
Federation of Canadian Municipalities
Big City Mayors' Caucus

National Transit Strategy

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National Transit Strategy

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Executive Summary

In June 2006, FCM's Big City Mayors' Caucus (BCMC) released a report entitled *Our Cities, Our Future*. One of the key recommendations of the report was that the federal government establish a national transit strategy to improve the global competitiveness, quality of life and environmental sustainability of Canada's cities. This submission is BCMC's proposal for such a strategy, demonstrating the Caucus' commitment to this goal.

Safe, reliable and efficient public transit is vital to the movement of people in urban economies, presenting undeniable economic, environmental and social benefits not just for cities and communities, but for the entire nation.

Canadian transit riders pay a higher percentage of the total costs required to build, maintain and operate transit than do riders in almost all other Western countries. However, in spite of this (or perhaps because of it), meeting public transit's needs remain difficult.

Almost every transit system in the world requires operating contributions to offset the shortfall between total costs of operation and total revenue from fares, and Canada's systems are no exception. Likewise, almost all transit systems worldwide also require capital contributions to cover all spending on capital projects — that is, to renew and expand our transit networks. The Canadian Urban Transit Association (CUTA) has estimated that transit systems across the country need \$20.7 billion for infrastructure between 2006 and 2010, or about \$4.2 billion annually, which covers rehabilitating and replacing existing systems, as well as expansion plans to accommodate increasing numbers of riders.

Of the \$20.7 billion required, 44 per cent is needed to rehabilitate or renew existing infrastructure, while 56 per cent is needed to expand service capacity to serve more riders. These figures speak to the need both to maintain infrastructure and to respond to the growth potential for transit. We must both restore transit infrastructure and respond to the increasing mobility needs of the growing urban population.

Municipal shares of both operating and capital subsidies derive primarily from property taxes, supplemented in some cases by special levies on gasoline sales, parking and hydro bills. Clearly, the property tax on its own is not sufficient to support public transit, given the estimated \$60 billion municipal infrastructure deficit, the limited revenue sources, the growing responsibilities of municipal governments and the already substantial municipal support for transit. Municipal governments need help to deliver the transit services that the nation's economy, quality of life and environmental sustainability rely on.

Finding the necessary funds is a major issue facing municipalities. CUTA estimates that the new investments required just to stay afloat, to say nothing of meeting unmet and future demands, are almost as large as the entire sum currently invested in all transit capital projects.

Clearly, much more needs to be done even just to maintain what we have. Recent federal government initiatives for municipal infrastructure funding are an important and welcome start. But we need to replace short-term, ad hoc funding with longer term, more predictable commitments from all orders of government that come closer to addressing the outstanding needs.

Canada remains the only OECD country without a long-term, predictable federal transit-investment policy, even though moving people efficiently in urban areas requires a partnership among all orders of government. As transit's share of urban travel continues to grow, federal and provincial governments must provide long-term reliable funding, so that transit systems have the financial certainty they need to meet the needs of Canadians now and in the future.

Recommendations:

Given the importance of a national commitment to transit, the Caucus believes that this strategy should be made permanent through federal legislation. Following are the key elements we propose for a national transit strategy:

Investments

We propose that an annual amount of \$2 billion be used for capital expenses, to maintain the transit system in good repair and to expand the system to accommodate both population growth and a modal shift toward transit over private automobiles. This amount would be revisited over time to see whether it is adequate, and the amount itself would be adjusted to keep pace with inflation.

Integrated land use and transportation planning

Land use and transportation planning must be integrated to ensure that development supports transit and is oriented toward it. There should be appropriate land use densities and a balance of municipal economic, social and environmental priorities. Cities will therefore only be eligible for funding if they have a council-approved land use and transportation plan that favours transit as the primary means for accommodating future growth in travel demand.

Demand incentives

For a transit strategy to be successful some people may need additional incentives to use transit. The federal government can play a strong role in developing tax incentives that support transit.

Innovative research

An important component of the strategy provides research to support greater transit use. Two kinds of research are needed—first, cooperative research that promotes information sharing and innovation among transit systems, and second, research that identifies policy approaches all governments can use to increase ridership and to meet important economic, social and environmental priorities through increased transit use.

Accountability

Given the proposed scope of the national transit strategy, it is important that all governments work together to ensure that there are appropriate accountability measures in place.

Introduction

In June 2006, FCM's Big City Mayors' Caucus (BCMC) released a report entitled *Our Cities, Our Future*. One of that report's key recommendations was that the federal government should establish a national transit strategy to improve the quality of life in cities and to further Canada's economic competitiveness. This submission is a follow-up to that recommendation.

Through this submission, BCMC proposes what a national transit strategy should entail and demonstrates our commitment to pursue this goal. This submission is organized to do the following:

- outline the need for a national transit strategy;
- provide an overview of transit in Canada today;
- identify the current challenges in delivering transit; and
- present BCMC's position on essential key elements of a strategy.

1 *The need for a national strategy*

Canada's cities are integral to the success of the whole nation. Cities are where the majority of Canada's wealth is generated, where more than 80 per cent of Canadians live and where we present Canada's face to world. When cities succeed, all of Canada benefits. Unfortunately, limited financial resources are affecting the economic, social and environmental sustainability of cities. Limited resources affect the competitiveness of cities and the quality of life of the people who live in them.

The good news is that while cities are faced with increasing challenges, they often lead the way, applying innovation and vision to the real problems that affect Canadians. One area where cities lead the way is public transit, in which they act on behalf of all governments, for the benefit of citizens, businesses and the environment. Public transit plays a central role in urban and metropolitan regions since it contributes to cleaner air, lowers greenhouse gas emissions, lessens congestion and reduces pressure for more roads. Public transit contains urban sprawl and makes cities both more attractive and more competitive.

Despite the benefits of transit, Canada remains the only G-8 country without a national transportation program. Canada has made some important steps in recent years to address some of the cities' transit challenges. Important building blocks to a national transit strategy include committing to the Public Transit Capital Trust, sharing the federal gas tax with municipalities and introducing a transit-user tax credit. But these elements are not enough to address the underlying lack of a national transit strategy and of a permanent investment plan to support transit.

There have been important initiatives in the last three years but urban transit policy and funding is critically underdeveloped. Canada is the only G8 country without an urban transit program properly funded by its federal government.

– Toronto Board of Trade, *Strong City, Strong Nation*, January 2006

A permanent national transit strategy that is legislated to demonstrate commitment and provide predictability will not only greatly improve the quality of life and competitiveness in Canada's cities, but can also go a long way to meeting federal objectives.

Support for National Transit Strategy

“Public transit investment benefits all sectors of the economy and a cross section of Canadian communities. The federal government needs to recognize that public transit is a key driver of economic competitiveness. A dedicated, long-term commitment to public transit should be a matter of national economic and environmental policy and receive the highest priority.” (Toronto Board of Trade, *Strong City, Strong Nation Update – the Growing Gap*, January 2006, p. 14)

“Recognizing the importance of urban areas, the federal government should provide sustainable, predictable, long-term funding to support urban transportation investment.” (Council of the Federation, *Looking to the Future: A Plan for Investing in Canada's Transportation System*, December 2005, p. 27)

“With a dedicated national transit program, Canada can move forward into the 21st century with funding to maintain the existing infrastructure and develop new transit projects that are important to relieve congestion, improve mobility for all Canadians, and strengthen the economy.” (Canadian Chamber of Commerce, 2006, *Strengthening Canada's Urban Public Transit Systems*)

“There remains, however, a need for the federal government to develop a consistent, coherent approach to transit funding and a stable, long-term investment strategy to address transit needs that would allow proactive planning for new routes and facilities.” (National Round Table on the Environment and the Economy, 2003, *Environmental Quality in Canadian Cities: The Federal Role*, p. 35)

“The federal government should create a new permanent program of direct investment in transit expansion and renewal, as well as the creation of new transit systems.” (Canadian Urban Transit Association, 2006 Issue Paper No.18: *Investing in Transit: A Going Concern*)

Meeting national priorities

The funding challenge is greater still for large scale components of the transportation system that are not financially self-supporting, such as highways, urban and inter-regional transit, urban roads and border crossings and routes that lead to them. Significant and sustained investments must be made in these vital components of the transportation system if they are to fulfill the economic, social and environmental expectations that Canadians ascribe to them.

– Council of the Federation, 2005

Safe, reliable and efficient public transit is vital to the movement of people in urban economies, presenting undeniable economic, environmental and social benefits not just for cities and communities, but for the entire nation. Below, we look at the contribution transit can make in three specific areas: economic competitiveness, quality of life and the environment.

Economic competitiveness

Canada's quality of life and economic competitiveness depend in part on having reliable, efficient infrastructure that is provided in large part by the municipal, provincial, territorial and federal governments.

Federal Budget 2006, Restoring Fiscal Balance in Canada – Focusing on Priorities.

As we have seen, Canada's cities help drive the national economy. They are incubators of innovation and magnets for attracting human talent. Canadian cities are increasingly competing with cities in Europe, Australia, Japan and, most vigorously, the United States. While the key factor in the old economy was cost efficiency, in the new economy competitive advantage has shifted to those regions that can generate, attract and retain the best talent and the most financial capital.

Canada's success therefore is strongly linked to the economic success of its cities. Cities must ensure that their transportation infrastructure moves people efficiently; that their solid-waste management is sustainable and cost-effective; that their water is safe to drink; and that their residents have access to recreation and culture.

A recent Toronto Board of Trade survey, for example, identifies gridlock as the top priority of Toronto's largest corporations, suggesting that there is no single factor more influential than transportation in determining where businesses locate.¹ In fact, the Board has stated that congestion is quickly becoming Toronto's main competitive disadvantage. But this is not just a Toronto phenomenon. Congestion is affecting the competitiveness of all of Canada's urban regions, a point reinforced by a 2006 federal study

that found "the total annual cost of congestion (in 2002 dollars) ranges from \$2.3 billion to \$3.7 billion for the major urban areas in Canada."²

Congestion and consequent delay can also affect road capacity, public transit alternatives, the "friendliness" of the urban environment for cycling and walking, and the availability and cost of parking. While transit availability and levels are key drivers of congestion, they are also key solutions to its mitigation. For example, it is difficult to imagine such cities as Montreal, Ottawa and Toronto functioning without their transit systems. During the morning peak period, 78 per cent of trips entering Toronto's central business district are by transit. The existing road system could simply not handle those volumes on its own.

A national transit strategy that provides permanent investments will help tackle congestion in our cities, which will influence not only the movement of goods, but of people as well. It would put cities on a level playing field with their international counterparts, improving Canada's competitiveness.

Quality of life

In addition to improving Canada's competitiveness, a national transit strategy would also improve the quality of life in our cities, as well as their "quality of place," a concept that relates to economic, social and environmental attributes, such as access to employment, transit, affordable housing and green space. The ability of people to enjoy daily life is clearly an appropriate measure of quality of life and public transit plays a key role in this area.

According to the Canadian Urban Transit Association (CUTA), transit helps improve quality of life by contributing to the following:

- improving traveller choice;
- keeping downtowns healthy;
- containing urban sprawl;
- improving air quality and health;
- reducing greenhouse gas emissions;
- bringing opportunity to disadvantaged persons;
- improving business access to the labour force; and
- improving municipal standby capability.³

¹ Toronto Board of Trade, *Gridlock the Top Concern of Toronto CEOs*, Toronto, 6 October 2006.

² Transport Canada, 2006, *The Cost of Urban Congestion*, p. i.

³ Canadian Urban Transportation Association. 2002. Issue Paper: *Public Transit and Quality of Life*.

Transit also plays an essential social role in cities of all sizes. It is the only universally accessible form of urban transport that provides access to employment, education, health care and recreation, including to those who do not have access to a car, as well as those with physical disabilities. This is emphasized by a study conducted by the Montreal Transit Corporation (Société de transport de Montréal) that concluded that more than 40 per cent of its transit users are from households with revenue less than \$40,000 and more than 40 per cent of its transit users are from households without a car. Moreover, without public transit, many of our urban centers would be gridlocked, with ever more vehicles competing for ever scarcer road space.

Clean air and climate change

Establishing a national transit strategy is an important first step in developing a broader strategy to address climate change and clean air. The Quebec government, for example, has successfully linked a comprehensive transit strategy with climate change as part of its appeal to the public.

Canada's public transit system is aging and renewal is going slowly. However, this also presents opportunities. Cities can provide environmental and health benefits by investing in additional light rail systems, replacing inefficient modes with cleaner and more efficient technologies and fuels (such as biofuels), and improving the public understanding of the links between public transit, quality of life and "urban form" (how and where development occurs). Doing so will also help make cities more competitive. Canada's cities need a clean, safe, reliable and efficient network of public transit systems if they are to compete in a global economy, and it is through strategic, targeted investments that this can occur.

In developing a national transit strategy and a broader strategy around climate change and clean air, Canada needs to look at other world leaders. In some of the world's leading cities, the public transit system forms the backbone of an interconnected web of roads, bridges, railways and ports, which collectively establishes the urban form. In these cities, public transit is fast, efficient and preferred by daily commuters. However, in Canada, where the transportation sector as a whole is responsible for close to 30 per cent of the country's total greenhouse gas emissions, passenger vehicles continue to be the preferred method of transportation. Indeed, passenger vehicles are the biggest source of increases in greenhouse gas emissions within the transportation sector, now accounting for 70 per cent of transportation emissions. Two-thirds of these emissions are generated within urban areas.⁴

The role of the passenger vehicle in meeting the transportation needs of Canadians must be reduced if we are to achieve substantive reductions in greenhouse gas emis-

sions and air pollutants. A study of energy use and greenhouse gas emissions in urban passenger transport systems from 84 global cities reveals that energy consumed per passenger kilometre in public transport in all cities is between a fifth and a third that of private transport.

Given this, how do we encourage people to make greater use of public transit? This shift will require more than simply investing in public transit infrastructure: it will require managing and reducing the role of the automobile in urban transport systems, while recognizing that urban form is a critical factor in creating sustainable urban transportation systems.

When made in the context of a broader transportation and sustainability strategy, investing in public transit also contributes fundamentally to cleaner air and action on climate change. This broader strategy must address our reliance on passenger vehicles and the inefficiencies of our urban form. New investments should take into account the full complement of environmental, social and economic considerations. But building a stronger transit system is a critical first step on which further strategies will be built.

2 Transit in Canada today

To properly develop a national transit strategy it is important to understand current transit practices and challenges. Providing transit service requires three main types of financial commitments from all governments:

- Direct revenues, predominantly from fares;
- Operating contributions, to cover the costs of operation, including maintenance; and
- Capital investments, including renewing and rehabilitating existing capital assets, and expanding to improve service or in response to population growth.⁵

To put these three components in perspective, let's compare the relative value of operating costs, capital investment and revenues to the cost of providing transit service. CUTA's 2005 Transit Fact Book reports that in 2005, it cost \$4.2 billion to operate transit systems in Canada. By comparison, \$1.6 billion was invested in capital. Total revenues were \$2.6 billion. The shortfall was made up by \$1.67 billion in operation contributions, almost all of which came from municipal governments. One hundred per cent of capital costs were covered by investments from all three orders of government.

⁴ David Suzuki Foundation: http://www.davidsuzuki.org/Climate_Change/Solutions/Transportation.asp

⁵ Occasionally, there may be a fine line between operating costs and capital investment where maintenance is involved. At some point, the extent of vehicle rehabilitation could be considered as capital investment when compared to routine running maintenance.

Capital planning and investment

There are two main categories of transit capital investment:

- state-of-good-repair (renewal and rehabilitation);
- system expansion.

In both cases, vehicle purchases account for the majority of expenditures.

Figure 2.1 shows the distribution of capital expenses by category, averaged over the period from 2002 to 2005 for large cities with populations greater than 400,000, as well as for smaller cities. As Figure 2.1 demonstrates, vehicle procurement is a sizeable component of total capital investment for all transit systems whether they are acquired as a component of state of good repair or as an element of fleet expansion to provide new or additional service.

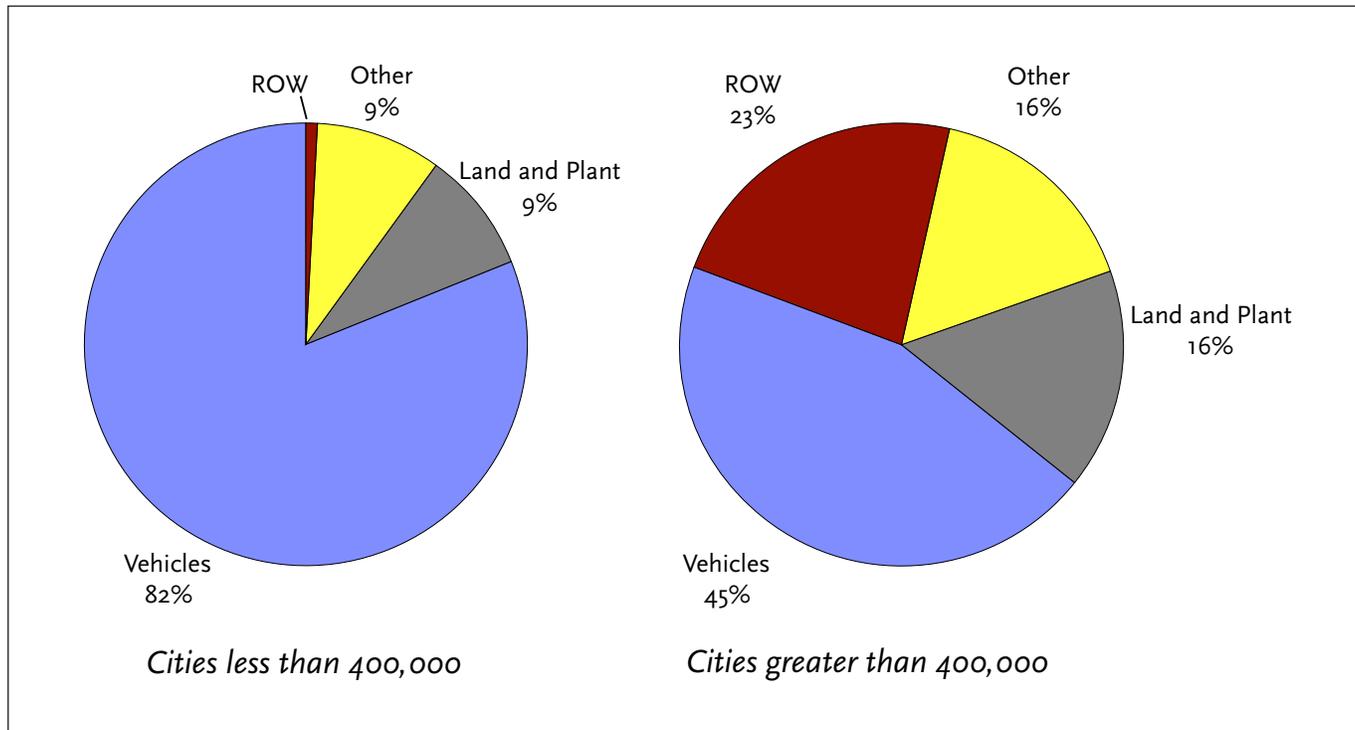
Transit vehicles a driving cost

Transit operations of all sizes have a sizeable and consistent need for capital to acquire vehicles. Their requirements tend to vary as ridership rises. Studies have shown that improved service is the single most important factor in any ridership growth strategy. Improved service generally means more frequent service. This is dictated, first and foremost, by the size of the vehicle fleet.

As would be expected, larger cities that have fixed rail systems and protected transit rights-of-way spend less of their capital in relative terms (about 45 per cent) on vehicles, whereas for smaller cities, vehicle procurement is the largest single capital expense (about 82 per cent).

Aside from vehicles, the other main capital components of system expansion are property acquisition; construction; the procurement and installation of “fixed plant” (such as tracks, electrification, signals and maintenance facilities); and the costs of studies.⁷ Capital invested in system expansion increases total assets, with a corresponding increase in the needs for state of good repair.

Figure 2.1 – Average 2001-05 Annual Transit Capital Investment⁶



⁶ Canadian Urban Transit Association, 2005 *Transit Fact Book*, Toronto, October 2006.

⁷ The eligibility of costs for studies and design has been raised as an issue in regard to federal infrastructure programs.

Paying for capital costs

Over the last five years, on average nationwide, annual capital investment in urban transit has been roughly the same as net operating costs, or operating subsidies. In 2005, for example, the industry invested about \$1.6 billion in capital improvements (state-of-good-repair and expansion combined) compared to operating subsidies of \$1.67 billion.

As CUTA has reported, municipalities have been the principal investors in Canada's national transit infrastructure in recent years.⁸ Federal and provincial capital funding has compared poorly to that provided in the United States, where long-term federal and state transit investment programs covered 53 per cent of capital costs in 2003 (see box on page 11, Federal support for public transit in the United States). However, the provincial share of direct capital investments has grown in the last few years, reaching almost 38 per cent in 2004 compared to less than 15 per cent in 2000. In addition, several provinces also transfer fuel taxes or vehicle licensing revenues to cities, which the cities use for their infrastructure needs, including their transit needs.

Since 1993, federal infrastructure funding programs, such as the Canada Strategic Infrastructure Fund (CSIF), as well as the more recent gas tax transfer, have included eligible transit projects. CUTA reports that while, as recently as 2001, the federal government was not contributing to transit capital needs, more recent infrastructure investments have included transit infrastructure projects and, as such, the federal government has increased its contribution to eight per cent of the national total by 2004. This being said,

application-based funding programs such as CSIF are used primarily to expand systems. Due to the application process, these programs are not predictable sources of revenues for transit authorities.

Transit-specific federal funding programs

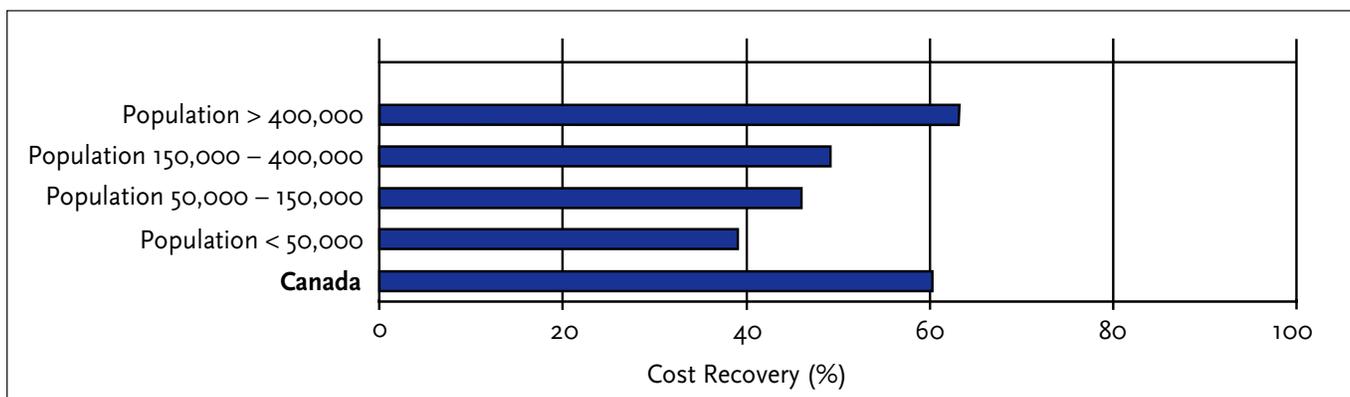
For the first time in decades, the federal government is providing funding specific to transit. In fiscal year 2005-06, the federal government provided \$400 million through the Public Transit Fund.⁹ This accounts for as much as 25 per cent of total 2005 capital spending. For the following three years, 2006-07 to 2008-09, a Public Transit Capital Trust will provide \$300 million annually via the provinces.

Operations

Hong Kong and Singapore are rare examples of jurisdictions in which publicly-operated transit services cover their total costs of operation from fares.¹⁰ Certainly, there are no such jurisdictions in North America.

Representative operating ratios (the percentage of operating costs recovered from fares) are shown below in Figure 2.2 by population group and for selected cities.¹¹ As would be expected, economies of scale generally lead to higher cost recovery for larger municipalities, depending of course, on local fare policies. Nationally, cost recovery averaged about 62 per cent in 2003, and has declined slightly to 60 per cent in 2005. This compares favourably with other OECD countries. See Figure 2.3 on page 10 for more detail.

Figure 2.2 – Selected Cost Recovery Ratios¹²



⁸ Canadian Urban Transit Association. 2006. Issue Paper No. 18: *Investing in Transit : A Going Concern*.

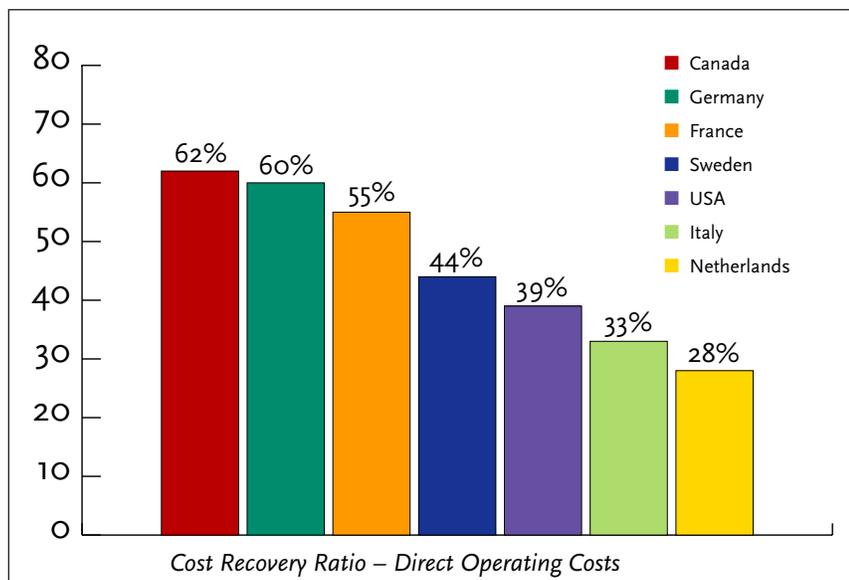
⁹ Canadian Urban Transit Association, *Federal, Provincial and Territorial Funding of Urban Transit in Canada: A Compendium*, Toronto, October 2006.

¹⁰ In developing countries where the markets are largely captive and the quality of service (and safety) is usually poor, there are numerous examples of privately owned and operated urban transit services that are profitable.

¹¹ These figures are not strictly comparable because, in some cases, agencies include debt service in operating costs, a component that shows up in other budgets as a capital expense.

¹² Canadian Urban Transit Association, 2005 *Transit Fact Book*, Toronto, October 2006.

Figure 2.3 – Selected Cost Recovery Ratios¹³



When cost recovery is less than 100 per cent, this means that there are no operating surpluses to contribute to capital requirements. For this reason, all public transit services in North America rely both on outside contributions to meet operating costs, as well as on capital contributions for all investment in infrastructure (including vehicles).

According to CUTA estimates, Canada’s transit systems invest \$3.9 billion annually in operations, including staff salaries, fuel, parts and maintenance.¹⁴ Municipalities are typically responsible for the largest share of operating contributions—94 per cent in 2004. Some provincial governments provide operating contributions as well, although in Atlantic Canada, provincial governments did not contribute any operating subsidies in 2005. The federal govern-

ment does not contribute to operating costs. By way of comparison, in the United States, federal and state governments contributed 30 per cent of operating costs of US transit systems in 2003.

CUTA’s report on provincial investment in transit¹⁵

“Provincial investment in transit has grown over the last few years. Provincial operating funding of \$47 million in 2001 rose steadily to \$177 million in 2004, while provincial capital funding of \$146 million in 2001 grew to \$331 million in 2004.

“Provincial transit funding mechanisms include fuel tax transfers to improve local infrastructure that may be used for public transit (e.g. in British Columbia, Manitoba, Alberta and Quebec). Several communities receive provincial gas tax revenues intended specifically for transit or transportation improvements (e.g. 12 cents per litre for roads and transit in Greater Vancouver, 2.5 cents per litre for transit in Victoria, and 1.5 cents per litre for transit in Montreal).

“Ontario and Quebec have made substantial commitments to improving transit investment in recent years. In Ontario, municipalities with transit systems now receive a two-cents-per-litre gas tax transfer to improve transit assets or operations and increase ridership.

“In 2006, Quebec announced a comprehensive transit policy to boost ridership by 8% by 2012. New initiatives included a \$130 million annual contribution for transit development from the province’s Green Fund to combat climate change, a full refund on fuel tax paid by transit systems, and more funding for existing infrastructure and operating programs. These steps complement the \$30 annual motor vehicle registration fee that Quebec has collected for several years in nine communities to support transit investment.”

¹³ Canadian Urban Transit Association

¹⁴ Canadian Urban Transit Association. 2006. Issue Paper No. 18: *Investing in Transit : A Going Concern*.

¹⁵ Canadian Urban Transit Association. 2006. Issue Paper No. 18: *Investing in Transit : A Going Concern*.

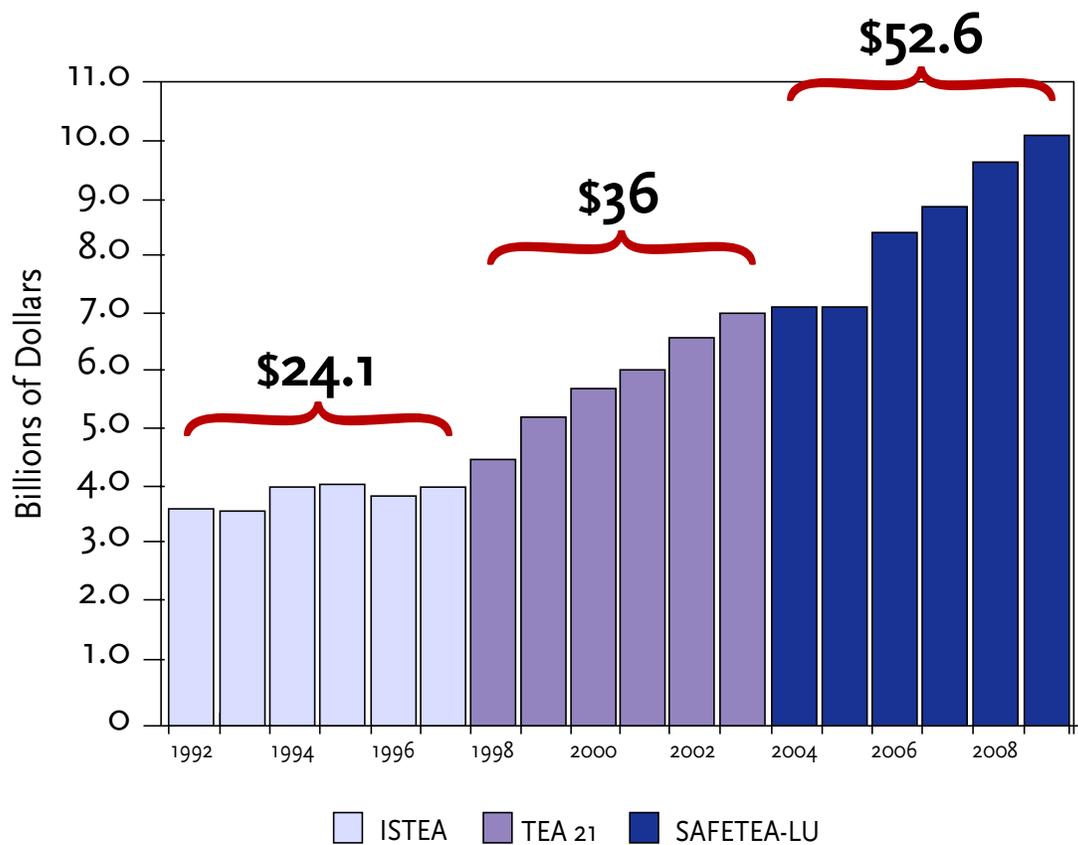
Federal support for public transit in the United States

Through the US Department of Transportation, the American federal government became involved in municipal transit in the 1960s. Currently, the *Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU)*, signed in 2005, authorizes funding for federal transit and highway programs through 2009. This latest bill builds on two previous surface transportation authorization laws—the *Intermodal Surface Transportation Efficiency Act (ISTEA)* and the *Transportation Equity Act for the 21st Century (TEA 21)*. Under these bills, the federal government funds about

80% of capital projects and ensures consistency with federal program goals, objectives and policies.¹⁶

Capital funding for urban transit systems, now administered by the Federal Transit Administration, is currently considered essential to the national interest in improving public transit and in meeting national standards for clean air. As shown in Figure 2.4, over two reauthorization cycles, federal public transportation investment has more than doubled to an average annual total of about \$9 billion.

Figure 2.4 – U.S. Federal Transit Funding



¹⁶ Sam Zimmerman, *Urban Transport Institutional Frameworks*, Presentation, Transport and Urban Development Dept., World Bank, 2006

3 *The Challenges Facing Transit*

Canadian transit riders pay a higher percentage of the total costs required to build, maintain and operate transit than do riders in almost all other Western countries. However, in spite of this (or perhaps because of it), meeting public transit's capital costs remains difficult.

As articulated earlier, transit operations require operating contributions to offset the shortfall between total costs of operation and total revenue from fares. They also require capital contributions to cover all spending on capital projects. These shortfalls are even more significant for larger cities with rail or bus rapid-transit systems, but so are the economic benefits, since moving the volumes of people carried by rapid transit would otherwise require more roads.

CUTA has estimated that transit systems across the country need \$20.7 billion for infrastructure between 2006 and 2010, or about \$4.2 billion annually, which covers rehabilitating and replacing existing systems, as well as expansion plans to accommodate increasing numbers of riders.¹⁷ This figure includes both currently financed plans and those plans contingent on external funding.

Of the \$20.7 billion required, 44 per cent is needed to rehabilitate or renew existing infrastructure, while 56 per cent is needed to expand service capacity to serve more riders. These figures speak to the need both to maintain infrastructure and to respond to the growth potential for transit. We must both restore transit infrastructure and respond to the increasing mobility needs of the growing urban population.

Municipal shares of both operating and capital subsidies derive primarily from property taxes, supplemented in some cases by special levies on gasoline sales, parking and hydro bills. Clearly, the property tax on its own is not sufficient to support public transit, given the estimated \$60 billion municipal infrastructure deficit, the limited revenue sources, the growing responsibilities of municipal governments and the already substantial municipal support for transit. Municipal governments need help to deliver the transit services that the nation's economy, quality of life and environmental sustainability rely on.

But where are the needs greatest? Where should a National Transit Strategy start? How much support is needed?

Staying afloat: state of good repair

CUTA estimates that Canada's transit systems will need almost \$9.1 billion between 2006 and 2010 just to maintain their equipment in a state of good repair.¹⁸ Rehabilitation and replacement projects totalling \$7.3 billion are currently

planned, but not all of these investments have been budgeted by municipalities and local authorities.

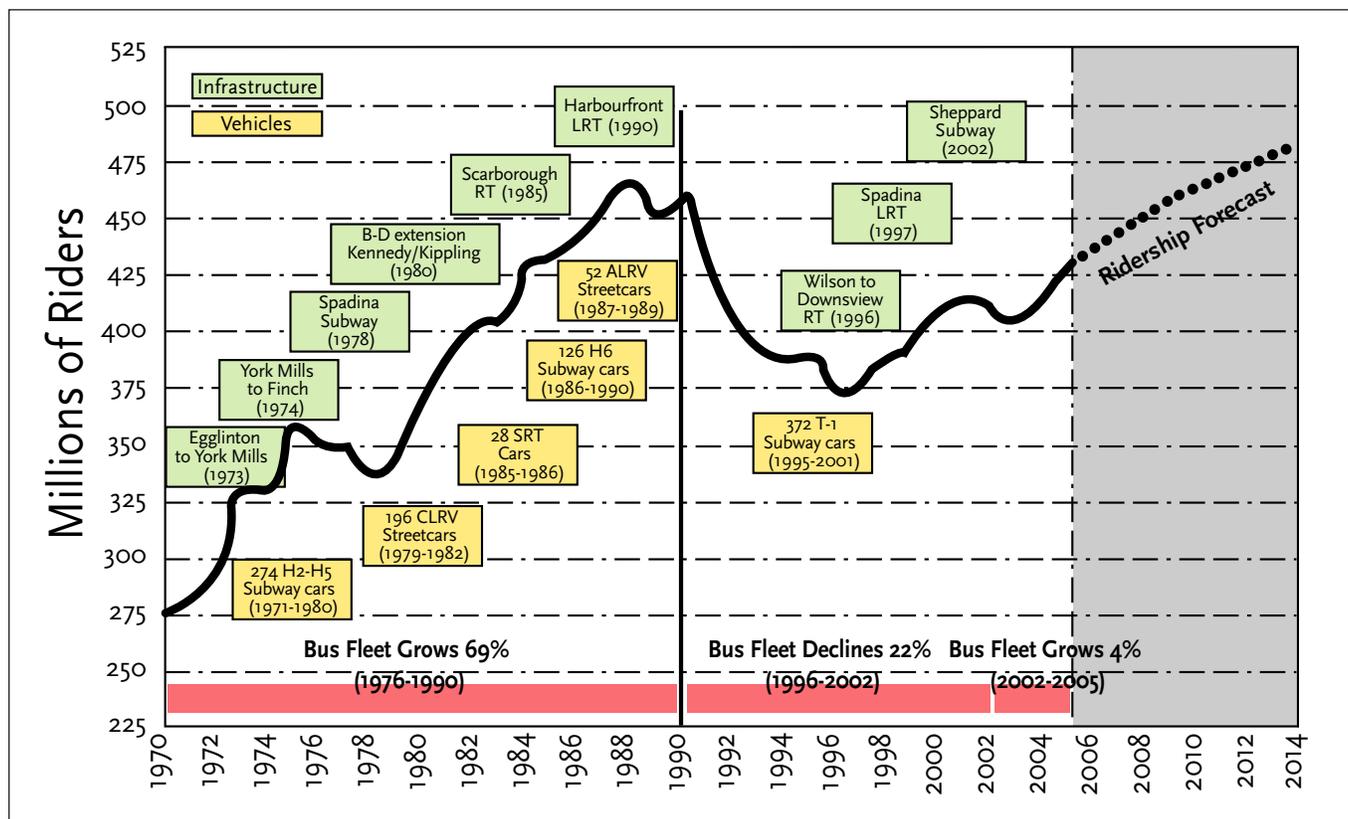
State of good repair is a key component of the total estimated transit capital deficit because retaining even the existing ridership depends on offering reliable service. For example, the Montreal region needs \$630 million per year to maintain its public transit infrastructure for the period of 2006 to 2015. The Montreal subway alone represents 66 per cent of the total investment required. Yet, these funds will directly benefit 84 per cent of users of the Greater Montreal transit system.

Service quality and reliability can deteriorate when new investment is channelled into expanding service rather than into maintaining the existing system. When this happens, more riders are likely to leave the transit system than are likely to be attracted by the new services. Figure 3.1, on opposite page, shows how these factors affected ridership in Toronto.

¹⁷ Canadian Urban Transit Association, *Transit Infrastructure Needs for the Period 2006-2010*, Toronto, April 2006.

¹⁸ CUTA's estimates of the state-of-good-repair component of the total transit deficit is likely quite precise since the economic service life of transit vehicles, transit structures, maintenance buildings and equipment, and "fixed plant" can be determined on the basis of historical data and information, as well as on best practices. In fact, CUTA's estimate may understate these requirements because, in some cases, operating agencies are asked to extend their total capital budget envelope over an arbitrarily longer period to conform to a municipality's budget targets and limitations.

Figure 3.1 – Ridership and Capacity Growth 1970–2014



Retaining ridership becomes even more challenging when one considers average fleet age. In 2005, the average non-accessible standard bus, light rail vehicle and heavy rail vehicle are 16, 24 and 31 years old, respectively. These ages represent the end of the vehicles' useful service lives. Thus, if they hope to run efficient transit systems and keep riders, municipalities will have to face substantial replacement costs.

Meeting growth challenges

The outstanding needs for transit service expansion are estimated by CUTA to be \$11.6 billion between 2006 and 2010, or, on average, \$2.3 billion annually. This deficit is less easily defined than are the needs for state of good repair, because it represents all proposed projects, even though only a portion of those costs may be actually included in municipal budgets. However, the fact that measuring this need is difficult does not make it any less real or compelling. New transit will continue to be required as populations keep growing, especially in larger cities, and as Canada continues to urbanize. We will need either intensified service along existing lines or new services to new developments. Canada's clean air and climate change objectives will also require a modal shift toward transit. This shift will put further pressure on transit systems.

The challenge of growth and planning

Improving Canada's transit systems requires more than money. Increasing transit ridership and increasing the proportion of commuters who use transit will require coordination of transit and land-use planning, as CUTA reports.¹⁹

"In Canada's cities, land use and transportation have a celebrated but troublesome marriage. Their offspring—urban sprawl, automobile dependence, congestion and smog—are delinquent children, determined to avoid our plans for rehabilitation. Urban sprawl, in particular, has wide-ranging impacts on our quality of life, and poses a distinct challenge to public transit systems as they strive to offer a convenient and affordable alternative to car travel.

"While intensification projects can increase densities and create a balanced mix of land uses, they can—without careful, sensitive planning—worsen problems of traffic congestion, pollution and noise. And unless there are meaningful destinations to walk to, the pedestrian-friendly design of infill projects can amount to little more than a marketing tactic.

"Indeed, work by the Canada Mortgage and Housing Corporation has shown that residents of a suburban-style neighbourhood in a city's central area are likely to have more sustainable transportation habits than residents of a neo-traditional (or 'new urbanist') neighbourhood located in a distant suburb. This finding reinforces the critical aspect of growth management, and highlights the importance of transit service when considering what kind of growth really is 'smart.'

"Transit-oriented development (TOD) is viewed as a way to get more out of our transit investments, typically by building ridership on transit corridors within lower-density suburban areas. While the idea seems straightforward, the execution is anything but simple. TOD can succeed only when decision-makers, developers, tenants and consumers all believe that it will work.

"A top-to-bottom planning approach is needed to make TOD a success. At higher levels, regional growth management strategies and major transit investments create the motivation and market for new developments around transit nodes. Further down, local planning and community-building processes nurture TOD plans, which may depart from conventional development norms, and shepherd them through the various approvals they need to become reality. And at the site planning level, consultation, compromise and attention to detail are essential to promote TOD."

How to pay for it?

Clearly, there is a substantial outstanding capital need, even allowing only for state-of-good-repair investment, that is not met by existing funding from any other order of government. Buses, streetcars and rapid transit vehicles have to be replaced; we need to refurbish tracks, electrification and signal systems, as well as yards, buildings and maintenance equipment; and growing populations require more, not less, service.

Finding the necessary funds is a major issue facing municipalities. In 2005, actual operating and capital contributions were approximately \$1.6 billion each. CUTA estimates the average annual deficit to be \$1.8 billion for state of good repair, in addition to the \$2.3 billion it estimates will be needed every year for service expansion and growth. This is certainly substantial, relative to the \$1.6 billion that was actually invested in capital in 2005. That is, the estimated deficit just to stay afloat is almost as large as the entire sum invested in all transit capital projects.

These estimates are also an order of magnitude higher than the \$300 million specifically earmarked annually under the Public Transit Capital Trust (aside from other infrastructure funding that can be used for transit).

Clearly, much more needs to be done even just to maintain what we have. Recent federal government initiatives for municipal infrastructure funding are an important start. But we need to replace short-term, ad hoc funding with longer term, more predictable commitments that come closer to addressing the outstanding needs.²⁰

¹⁹ Canadian Urban Transit Association. 2004. Issue Paper No. 9: *Transit-Oriented Development: Smart Growth in Action*.

²⁰ Federation of Canadian Municipalities, *Immediate and Long-term Federal Funding Support for Infrastructure*, Ottawa, 8 September 2006.

4 Key elements of a national transit strategy

To begin meeting transit's capital costs, we need commitments from all orders of government. In fact, Canada remains the only OECD country without a long-term, predictable federal transit-investment policy, even though moving people efficiently in urban areas requires a partnership among all orders of government.

We have now realized the benefits of earlier investments in transit, such as the federal gas tax to municipalities, the CSIF and the recently announced three-year \$900-million Public Transit Capital Trust. Recent trends show that total transit infrastructure needs are beginning to stabilize, after rising steadily since the late 1990s (from \$8.5 billion in the five-year period 1999-2004 to \$20.7 billion in the period 2006-2010).

Current funding programs and municipal budget envelopes help defray only a portion of the necessary investments. However, these investments are not sufficient, and are not scheduled to continue, and so do not represent a long-term national transit strategy. As transit's share of urban travel continues to grow, federal and provincial governments must provide long-term reliable funding, so that transit systems have the financial certainty they need to meet the needs of Canadians now and in the future. The outstanding needs are large and represent many years of underinvestment. The first step is to halt the slide, and that means meeting the needs in state of good repair.

Toward a National Transit Strategy

It is clear that the federal government needs to establish a national transit strategy not only for the benefit of cities but for the whole nation. The strategy should encompass the following goals:

- increase transit ridership and reduce automobile dependency;
- improve the economic competitiveness of Canadian cities;
- enhance the quality of urban life; and
- reduce greenhouse gas reductions and improve air quality.

In order to meet these goals, the strategy needs to be based on several elements. First and foremost, long-term predictable investments will help cities renew, enhance and expand their transit systems. Second, the plan needs to be strategic, predictable and long-term so that transit systems can plan appropriately for growth management and for environmental and social planning objectives. Third, the plan needs to incorporate policies that encourage more

Canadians to use transit. Fourth, it needs to commit to research for policy development and innovation in transit technologies. Fifth, accountability mechanisms need to be in place.

A successful national transit strategy based on these five components—funding, planning, incentives, innovative research and accountability—will ensure that Canada is that much closer to meeting its objectives for competitiveness, quality of life, air quality and greenhouse gas emission reductions.

4.1 Investment

It is clear that cities cannot meet current and growing transit needs with their current resources. While all components of the proposed strategy are important, the most pressing need is for long-term predictable funding. Based on the estimates for the transit funding gap by CUTA and others, the following funding amount and allocation model is proposed.

Amount:

\$2 billion/year with periodic adjustments for inflation;

Allocation:

Consideration of population and ridership, using a formula revisited on five-year cycles;

Eligible categories:

Vehicle procurement costs (capital or debt service), capital for state-of-good-repair and/or system expansion infrastructure.

4.1.1 Proposed funding amount

Setting aside the matter of long-term predictability, one of the current key questions about federal transit funding is whether enough money has been earmarked under the Public Transit Capital Trust. At \$300 million annually, the fund represents approximately 20 per cent of actual capital expenditures made by the municipal transit agencies in 2005 and approximately seven per cent of the transit infrastructure needs estimated by CUTA.

CUTA has estimated that transit systems require an injection of approximately \$4.2 billion annually over the next four years to meet their funding needs. While transit systems desperately require this kind of investment, BCMT recognizes that the federal government at this time may not be able to commit \$4.2 billion per year, having already dedicated \$300 million per year. The Caucus therefore pro-

poses annual funding of \$2 billion as a first step, an amount to be revisited later. Given that \$2.0 billion does not meet all of the needs of transit systems, cities should be able to continue to use other federal infrastructure programs (such as CSIF or the gas tax) to fund local transit priorities.

The proposed amount, assuming no changes in provincial funding, would place Canadian and U.S. transit financing on a more level playing field.

4.1.2 Proposed allocation

When making final decisions on the allocation of these new funds, ridership and population should be key considerations going forward.

4.1.3 Proposed eligible categories

Funding needs vary among municipalities, given their different transit service area populations and how they govern and finance their transportation systems, among other factors. Funding needs fall into two basic categories: net operating costs and capital investment.²¹ Even though municipalities spend slightly more on operating subsidies than on capital investment, by and large, capital remains the most challenging need for municipal transit systems. The proposed national transit strategy therefore advocates direct funding to municipalities for capital needs.

Capital funding covers both renewal and expansion. Capital is needed to buy replacement vehicles and to expand fleets, to rebuild existing and build new physical infrastructure, and to undertake studies.

Clearly, rolling stock investment is most straightforward. Vehicle funding is a very significant capital requirement for all but some of the smallest transit operators, whether they offer only bus services or some combination of streetcars, light rail, subways, or ferries. Funding of vehicles would also minimize administrative and eligibility requirements because the process requires nothing more than specific replacement guidelines based on accepted industry standards. In addition, federal support for vehicle procurement can be identified very simply and visibly.

Though the assessment of need is not as straightforward, capital funding for other infrastructure is also an appropriate category for federal capital investment, both for state-of-good-repair and system expansion.

Operating deficits can be adjusted through service and fare policies. Introducing federal funds to support operations could lead to smaller fare increases with relatively little impact on ridership. Operating subsidies are also more difficult to administer because cost recovery potential varies with city size.

4.2 A legislated program

Introducing legislation that establishes a national transit strategy would demonstrate commitment and provide greater continuity and predictability than budget “announcements.” Properly articulated, a National Transit Act could also greatly reduce the administrative burden associated with the effective transfer of funds.

4.3 Funding agreements

Following the model of the successful gas tax agreements, federal transit investments should be transfers rather than application-based, and must be protected from claw back by other orders of government.

4.4 Planning

The national transit strategy would be an important lever to build greater economic, social and environmental sustainability. As such, any funding directed to cities should be used to achieve improvements in these areas. To do so, funding must only be available to cities that have council-approved integrated land use and transportation plans that favour transit as the primary means for accommodating future growth in travel demand.

²¹ There are some differences in definitions. Most municipalities treat vehicle procurement as a capital expenditure whereas in British Columbia, transit systems includes debt service on vehicles as an operating expense.

Meeting the transit challenge in smaller communities

Although Canada's larger cities host the majority of the total trips taken on public transit each year, smaller communities still also need help meeting the needs of their citizens and businesses. A national transit strategy should establish the broad objectives and measures to put transit on track for success. However, the diversity of transit services in the hundreds of smaller communities across Canada will likely require more customization and focus than can be provided by a national strategy alone. This national strategy must be supplemented and enhanced by provinces and territories to ensure that the needs of all communities in each jurisdiction are considered.

Provinces and territories should develop separate and appropriately designed and targeted funding programs to fund and support smaller transit systems. This approach will ensure that these smaller systems do not end up competing with larger systems for the same funding envelope. Such a situation would produce administrative processes and eligibility requirements designed primarily for larger communities and insensitive to the challenges and capacities of these smaller systems.

4.5 Incentives

While funding is a critical component of a national transit strategy, incentives are also needed that can directly or indirectly affect transportation demand, modal choice and emissions. Federal government taxation policies are likely the most influential factors.²² The new tax credit for the purchase of transit passes is an important first step. Additional tax incentives need to be considered to encourage greater transit use.

Personal income tax regulation currently favours automobile use over transit use. The costs of owning, operating and parking a car are directly deductible for many individuals and for most firms that provide cars or car allowances, whereas transit benefits for employees are not. Allowing employers to deduct the costs of transit assistance to their employees would generate additional transit revenues (and, at the same time, reduce parking requirements and the corresponding number of kilometers travelled by each vehicle.)

If we modernize tax regulations to better support national objectives for sustainable transportation, we should increase transit cost recovery, as well as transit use. Doing

so would also encourage employers to provide transit for their employees, rather than parking and car expenses, and it would make transit accessibility a more important factor in the location decisions made by firms.

4.6 Innovative research

While funding, planning and demand incentives are important components of a national transit strategy, a strong case can also be made for providing investment for research. A carefully designed research component can lead to improved service and reduced costs. All orders of government also need to explore research on policies to develop a transit plan that is economically, socially and environmentally sustainable. Other research could look into accessible transit, greening fleets, purchasing policies and so forth. Examples of possible research include programs that no one transit agency could afford to undertake alone, such as disseminating information on best practices and international experience, or developing systems for improved fare collection, vehicle monitoring and transit priority.²³ It would be critical that municipal planners and transit officials be involved in developing research priorities. Applications-oriented research can only be effective when those who have a stake in the outcomes are involved.

4.7 Accountability

With such a significant investment in transit, accountability measures are necessary to monitor and review how the funds are used. All governments should work together to identify the best way to report the success of the plan.

²² Although the recently announced tax credit for the purchase of transit passes has some degree of symbolic appeal, its overall impact on ridership and revenues is less certain since it applies only to those able to afford a pass. Numerous studies have verified that, for most users, service elasticity is higher than fare elasticity.

²³ It is still too early to examine the real benefits of Transport Canada's Urban Transportation Showcase Program.

Conclusion

The link between healthy urban regions, competitiveness and national prosperity is well understood. Our cities are competing against the best in the world, but they are ill-equipped. If they fail, Canada will fail, and our standard of living and quality of life will suffer.

We must ensure that our cities are great places to live and work. Transit plays a key role in making cities great.

Meeting transit's capital costs will require commitments from all orders of government. In fact, Canada remains the only OECD country without a long-term, predictable federal transit-investment policy, even though moving people efficiently in urban areas requires a partnership among all orders of government.

As transit's share of urban travel continues to grow, federal and provincial governments must provide long-term reliable investments, so that transit systems have the financial certainty they need to meet the needs of Canadians now and in the future.

We can debate how best to achieve this, but no one can deny it must be a key national goal. If we do not move quickly to fix the problems hampering our cities, especially the ones for which transit is a key component, we may well lose our position in the front rank of nations and never get it back.

The Big City Mayors' Caucus is ready to do its part to mobilize the resources of the municipal sector to find solutions, to build partnerships and to effect real change. But this is a national project. It remains for the Government of Canada to take the lead and set Canada on a course that will stand as a model of how smart, practical government, working in the service of people, can build cities that create prosperity while preserving quality of life for everyone.