA-CARLETON**

REPORT RECOMMENDATIONS

That the Transportation Committee recommend Council approve the following:

1. **That the Region of Ottawa-Carleton actively support and promote a Transportation Funding Partnership with the Provincial and Federal Governments, and put in place a dedicated transportation fund for the Region;**

2. **That the Region of Ottawa-Carleton, as part of the proposed Transportation Funding Partnership, request the Province of Ontario to transfer, effective 1 January 2000, $32M per year, from the existing fuel tax, driver license and vehicle registration fee revenues and the 8% Provincial sales tax on parking charges in Ottawa-Carleton, to meet Ottawa-Carleton's transportation funding shortfall;**

3. **That the Region of Ottawa-Carleton request the Province of Ontario to:**

   a) **amend the Municipal Act to allow municipalities to levy a fee on non-residential parking spaces as a disincentive to automobile usage;**

   b) **investigate the feasibility of implementing fuel surtax, insurance surcharge, distance/weight based vehicle registration fees, congestion pricing, and road pricing in the urban Regions in Ontario, with the revenue from these sources to be used to proportionately reduce the transportation component of the property tax;**

4. **That the Region of Ottawa-Carleton, as part of the proposed Transportation Funding Partnership and the proposed national strategy under the Kyoto Protocol, request the Government of Canada to:**

   a) **transfer part of the Federal fuel tax revenues, at 3 cents per litre of fuel sold annually in Ottawa-Carleton, to be used exclusively for promoting the use of transit, cycling and walk modes, and implementing Transportation Demand Management (TDM) measures;**

   b) **provide tax exemption to employer-provided transit passes;**

5. **That the Region of Ottawa-Carleton request the Federation of Canadian Municipalities, Association of Municipalities of Ontario, and the Transportation Association of Canada to support the above requests to the Provincial and Federal governments;**

6. **That staff be directed to develop a communication strategy to provide a clear message for the Provincial and Federal governments regarding the merits of the proposed Transportation Funding Partnership, and of implementing a dedicated transportation funding system in Ottawa-Carleton; and;**

7. **That staff be directed to circulate the recommendations in this report, as approved by Council, to senior levels of government, municipalities, other interested organizations, and community groups and businesses in Ottawa-Carleton.**

BACKGROUND

Up till 1997, property tax revenues, OC Transpo fares, and Provincial transfers were the primary funding sources for transportation expenditures in Ottawa-Carleton. On average, Provincial subsidies in transportation amounted to $115M, or 30% of the Region's annual transportation budget, compared to 22% from transit fares and 48% from mostly property taxes. These Provincial subsidies were generally less than two thirds of the revenues from fuel tax and driver license/vehicle registration fees of nearly $200M that the Province collects every year from the Region's residents and businesses.

Between 1996 and 1998, the Province fundamentally restructured the funding for health, education, transportation and social assistance, and stopped providing transportation subsidies to municipalities. The net impact of the funding changes on the Region's budget has not been financially neutral as was originally intended by the Province. In addition, the Province transferred 92 km (just over 40%) of its highways to the Region, resulting in an 8 % increase in the length of the total Regional Road network with attendant operational, maintenance and capital costs. The 1998 background study, *How Should the User Pay?: Opportunities for Financing The Region of Ottawa-Carleton Transportation System*, estimated the average annual funding shortfall in transportation, for the 1998-2021 period, without provincial subsidies, to be $24 M (in 1996 dollars), with a maximum shortfall of $47 M expected in the year 2008.

Contributions from development charges, which have not been significant in the past, are expected to account for about 7% of future transportation revenues. This is based on the Regional Development Charge (RDC) rates recommended by staff for Council approval. The projected RDC revenues have been taken into account in estimating future funding shortfalls.

Unless alternative funding sources are available to bridge these shortfalls, capital projects identified in the Transportation Master Plan (TMP) may have to be postponed and the level of maintenance of the existing system scaled down. This has already begun with the 1999 budget and the ten year forecast, which, if continued, will lead to extreme traffic congestion and a severely reduced level of transit service.

In the long run, failure to meet the TMP targets will undermine the infrastructure capacity required to support the quality of life and the economic viability of this Region as it grows in size to a million people by the year 2021. Meeting the TMP targets in later years of the planning period (1996-2021) after cutting back now, would involve even larger funding shortfalls than projected in the 1998 background study "*How Should the User Pay?*". Revised projections, in light of the 1999 budget and the ten year forecast including the future RDC revenues and the additional transit expenditures recommended in the 1998 OC Transpo study entitled, *OC Transpo Comprehensive Review*, indicate an average funding shortfall of $32M (in 1999 dollars) per year for remainder of the planning period.

In short, the Region must find alternative funding sources to maintain the same level of transportation service as in the past and to implement the TMP program without interruption from now until 2021. As an immediate measure, to make up the annual average funding shortfall, Ottawa-Carleton should request the Province to transfer $32M per year to the Region from the revenue collected by the Province annually as fuel tax, driver license/vehicle registration fees, and 8% sales tax on paid parking in Ottawa-Carleton.

In addition, the Region should use this opportunity to promote a new funding partnership with the senior levels of government and put in place a new system of dedicated transportation funding which does not rely on property taxes. This is consistent with Ottawa-Carleton's Official Plan commitment to "provide a transportation system which accommodates all users and minimises economic, social and environmental impacts". Specifically, the Region should pursue the alternative funding mechanisms identified in the 1998 background study, "*How Should the User Pay?*".

The purpose of this report is to establish the reasons for requesting a new funding partnership with the Provincial and Federal governments and establishing a dedicated transportation fund, by drawing on current initiatives by the Greater Toronto Area/Hamilton-Wentworth municipalities, Federal government initiatives under the Kyoto Protocol, the 1995 Ministry of Transportation of Ontario (MTO) study discussing the merits of dedicated transportation funding, and the recent experiences of Vancouver and Montreal in regard to such funding. Specific policy initiatives for Ottawa-Carleton and their implications are then identified.

DISCUSSION

GTA/Hamilton-Wentworth Initiatives

Among Ontario municipalities, the immediate reaction to Provincial restructuring and the resulting transportation funding gap has been to request the Province to transfer part of the fuel-tax and vehicle/driver-license revenues collected in their respective jurisdictions. The Province has rejected initial requests by the Municipalities of Toronto and Mississauga. But the City of Toronto, the GTA Regions and the Region of Hamilton-Wentworth are collectively pursuing this matter especially to fund GO Transit (GT Transit since January 1999), which is now the responsibility of these municipalities and the newly created Greater Toronto Services Board.

They have concluded a consultant study entitled *Funding Transportation in the Greater Toronto Area & Hamilton-Wentworth*. The main recommendation of the GTA/H-W study, is that the GTA/H-W Regions and the City of Toronto should enter into a new transportation funding partnership with the Provincial and Federal governments, and that the new partnership should meet 66% of the road and transit infrastructure needs in the GTA/H-W area, through a revenue sharing agreement with the Province encompassing existing fuel taxes and driver license/vehicle registration fees, and Provincial sales tax generated through vehicle sales and leases, and strategic investments by the Federal Government.

Federal Initiatives

The ongoing initiatives by the Federal government to develop a national strategy to meet Canada's commitment under the Kyoto Protocol have significant implications for urban transportation funding in Canada. Under the Kyoto Protocol, Canada has to reduce its Green House Gas (GHG) emissions by 6% from its 1990 levels between the years 2008-2012. The six largest Metropolitan Areas (Ottawa-Hull is the 4th largest CMA) account for 44% of the GHG emissions within the transport sector which in turn is responsible for 27% of the total GHG emissions in Canada.

Increasing the fuel tax is one of the instruments that are being considered in the development of the transportation component of a national strategy to meet the Kyoto target for GHG reductions. Based on historical data, fuel price increases have a short-term behavioural impact resulting in reduced travel, and a long-term technological impact leading to the production and use of more fuel efficient vehicles. While the technological impact has been assessed to be the larger of the two in the past, economists tend to be even more pessimistic about the behavioural impacts of new fuel price increases especially in the current North American context of rising income levels and the trend towards larger, more powerful and more expensive vehicles.

But trying to meet the Kyoto target primarily through technological improvements without influencing automobile usage would defeat the purpose of sustainable transportation. To avoid unintended consequences in urban areas, municipalities should ensure that fuel tax initiatives to meet the Kyoto target are co-ordinated across urban Regions, and part of the Federal fuel tax revenue should be directed towards increasing transit usage and implementing Transportation Demand Management (TDM) measures in urban centres.

MTO Study

The merits of a new system of transportation funding are discussed, in broad terms, in the Ministry of Transportation's 1995 study, *The Automobile in Ontario: Use and Future Directions.* The study identified five sources of funds to provide road infrastructure and subsidise public transit, and four charging mechanisms for transportation demand management and environmental compensation purposes. The five funding sources, or "logical cost recovery charges", include driver's license fees, vehicle registration fees, fuel taxes, weight/distance charges, tolls, and taxation. The four "incentive and compensation charges" are parking fees, congestion charges, emissions charges and accident cost-recovery.

The study noted that in Ontario and Canada, unlike to some extent in the United States, license/registration fees and fuel taxes are collected by the senior levels of government as general revenues and are not dedicated to transportation funding. The MTO study argued in favour of allocating license/registration fees to provide and maintain a basic network of roads, fuel taxes and tolls to meet operational expenses and capacity expansion, and weight/distance charges to recover wear-related costs inflicted by heavy vehicles. The study also identified that parking charges are primarily intended to discourage automobile usage, while congestion and emission charges can be used to both discourage automobile usage and as revenue streams.

The restructuring of the municipal funding and the downloading of Provincial infrastructure have created the opportunity for Ontario to move towards a new system of dedicated transportation funding. By dedicating fuel tax and driver license/vehicle registration fee revenues to transportation expenditures, and implementing other incentive and compensation charges, Regional Municipalities can transparently recover both the direct infrastructure and external costs, implement TDM measures, and subsidise non-auto modes. They can also proportionately reduce property taxes, and limit their transportation component to primarily supporting the portion of the road network needed for access and land service, and the use of non-auto modes.

Experiences in Vancouver and Montreal

For the last several years and in many countries (e.g. Australia, New Zealand, Singapore, European countries and parts of the United States) transportation funding has been moving towards transparent cost recovery and promoting TDM measures and non-auto modes. In Canada, Vancouver and Montreal are two examples where municipal and provincial governments have pro-actively co-operated in creating new transportation agencies and introducing innovative funding methods to support urban transportation.

The government of British Columbia and the Greater Vancouver Regional District (GVRD) have established the Greater Vancouver Transportation Authority (GVTA) with broad powers to raise revenues and establish subsidiaries for the purpose of developing and implementing transportation plans, TDM measures, and for delivering transit services. In addition to the transportation component of property taxes, GVTA raises revenue through a sharing of the fuel tax revenue with the Provincial government; a $1.90 hydro levy on residential accounts; and a 7% sales tax on parking. The fuel tax has a local and a provincial component, with the local component increasing from 4 cents in 1997 to 10 cents in 2005 within a constant levy of 15 cents per litre. For 1999, the anticipated fuel tax revenue (@ 8 cents per litre) is $127 M, or 54% of the total GVTA revenue as opposed to the property tax share of 38%.

A similar authority, the Metropolitan Transportation Agency, has been created in Montreal to amalgamate and finance transit agencies serving the metropolitan area and to achieve co-ordination between the road and transit systems through transit priority, park & ride and HOV measures. The agency's new revenue sources include a gasoline surtax of 1.5 cents per litre and a special car-registration fee of $30, generating $46 M and $40 M respectively, in addition to the traditional sources of passenger revenues, property tax and continuing Provincial subsidies. The agency has the authority to levy other taxes for transportation such as parking related taxes etc., although they are not yet implemented.

POLICY INITIATIVES FOR OTTAWA-CARLETON

The experiences of Montreal and Vancouver show that it is feasible for Regional Municipalities to implement alternative funding mechanisms dedicated to transportation. Also, the proposal by the GTA/H-W municipalities for a new Transportation Funding Partnership is applicable to Ottawa-Carleton's situation. The Region should pursue a new funding partnership with the Province and the Federal governments and put in place a dedicated transportation fund for the Region. The main revenue sources for a dedicated transportation fund will include the following.

1. Provincial Fuel Tax & License/Registration Fee Revenues

The revised projections of transportation expenditure and revenue, for the 1999-2021 period, indicate an average expenditure of $562M (in 1999 dollars), a revenue of $530M and a shortfall of $32M per year. Of the total $562M, the expenditure on roads accounts for $181M and is financed by RDC and property tax revenues, while the transit component of $381M is funded by transit fares, RDC charges and the transit levy on urban properties.

The entire expenditure on roads is less than what the Province currently collects in Ottawa-Carleton, as Provincial fuel tax (about $150M/yr at 14.7 cents per litre for one billion litres of fuel sold annually in the Region) and as driver license and vehicle registration fees (about $45M per year). This does not include the Provincial sales tax on paid parking, vehicle sales and leases etc.

If these revenue sources are available for dedicated transportation funding in Ottawa-Carleton, the transportation component of the property tax can be significantly reduced. At the minimum, the Province should transfer, as part of the proposed transportation funding partnership, $32M per year to the Region from the existing revenues collected in Ottawa-Carleton to fund the annual shortfall.

2. Federal Fuel Tax Revenue

According to a recent GVRD (Greater Vancouver Regional District) study, *A New Approach to Funding Transportation in Canada*, the Federal government collects $3.8 billion (at 10 cents per litre as Federal fuel tax) each year nationally, but spends less than $400 M on roads and virtually nothing on transit. The study has proposed that the Federal and Provincial governments each commit 3 cents per litre of fuel tax to fund transportation expenditure in Canada's largest 25 urban areas.

The current Federal fuel excise tax revenue collected annually in Ottawa-Carleton amounts to $100M. As the role of the Federal agencies (NCC and Public Works Canada) in Ottawa-Carleton's transportation system decreases, the Region has a unique claim to a share of the Federal fuel tax revenues in order to adequately provide transportation capacity for the large contingency of Federal government activities and employees located in Ottawa-Carleton.

A federal transfer of fuel tax revenue to urban Regions is also necessary given Canada's commitment to the Kyoto Protocol, in that the additional revenue can be used by Regional governments to reduce GHG emissions in urban areas by implementing TDM measures and promoting the use of transit, cycling and walking.

As part of the proposed Transportation Funding Partnership and the proposed national strategy under the Kyoto Protocol, the Federal government should transfer to the Region, 3 cents per litre of fuel sold annually in Ottawa-Carleton, to be used exclusively for promoting the use of transit, cycling and walk modes, and implementing Transportation Demand Management (TDM) measures. Also, as a small part of its commitment to the Kyoto Protocol, the Federal government should provide tax exemption to employer-provided transit passes.

3. Additional Funding Sources

Additional funding sources include fuel surtax and distance/weight-based registration fees to encourage less driving and lighter vehicles; surcharge on vehicle insurance fees to undertake safety improvement and policing measures; road pricing, particularly bridge tolls for future inter-provincial bridges; and area-wide congestion pricing during peak periods. These sources require new technology as well as enabling legislation, and, in the case of Ottawa-Carleton, participation by municipalities in Quebec. In regard to these sources, the Region should request the Province to investigate the feasibility of implementing them in Ontario.

Parking taxes can be implemented as sales tax on paid parking, and as a parking space tax on non-residential parking spaces. In Vancouver, GVTA charges a 7% parking sales tax on paid parking to net $7.5M/yr in revenue, while Sydney, Australia, operates a parking space tax scheme.

In Ontario, the Province already collects 8% as Provincial Sales Tax (PST) on paid parking. Ottawa-Carleton should request the Province to transfer the PST revenue on paid parking to the Region to be used in promoting TDM measures, transit and other non-auto modes in urban centres. The Region should also request the Province to amend the Municipal Act to allow municipalities to levy a fee on non-residential parking spaces as a deterrent against automobile usage.

PUBLIC CONSULTATION

The background study released in December 1998, and the Public Forum in March, 1999, have identified the opportunities for and discussed the feasibility of using alternative sources to fund transportation expenditure in Ottawa-Carleton. In order to pursue these objectives with senior levels of government and other agencies, the Region should develop a communication strategy to provide a clear message for the Provincial and Federal governments regarding the merits of the proposed Transportation Funding Partnership, and implementing a dedicated transportation funding system in Ottawa-Carleton.

CONCLUSION

As a result of the Provincial restructuring of municipal funding programs and the termination of transportation subsidies, Ottawa-Carleton, like other Regional municipalities, must find alternative funding sources to support its transportation system. Alternative funding is required to accommodate and service future growth as envisaged by the Regional Official Plan. The funding gap created by the Provincial withdrawal of subsidies cannot be bridged by increasing property taxes, transit fares or development charges. Without alternative resources the Region will be forced to cut back on its Transportation Master Plan projects, as it has already done in the current year.

At the same time, the Provincial changes and Canada's commitment under the Kyoto Protocol have created new opportunities to move away from relying on property taxes and towards a new system of dedicated transportation funding that will enable the recovery of the full costs of transportation, the implementation of TDM measures, and the promotion of non-auto modes, in keeping with the Region's Official Plan objectives. The Region should pursue a new funding partnership with the Province and the Federal government, and put in place a dedicated transportation fund for the Region. The immediate revenue sources for the fund would be Provincial and Federal transfers of transportation revenues annually collected in Ottawa-Carleton. These transfers should be implemented through a new funding partnership involving the three levels of government. The Province should also investigate the feasibility of implementing additional funding mechanisms, including fuel surtax, insurance surcharge, distance/weight based vehicle registration fees, congestion pricing and road pricing in Ontario. The Municipal Act should be amended by the Province to allow municipalities to levy a fee on non-residential parking spaces as a disincentive to automobile usage.

Approved by
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RP/jg