- ISSUE PAPER -

A BLUEPRINT FOR PERMANENT TRANSIT FUNDING

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EXECUTIVE SUMMARY

The announcement of a Permanent Transit Fund (PTF) is a significant, perhaps transformative, step forward in building public transit. The Canadian Urban Transit Association (CUTA) commends the government for its creation, and through this submission offers recommendations we hope will help maximize the program's effectiveness. By building more transit, we can help decongest our cities, create good jobs, and take meaningful climate action.

"BY BUILDING MORE TRANSIT, WE CAN HELP DECONGEST OUR CITIES, CREATE GOOD JOBS, AND TAKE MEANINGFUL CLIMATE ACTION."

CUTA hopes the PTF can build on the success of two other advents in transit infrastructure: the Community Building Fund (CBF), formerly known as the Gas Tax Fund, and the Investing in Canada Infrastructure Program (ICIP). Both contain features, such as empowering municipalities in project selection and allocating funds based on ridership, that would help the PTF achieve its potential. Despite the overall successes of both programs, challenges remain matching dollars to projects.

This manifests itself in two ways. Because many provinces do not match federal dollars for public transit, over the last five years, more than a quarter of infrastructure funds went unspent. There are also significant regional disparities. As a result of six provinces not taking advantage of available federal funds, almost all transit investment occurs in the four largest provinces.

To help funds reach projects and build more transit, especially in smaller provinces that have smaller projects, CUTA recommends creating a stream within the PTF that does not require provincial matching funds. And to help alleviate unused funds, CUTA recommends embracing the proven success of the Community Building Fund with its predictable funding. This paper expands upon these recommendations in the hope the PTF will be the transformative program it has the potential to be, and we can build more public transit to keep communities moving while lowering emissions.

PREDICTABLE FUNDING THAT MATCHES DOLLARS TO PROJECTS

The advent of a PTF is a significant improvement in building public transit. It can solve the boom-and-bust cycle that once plagued transit planning, with systems forced to ramp up plans as new, time-limited funding becomes available, only to wind down when the program ends. The predictable nature of the PTF has the potential to create a stream of larger, often rail-based, projects that can be transformative. To achieve its maximum benefit, CUTA recommends adopting three features of existing federal programs.

The first is the allocation of funds by ridership, as the ICIP currently does. This avoids the need for applications. A second feature of existing programs is found in the CBF, formerly known as the Gas Tax Fund, which allows municipalities to select their own projects. Coupled with the CBF's own predictability, the ability to match dollars with projects explains why it is so successful in quickly building infrastructure of all types, including transit, with almost no lapse rates in funding.

The CBF also contains another feature that improves predictability. Payments are distributed twice a year, which municipalities can bank, borrow against, and apply to projects at their discretion. It is also legislated, giving it 'permanent authorization,' without needing to be approved by a Parliamentary budget bill before departments are authorized to spend it. As a result, it avoids the high lapse rates of other programs.

RECOMMENDATIONS:

- Disperse funds on a ridership-based formula, with funds flowed biannually with permanent legislated spending authorization and an annual escalator to protect against inflation.
- Empower local government by allowing municipalities to oversee project selection.

WHY THE COMMUNITY BUILDING FUND WORKS

The Community Building Fund is effective at building infrastructure, including transit, without the unused funds seen in other programs because of five features. CUTA recommends a PTF include:

- A clear funding formula that allows municipalities to plan long-term.
- Municipal empowerment through tri-lateral agreements with Ottawa and the province.
- Direct bi-annual payments to municipalities that can be banked and borrowed against.
- Municipalities oversee project selection and approval.
- Permanent legislated spending authority.

RESOLVING REGIONAL DISPARITIES

Canadian transit investment is a tale of two countries. In the most populated provinces with the biggest cities—namely BC, Alberta, Ontario and Quebec—provincial governments of all stripes tend to significantly support transit investments. But elsewhere, provinces often leave transit funding to municipalities, which usually lack the resources required to expand transit. The problem is only compounded when the lack of provincial funding prevents federal dollars from reaching communities. But the PTF can address these disparities by drawing on lessons from existing programs.

WHY TRANSIT MATTERS

Few things affect social equity and the environment more than public transit. It is essential to reducing congestion in cities, meeting climate goals, and providing universal access to employment and education.

Before the pandemic, more than 6 million Canadians used transit every day. Even during Covid, in late 2020, more than 2.5 million people relied on transit every day—especially those who lived too far from work or school to walk or bike, but whose income was too low to take a car. These workers are disproportionately people of colour, and most of them are women. Public transit is also a lifeline to many seniors and people living with disabilities, who rely on it for essential trips every day. Giving more people access to urban mobility by building more transit will connect more communities, and provide alternatives to the car in an era of rising carbon pricing.

In smaller communities in smaller provinces that largely do not fund public transit, service levels are much lower. There are fewer buses that come less often, and sometimes no service on evenings and weekends.

Transit itself is an effective way of meeting our climate objectives and controlling urban sprawl. Many systems are embracing zero-emission vehicles and electrification to further reduce emissions. Already, existing public transit reduces emissions by 14.3 million tons a year.[1]

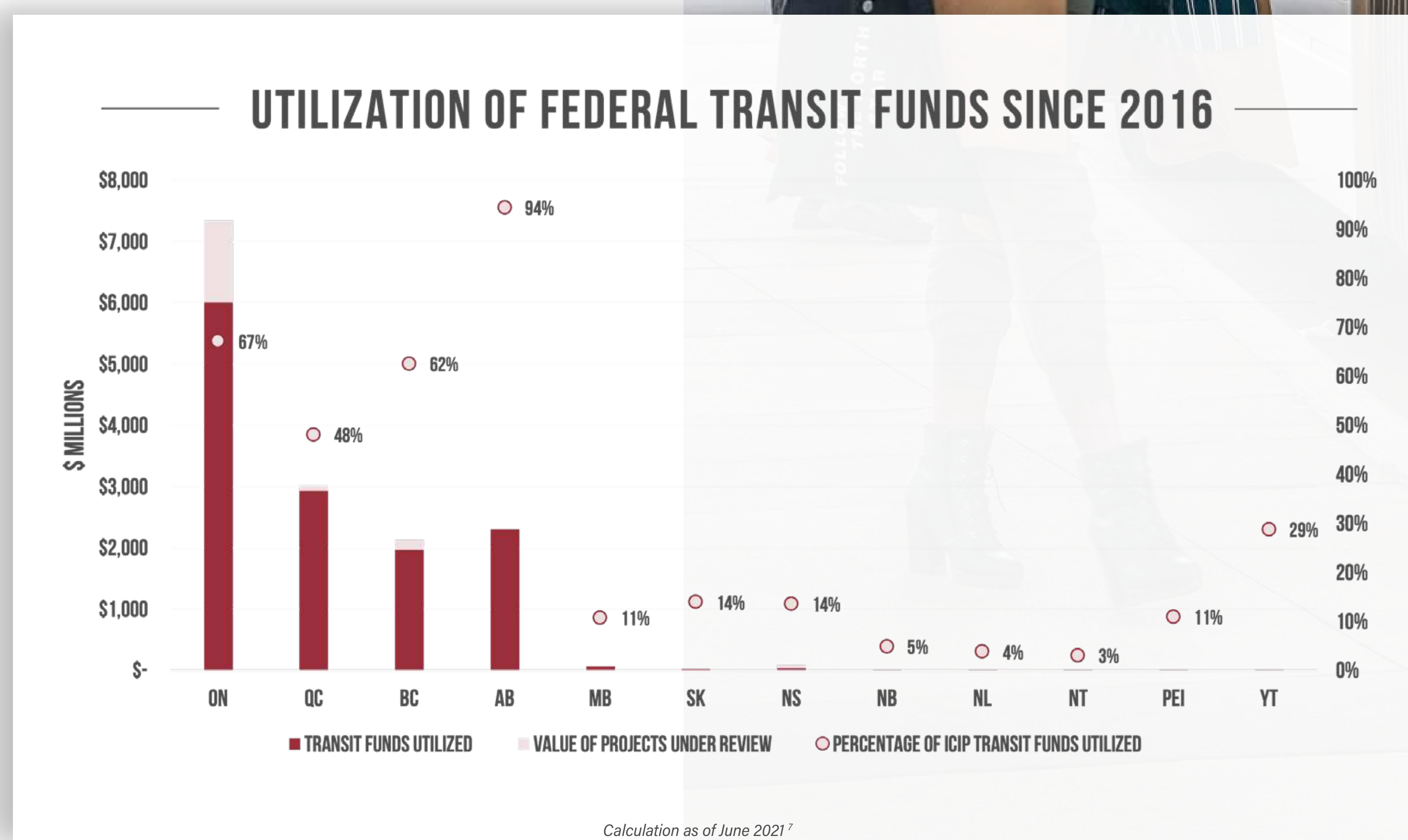
> **OVER THE LAST FIVE YEARS, MORE THAN A QUARTER OF BUDGETED AMOUNTS WENT UNUSED.**

Municipalities own more than 60% of Canada's infrastructure, but receive only 10% of tax receipts due to limited revenue tools. In contrast, the federal government owns little of our infrastructure, but plays a large role in funding it, regulating it, and establishing standards. For example, the ICIP program will deliver over $23 billion in transit capital funding over 12 years in partnership with provinces and territories, which match the dollars. In provinces that do, it delivers impressive results. But in the Atlantic provinces, Manitoba, and Saskatchewan, which largely do not, communities are left without.

New Brunswick, for example, has service levels about half the national average and almost a fifth of its bus fleet in poor condition[2], has left more than $120 million in potential federal transit funding untouched. At the time of writing, Manitoba has $560 million allocated federal dollars yet to be matched to projects; in Nova Scotia, it is $220 million and Newfoundland & Labrador, $53 million. In some cases, communities have still not seen any dollars from the second phase of ICIP, agreements for which were signed in 2018.

In contrast, Ontario takes much fuller advantage of federal dollars. And due to it being home to several large systems that have rail as part of their network, its capital needs are greater. So much so, it has requested an additional $7.5 billion in addition to their ICIP allocation for major rail expansion projects in the Greater Toronto and Hamilton Area[3,4] - and recently reached a deal with the federal government to invest $12 Billion federal dollars into these projects.

Due to many provinces not matching federal ICIP dollars for public transit, Infrastructure Canada is unable to spend all the infrastructure funds the federal budget allocates. Over the last five years, more than a quarter of budgeted amounts went unused. Since 2015, Infrastructure Canada has been authorized to spend an average of $6.82 billion annually, but actually spent an average of $5.07 billion[5]. A major consequence of this is the economic benefits of building transit—the most effective job creator of any infrastructure class[6]—is lost, along with related climate benefits.



Calculation as of June 2021[7]

To address this inequity, CUTA recommends the PTF include a baseline level of public transit funding across the country that is not dependent on provincial matching funds. This would allow smaller projects in smaller communities to proceed, even without provincial matching funds, while continuing ICIP's success in helping larger cities build larger-scale, often rail-based, infrastructure with provincial contributions. The PTF should also include a rural carve-out to help rural municipalities establish a transit system, and CUTA supports the recent federal announcement of a $250 million fund dedicated to rural transit projects.

RECOMMENDATIONS:

CUTA recommends the Permanent Transit Fund contain three streams:

- A baseline stream for all communities that does not rely on provincial matching funds to rectify the current disparity that sees almost all of ICIP's transit investment occurring in the four largest provinces receive due to unused allocations in the Atlantic provinces, Manitoba, Saskatchewan, and the territories. This leaves many, often smaller projects, unbuilt. Creating a low, but guaranteed, baseline would be enormously beneficial to smaller municipalities in these provinces and territories.

- A stream for larger, often rail-based, projects that requires provincial matching funds. Larger transit systems are often in greater need of capital dollars because rail projects are more capital intensive—and leveraging additional funding from provinces is crucial to cover the larger costs of these transformative projects.

- A continuation of the fund for rural municipalities currently without public transit beyond 2025, the year the current program expires.

EMPOWERING MUNICIPALITIES

The Permanent Transit Fund should allow municipalities—or regional transit authorities, in cases where projects involve multiple municipalities—to oversee project selection, design, and approval. This is a major reason the Community Building Fund has been so successful in building infrastructure, including transit. International evidence indicates that empowering local governments results in building transit faster, with a lower cost per kilometre[8].

The Community Building Fund has pioneered bringing municipalities to the table through tri-lateral agreements among federal, provincial and local governments[9]. Under the CBF, municipalities select projects and oversee construction, reporting to provinces. The federal government sets national objectives, negotiates terms and conditions through provincial agreements, distributes funds, and manages overall direction. Provinces administer the program, ensure municipal compliance with terms and conditions, and report on results. There is also a dispute resolution mechanism.

Having such a forum may be helpful in resolving a bane of transit expansion in Canada: when one level of government changes its position on a project, usually after a change in governing party. Changes to, delays in, or even the cancellation of projects—often large ones, with transformative potential such as subways, LRTs, or busways—has bedevilled cities. While including municipalities, or regional transit systems, into governance agreements as partners may not alleviate all problems, it would improve on the status quo in helping match funds with projects included in municipalities' long-term transit plans.

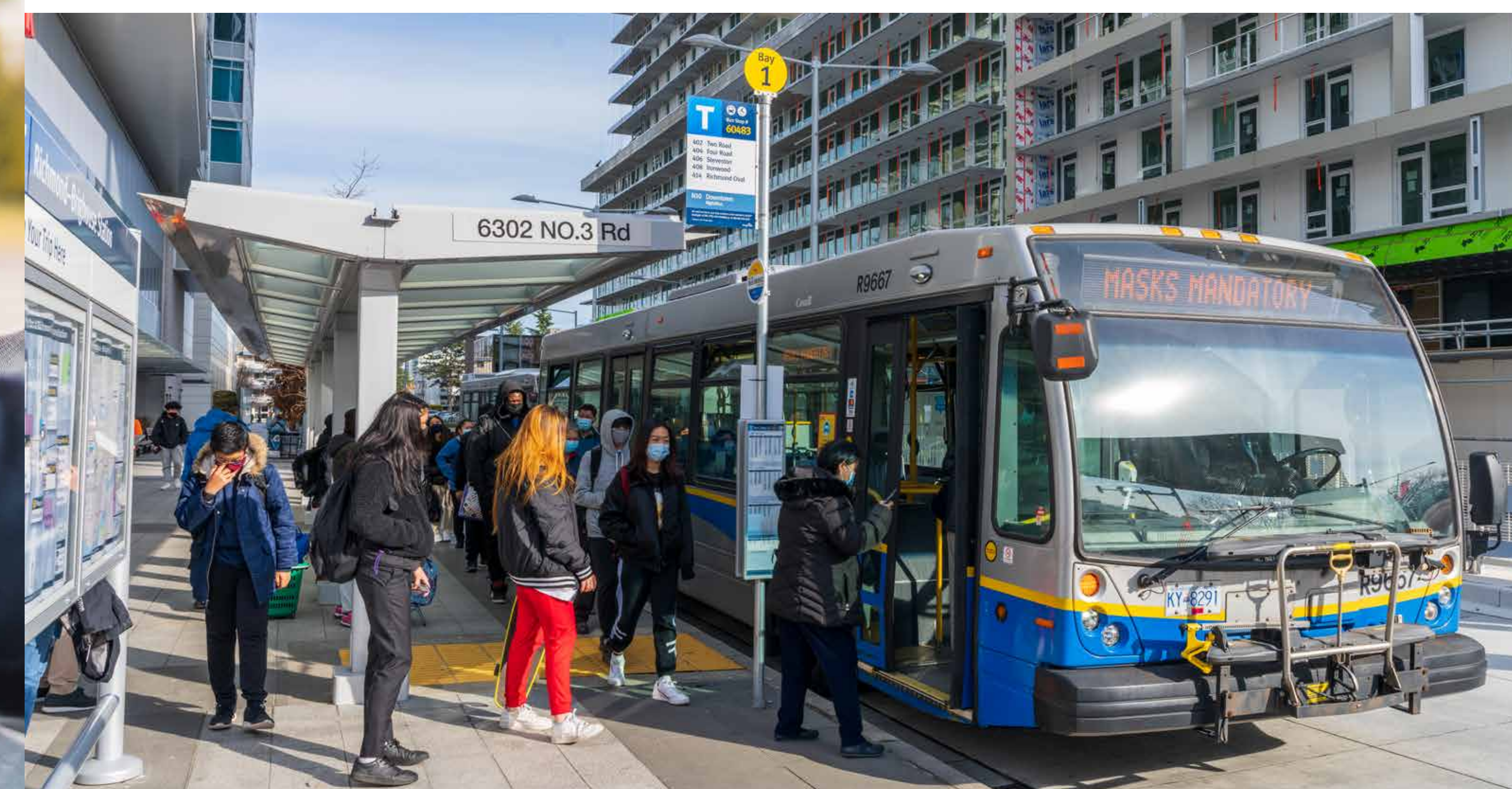
RECOMMENDATION:

- Empower local and regional governments through tri-lateral agreements with the federal and provincial governments to select, design, and approve projects based on the proven success of the Community Building Fund.

ENSURING ACCOUNTABILITY AND TRACKING OUTCOMES

Current programs, such as ICIP, already contain federal standards for issues such as environmental assessments and accessibility requirements for people living with disabilities. These should continue.

In addition, the Canadian Urban Transit Association and Statistics Canada track areas such as ridership, service levels, the percentage of a community within 500 metres of a transit access point, and modal share. These have the potential to equip governments with data-driven certainty about the effectiveness of their investments. Statistics Canada should be given the resources necessary to expand and improve its ability to track outcomes at the national level.



CONCLUSION

A Permanent Transit Fund can build on the progress made in infrastructure funding since the advent of the Gas Tax Fund in 2005. By embracing the predictability and municipal empowerment of the Community Building Fund, and the fair allocations of the Investing in Canada Infrastructure Program, the PTF can alleviate regional disparities while providing low-carbon mobility options for Canadians. The Canadian Urban Transit Association welcomes its creation and looks forward to working with governments to expand transit access and improve its frequency, so transit can keep people moving and keep communities connected.

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[7] Calculated by comparing original allocations for public transit set out in phase 1 and phase 2 ICIP bilateral agreements, subtracting total value of investments realized as publicly listed by Infrastructure Canada as of June 2021. Total dollar value represented here may not fully match previously listed funds remaining as some provinces have utilized the re-allocation flexibility introduced by the Covid-19 Resilience stream to take dollars away from public transit.
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