FEDERAL BUDGET 2017

CANADIAN URBAN TRANSIT ASSOCIATION BUDGET ANALYSIS

In its second budget since forming government, the federal Liberals continued with the vision they set for the country in the 2015 election. This meant firming up previous commitments for infrastructure, innovation and social priorities, like social housing, skills training and child care. New spending was modest, however, and many spending commitments were planned to hold-off on funding for a few years down the road.

For the transit industry, however, the 2017 federal budget was ground-breaking in a number of ways. Firstly, the government followed through on it's $20.1 billion commitment to transit infrastructure, along with an additional $5 billion ear marked to fund transit projects through a new Canada Infrastructure Bank.

The budget also eliminated the long-standing Public Transit Tax Credit, which provided financial relief through a 15% tax credit to 1.8M regular public transit customers.

Tucked away in the budget were a number of programs that will affect the transit industry, this includes funding for transit innovation through a 'super clusters' program and the creation of a Smart Cities Challenge that will spur collaboration to support, among other things, smart mobility in the context of smart cities. Transit may also be eligible for funding for climate resiliency, transportation and accessibility infrastructure, which will be determined in the coming weeks as program details take shape. The budget also announced that ride-sharing companies, such as Uber, will have to charge GST for their services.

All these changes, both big and small, will affect the transit industry. The Canadian Urban Transit Association will continue to engage with our members, the government and stakeholders across Canada to ensure that the industry's complex needs, challenges and opportunities are studied, communicated and understood from Parliament Hill to the grassroots of Canadian communities.

THE PUBLIC TRANSIT INFRASTRUCTURE FUND PHASE TWO (PTIF II)

The commitment to PTIF II ($20.1 billion over 11 years) has been a central part of the government's overarching transit infrastructure commitment since its 2015 election campaign. The announcement was not a surprise as the financial commitment was made in the fall economic update in November. The 2017 Budget put some meat on the bones of the Fall Economic Update framework, though many of the detailed program parameters of this fund will still be worked out within Infrastructure Canada and through bilateral agreements between the federal government and the provinces and territories.

This long-term commitment supplements Phase I of the Public Transit Infrastructure Fund ($3.4 billion over three years), but will be more 'ambitious' and focus more on expansion projects than its predecessor.

Much like Phase I, the federal government will be working to sign bilateral agreements with provinces in the coming months regarding PTIF II. How much each province will receive in transit funding will be based 70% on provincial ridership levels and 30% on provincial population (Phase I funds were distributed solely on provincial ridership). How the funds will then be transferred to transit systems from their respective provinces is still unknown.

PTIF II distributes no money in 2017/18, the government's five-year commitment to federal transit through PTIF II at about $3.9 billion (see year by year spending below under heading "Public Transit bilateral agreements"). The government ramps up its spending commitment in PTIF II in the final six years of the program so that it can reach $20.1 billion by 2027/28.

Allocation of Investing in Canada—The Long-Term Infrastructure Plan

millions of dollars

	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022	5-Year Total
Total Amount Provisioned	700	4,000	4,200	5,300	6,700	20,900
Public Transit Provision	300	1,100	1,100	1,500	1,800	5,800
Public Transit Bilateral Agreements	0	950	851	977	1,150	**3,926**
Canada Infrastructure Bank	149	123	230	188	231	**921**
Smart Cities Challenge	5	15	2	18	2	**42**
Superclusters	10	13	18	18	18	**75**
Subtotal	*164*	*1,100*	*1,100*	*1,200*	*1,400*	**4,964**
Reprofile of Public Transit Allocation	-136	0	0	-300	-400	-836

Allocation of Investing in Canada—The Long-Term Infrastructure Plan

millions of dollars

	2022–2023	2023–2024	2024–2025	2025–2026	2026–2027	2027–2028	Total
Total Amount Provisioned	7,900	8,800	9,700	11,300	11,300	11,300	81,200
Public Transit Provision	2,200	2,500	2,800	4,000	4,000	4,000	25,300
Public Transit Bilateral Agreements	2,003	2,227	2,551	3,068	3,150	3,200	**20,125**
Canada Infrastructure Bank	499	575	620	679	828	878	**5,000**
Smart Cities Challenge	18	2	18	2	18	0	**100**
Superclusters	0	0	0	0	0	0	**75**
Subtotal	*2,520*	*2,804*	*3,189*	*3,748*	*3,996*	*4,078*	***25,300***
Reprofile of Public Transit Allocation	320	304	389	-252	-4	78	0

Federal cost share for individual transit projects will vary between 40% (when cost shared with a municipality and province) and 50% (when cost shared only with a province). Projects in territories will be eligible for a 75% federal cost share.

Up to 15% of a system's allocation for Phase II can be used for repair and rehabilitation projects (compared with 100% in Phase I), though rehabilitation projects will all be eligible for a 50% federal cost share.

The government has stated its intention to work with provinces to monitor all infrastructure projects on an ongoing basis to ensure they are delivering results in local communities and meeting national objectives. CUTA will remain engaged in a discussion with the federal government on how best this data can be collected and analyzed.

ELIMINATION OF THE PUBLIC TRANSIT TAX CREDIT

The budget announced important reforms to Canada's fiscal framework. Included in the reforms was the elimination of the Public Transit Tax Credit.

The reason given for the elimination of the non-refundable Public Transit Tax Credit, which will be effective in respect of transit use after June 30, 2017, was that the credit had been ineffective in encouraging the use of public transit and reducing greenhouse gas emissions—the stated goal of the credit when created in 2006.

Over the last weeks and months CUTA has brought up with the government the importance of transit supportive measures in Canadian communities, in particular by maintaining the Public Transit Tax Credit. We will work closely with the government to ensure that transit supportive measures, including fiscal measures, remain diversified and reflective of the complex needs of our sector. Notably, CUTA recently addressed a letter to Finance Minister Bill Morneau with regards to keeping the credit.

The most recent and official information (2017) from the Department of Finance on the credit shows that about 1.8 million individuals claimed this credit in 2014, when the program had a cost of $180 million. The projected cost of the credit in 2018 was $205 million.

CUTA will remain engaged with the government on the issue of the Public Transit Tax Credit, making the case for measures that maintain transit affordable.

INFRASTRUCTURE BANK

The Government announced plans to establish a new Canada Infrastructure Bank ($35 billion over 11 years) by late 2017. This arm's-length organization will work with government and private sector investment partners. "These investments will be made strategically, with a focus on large, transformative projects such as regional transit plans, transportation networks and electricity grid interconnections," reads the budget.

Over the next 11 years, $5 billion of the bank's start-up funding will be ear marked for public transit projects, with $149 million being allocated in 2017/18. Over the next five years, $921 million has been earmarked for transit.

Allocation of Investing in Canada—The Long-Term Infrastructure Plan

millions of dollars

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Aside from capital funding, the bank will also play another important role; data centre. The new bank will "track, collect, use and share the data needed to measure the impact of infrastructure investments." This will be done in partnership with provinces, territories, municipalities and Statistics Canada. This data will support the following efforts:

- Provide comparable data and information on issues such as infrastructure demand and usage for jurisdictions across the country.
- Provide a national picture on the state and performance of public infrastructure across asset classes.
- Deliver high-quality data analytics to help inform policy and decision-making, and promote fact-based dialogue between all orders of government.
- Track the impacts of infrastructure investments so that governments can report back to Canadians on what has been achieved.

The Government says they will soon begin a process to identify the Bank's Chief Executive Officer and Chairperson of the Board of Directors.

SMART CITIES CHALLENGE

Budget 2017 created a new Impact Canada Fund, with the goal of harnessing innovation to help solve Canada's big challenges. This fund is broken into two streams, the first is a Smart Cities Challenge ($300 million over 11 years), and the second is a clean technology stream ($75 million over two years).

The Smart Cities Challenge is meant to "encourage cities to adopt new and innovative approaches to city-building … Modelled on a similar competition in the U.S., the Smart Cities Challenge would invite cities across Canada to develop Smart Cities Plans, together with local government, citizens, businesses and civil society." Winning cities will be selected through a nationwide, merit-based competition.

Infrastructure and transportation projects are eligible under the program. In total $100 million over 11 years within the Smart Cities Challenge is listed under the Public Transit Provision of the Government's Long-Term Infrastructure Plan—$42 million of which will be spent in the first five years.

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The Clean Technology Stream is meant to address challenges "such as helping Canada's rural and remote communities reduce their reliance on diesel as a power source."

SUPERCLUSTERS

The budget defines a cluster as "dense areas of business activity that contain large and small companies, post-secondary institutions and specialized talent and infrastructure—energize economies and act as engines of growth. They create jobs, encourage knowledge sharing, drive business specialization and help to attract "anchor" companies from around the world."

As part of their Supercluster strategy for Canada, the government is investing $950 million over the next five years to support innovation clusters that have the greatest potential to accelerate Canada's economic growth. $75 million of this funding is being drawn from funds that were previously set aside for transit. This money will remain in the Public Transit Provision of the Government's Long-Term Infrastructure Plan.

Allocation of Investing in Canada—The Long-Term Infrastructure Plan
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Transit relevant clusters include: advanced manufacturing, clean technology, digital technology, clean resources, infrastructure, and transportation. The key to creating Superclusters, according to the government, is risk sharing, strong connections between business and academia, the creation of strong global supply chains, diverse and skilled talent pools and a focus on innovative solutions.

THE ENVIRONMENT

As the government continues its work on the Pan-Canadian Framework on Clean Growth and Climate Change, including the creation of a national carbon price, Budget 2017 announced $5 billion over five years in infrastructure that protects communities and supports Canada's ongoing transition to a clean growth economy. This is part of a larger $21.9 billion Green Infrastructure Fund for the government.

"Budget 2017 proposes to develop greenhouse gas regulations in the marine, rail, aviation and vehicle sectors. These efforts will be led by Transport Canada, with a proposed investment of $56.9 million over four years, starting in 2018–19."

"Budget 2017 also proposes to provide $17.2 million over five years, starting in 2017–18, to Environment and Climate Change Canada and Transport Canada to develop and implement heavy-duty vehicle retrofit and off-road regulations, as well as a clean fuel standard to reduce emissions from fuels used in transportation, building and industrial sectors."

Additionally, the government will be working with provinces and territories to set stronger air quality standards, monitor emissions, and provide incentives for investments that lead to cleaner air and healthier communities.

ACCESSIBILITY

The government also announced a top-up to the Enabling Accessibility fund in Budget 2017. The funding is meant to expand the fund's activities and is worth $77 million over 10 years. According to the government, the purpose of the fund is for "the construction and renovation of public spaces to make them more accessible, making it possible for Canadians with disabilities to participate more fully in their community and the economy."

TRANSPORTATION INFRASTRUCTURE

Budget 2017 sets aside $867.3 million over three years, starting in 2017–18 for VIA Rail, to support its operations and capital requirements.

Additionally, the Government will be investing $10.1 billion over 11 years in trade and transportation projects. This is meant for "building on Transport Canada's "gateways" model, the Trade and Transportation Corridors Initiative will prioritize investments that address congestion and bottlenecks along vital corridors, and around transportation hubs and ports providing access to world markets," reads the budget.

One subsection of this larger strategy involves Modernizing Canada's Transportation System ($76.7 million over five years). This will include developing regulations for the safe adoption of connected and autonomous vehicles and Increasing Transport Canada's ability to establish and provide the standards and certifications that the industry will need to safely use these new technologies.

STRATEGIC INNOVATION FUND

Budget 2017 also announced a new Strategic Innovation Fund ($1.26 billion over five years). This fund is meant to "consolidate and simplify existing business innovation programming, in particular the Strategic Aerospace and Defence Initiative, Technology Demonstration Program, Automotive Innovation Fund and Automotive Supplier Innovation Program."