Moving Forward: Maximizing the Benefits of Transit Investment

Federal Pre-budget Submission 2015

Canadian Urban Transit Association

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About the Canadian Urban Transit Association

CUTA is the collective and influential voice of public transportation in Canada, dedicated to being at the centre of urban mobility issues with all orders of government, and delivering the highest value to its members and the communities they serve. CUTA is the national association representing public transit systems, manufacturers and suppliers to the industry, government agencies, individuals and related organizations in Canada.

Executive Summary

The Government of Canada can ensure it receives the maximum economic and environmental benefits from its historic urban transit investments by putting forward policies that encourage growth in Canada's transit manufacturing, supply chain, and research and development industries. By making simple, but yet important improvements to how the government approaches transit investment, Canada will reduce congestion, increase economic activity, stimulate a growing and productive job market, and reduce Green House Gas (GHG) emissions.

The Federal role in public transit funding in Canada has been firmly established thanks to the long-term Public Transit Fund that was announced in last year's budget. The fund, which will be administered through P3 Canada, will ramp up to be worth $1 billion a year. [1] Additionally, the federal contribution limit for the fund, as well as for the P3 Canada fund, has increased to 33% of project value – this has been a long-term recommendation of CUTA's. [2]

This, combined with the New Building Canada Fund and the Gas Tax Fund, has enshrined the federal government as an equal partner for public transit infrastructure investment in Canada. These investments will pay dividends to Canadians for generations through improved quality of life, increased accessibility and mobility, greater economic activity, and better air quality.

There's still more that can be done to optimize these investments, however. These recommendations will ensure not only safe, reliable and expanded public transit in Canada—but that the government's investments in transit will also have far reaching spin-off benefits throughout the economy.

The Canadian Urban Transit Association has focused its recommendations on the priority themes identified by the Standing Committee on Finance for Pre-Budget consultations. These themes emphasize a focus on infrastructure, jobs, productivity and taxes.

Recommendations:

1) **CUTA recommends that the government negotiate a special and permanent exemption agreement with the U.S. for potential new "Buy America" procurement rules pertaining to public transit rolling stock. Canada must work diligently to ensure that trade policies provide equal business opportunities and do not harm Canadian companies and their market access.**

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[1] Oliver, J. (2015) Strong Leadership: A Balanced-Budget, Low-Tax Plan for Jobs, Growth and Security. The Government of Canada. Pg. 184. http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf

[2] PM announces further details of new Public Transit Fund. The Office of the Prime Minister of Canada. June 18, 2015. http://pm.gc.ca/eng/news/2015/06/18/pm-announces-further-details-new-public-transit-fund

2) **The federal government should consider raising its cost share of public-private partnership (P3) projects under the New Building Canada Fund from 25 % to 33 %. By creating an across the board 33 % contribution limit on all infrastructure programs, municipalities will be able to apply to whichever program is best suited to their particular needs—ensuring increased productivity and better return on investment.**

3) **The federal government should provide tax-exempt status for employer-provided transit benefits. This would complement the current federal tax credit for transit pass purchases, encourage employers to financially support transit commuters, "level the playing field" with employer-provided car parking benefits, and ultimately reduce income taxes and commuting costs of hard working Canadians.**

4) **In order to reap the maximum environmental benefit from expanding public transit infrastructure, and simultaneously foster a Canadian clean-tech manufacturing industry, the federal government should develop an investment program to support 50 % of the incremental costs of acquiring new vehicles that incorporate proven environmentally sustainable engine and alternative fuel technologies, such as hybrids, natural gas, electric, etc.**

Supporting Canadian jobs through fair international trade agreements

Canada's transit manufacturing and research and development industries are spread across Canada, with notable clusters in the Montreal, Toronto, Winnipeg, and Vancouver regions. These industries provide good jobs to Canada's skilled workforce and help Canada to be on the leading edge of transit technology. These industries also keep the price of procurement for transit projects more affordable to Canadians thanks to both proximity and ability to purchase these manufactured goods in Canadian dollars.

Canadian-based bus manufacturers satisfy nearly 70 % of the North American urban transit bus market, with a heavy focus in the US, and directly employ 3,000 Canadians.[3] Moreover, companies like Grande West Transportation based in B.C., New Flyer based in Manitoba, and Nova Bus based in Quebec, use tier-two suppliers that are located in communities of all sizes across the country. Whether it's the steering system, the seating, the transmission, or the wheelchair ramp and lift, hundreds of transit manufacturers are based here in Canada – with the supply chain extending to large and small communities alike.

The examples provided above illustrate the impact of how public transit infrastructure projects can create thousands of jobs, putting local citizens to work, building stronger communities, and helping create a more energy-efficient Canada. However, protectionist measures are being debated in the U.S. regarding "Buy America" procurement rules which could potentially raise U.S. content from 60 % to 100 %. Hundreds, if not thousands, of Canadian jobs related to the industry could be put at risk if transit manufacturers are forced to shift production to the U.S.

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[3] Let's Move, (2013) CUTA p.8 http://www.cutaactu.ca/en/public-transit/eventsandawards/resources/Transit_Awareness_Day_Booklet_Key_messages_-_EN.pdf

Buy America requirements in the U.S. for transit rolling stock procured with federal funding (U.S.) has an impact on the ability of Canadian manufacturers and suppliers to remain competitive and maintain – let alone expand – their markets.

CUTA recommends that the government negotiate a special and permanent exemption agreement with the U.S. for potential new Buy America procurement rules pertaining to public transit rolling stock. Canada must work diligently to ensure that trade policies provide equal business opportunities and do not harm Canadian companies and their market access.

Becoming an equal partner in transit infrastructure investment

The move by the federal government to expand its federal contribution cap on P3 Canada Fund projects, including those through the new Public Transit Fund, from 25 % to 33 %, has gone a long way to making the federal government an equal partner in major transit infrastructure investments in Canada.

However, the New Building Canada Fund is still capped at 25 % of the total cost of projects deemed to be P3s. This reduced limit, when compared to other Federal programs, creates a disincentive to apply to the New Building Canada Fund. When applying for funding, municipalities and provinces should be applying to the program best suited to the particular project, and not a less-well suited program because it offers a higher federal contribution.

The federal government should consider raising its cost share of public-private partnership (P3) projects under the New Building Canada Fund from 25 % to 33 %. By creating an across the board 33 % contribution limit on all infrastructure programs, municipalities will be able to apply to whichever program is best suited to their particular needs—ensuring increased productivity and better return on investment.

Encouraging transit use through Canada's tax code

CUTA has long advocated that the tax system should be used to encourage a transportation modal shift to transit by changing the way public transit benefits are taxed. In law, benefits such as parking and transit are designated as taxable income. In practice, however, the number of commuters paying taxes on employer provided parking benefits is believed to be quite small.

A tax exempt transit pass for employees would provide hard working Canadians with a reduction of income tax (due to tax free benefit) and ultimately reduce their travel costs for commuting back and forth to work. This transit benefit would provide equity for non-drivers, and motivation for drivers to switch their mode of transportation.

Since this measure specifically targets the journey to and from work when traffic congestion is at its highest, that level of increased ridership would also have a tangible effect on easing traffic congestion.

In a memorandum prepared by the Tax Policy Branch of the Department of Finance in 2004, the government assessed the measure would cost somewhere between $40 million and $115 million annually in forgone revenues. According to the memorandum, $115 million in forgone revenues would represent an increase in transit ridership of 18%.[4]

An additional attractive feature of this proposal, in terms of accountability and efficiency, is that the cost is directly proportionate to the success of the measure. If only a handful of employers decide to offer the program, then its cost will be marginal.

The federal government should provide tax-exempt status for employer-provided transit benefits. This would complement the current federal tax credit for transit pass purchases, encourage employers to financially support transit commuters, "level the playing field" with employer-provided car parking benefits, and ultimately reduce income taxes and commuting costs of hard working Canadians.

Improving productivity in Canadian cities by renewing Canada's aging rolling stock

Canadians are becoming increasingly concerned about the environment generally, and about the air quality in their cities specifically – particularly in summer months. While public transit reduces GHG emissions by taking cars off the road, some of Canada's rolling stock has not been upgraded in decades and falls well short of meeting the impressive environmental efficiency of modern rolling stock.

Unfortunately the cost to upgrade fleets to more environmentally friendly stock is out of reach for most small to medium sized municipalities and transit operators. Of the $56.6 billion transit infrastructure deficit in Canada, 28 % of the needs have to do with rehabilitating or renewing existing infrastructure.[5] The federal government could support the commercialization of new technologies by establishing a dedicated fund to compensate transit systems and municipalities for a portion of the incremental costs of innovative, energy-efficient transit vehicles.

This would help municipalities and transit systems afford cutting edge technology that reduce GHG emissions. It would also provide spin-off benefits in both Canada's growing transit research and development industry as well as the transit manufacturing sector.

In order to reap the maximum environmental benefit from expanding public transit infrastructure, the federal government should develop an investment program to support 50 % of the incremental costs of acquiring new vehicles that incorporate proven environmentally sustainable engine and fuel technologies.

Conclusion

The federal government's unprecedented commitment to urban transit infrastructure will help integrate mobility in Canadian cities for generations to come. By addressing the unanimous need for increased transit infrastructure investment, Canada stands to reap substantial economic and environmental benefits.

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[4] Department of Finance, Tax Policy Branch memorandum of January 24, 2004, supra note 54, at 1.
[5] Infrastructure Needs Report, 8th ed (May 2015). CUTA. Pg 5. http://www.cutaactu.ca/en/public-transit/publicationsandresearch/resources/Infrastructure_Needs_-_8th_edition_-_FINAL.pdf

But the Canadian government needs to ensure that they are receiving the highest return possible out of their investment. In order to do this, Canadian manufacturers need to be allowed to compete on a level playing field with their counterparts in the United States. This can be achieved through a special and permanent exemption for Canadian transit manufacturers to the Buy America policy.

This will ensure that the price of rolling stock in Canada does not increase and that the growing Canadian hubs of transit manufacturing, as well as research and development, are not moved to the U.S.

The government can further improve Canadian productivity and create jobs through increasing the federal contribution limit on P3 projects in the New Building Canada Fund to 33%. It can also help influence positive growth in transit ridership by creating an employer tax exemption for transit passes in the tax code and by developing an investment program to support 50 % of the incremental costs of acquiring more efficient transit vehicles.

Through this comprehensive approach to Canadian public transit, Canada will modernize its urban centers into innovative and environmentally friendly economic hubs. We look forward to working with the government on this important file in the future.