Photo: Roberta Franchuk, Pembina Institute

Eye on the prize

The real possibility of new transit revenue

Lindsay Wiginton | November 2016

Most Torontonians agree that fast, frequent and affordable transit systems are a key ingredient in sustainable, healthy and productive cities. Yet we seem to be unable to escape debates about where and what to build – **and how to pay for it.**

If we had **sustainable revenue streams dedicated to transit** like many other cities do, we could de-politicize the funding aspect of these debates. We could instead focus our energies on planning the network and improving services in order to secure the future residents want.

It's not the first time we're having this conversation, but there's a key opportunity before us: in December, the City of Toronto will be reconsidering its Long Term Financial Plan. This is the chance to put new revenue tools in place to meet our goals for a rapidly growing city in a predictable, fair and responsible way.

How did we get here?

Shrinking resources for a growing city

Property taxes are cities' main source of revenue. Yet in Toronto, policies adopted by Council over the years have resulted in overall property tax rates growing more slowly than inflation[1] and rates lower than all other municipalities in the GTHA and Ottawa.[2] This means that fewer resources are available to maintain the same services – let alone improve them.

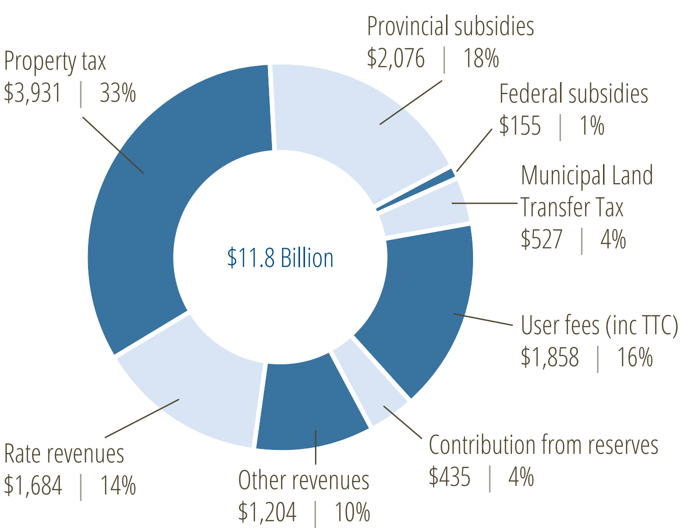

Figure 1: *Where the money comes from ($ millions)*, City of Toronto annual revenue by source, published October 2016[3]

Paying for transit operations

Municipalities are responsible for operating their local transit systems. Transit is one of the few public services that already rely heavily on user fees. At the TTC – the system with the third highest ridership in North America – fares paid by riders cover about 70% of operating costs, compared to an average of 47% across Canadian systems.[4]

Transit system	Share of operating costs covered by fares (approx.)
Toronto (TTC)	70%
GTHA (GO Transit)	80%
Canada average	47%
U.S.	12-75%
Europe	30-90%

Table 1: The share of operating costs covered by fares across transit systems. A higher percentage means that the system is less subsidized by governments.

After fares, cities are left to subsidize most of the remaining operating costs. But this wasn't always the case. From the 1970s to the 1990s, the Province of Ontario guaranteed 50% of transit systems' net operating costs.[5] Today, the share of total costs covered by the province hovers closer to 8%.[6]

Paying for transit expansion

Provincial and federal governments provide significant support for capital spending on transit, but on a case-by-case basis. This wasn't always the case - they used to guarantee funding for a percentage of expansion costs. This lack of certainty around funding makes it more difficult for municipalities to plan for the future.

Municipalities are responsible for operating their local transit systems.

Residents are on board

The good news:
Torontonians are supportive and ready for transit funding.

Polling conducted by the City of Toronto in 2013 indicated that 85% of Toronto residents believe new revenues are required to fund transportation expansion and 92% would support the use of dedicated government revenues to fund transportation infrastructure.[7] Similar results were found in regional consultations led by Metrolinx.

And the even better news:
there are solutions within our grasp.

Toronto can learn from other regions that are diversifying their sources of revenue, particularly to fund transit.

In cities from Vancouver to Los Angeles to Paris, revenue tools like parking taxes, sales taxes, bridge tolls and vehicle registration fees contribute to stable funds for transit operations and capital spending.

Some of these approaches have the added environmental benefit of reducing the number of trips made by car or the number of cars purchased.

The way forward

By updating the Long Term Financial Plan, municipal leaders have a key opportunity to add a new wedge to the revenue pie and help get Toronto out of transit debate purgatory. Here's what we need from our decision makers in order to make this a reality:

1. Start with a revenue target

It's important to choose revenue tools wisely and fairly, but success should be measured by whether or not the solution allows the City to meet its goals. For this, leaders need to first agree on an adequate annual revenue target, and assemble a basket of tools from there.

When setting a target for transit, decision makers should consider the TTC's current operating shortfall as well as the many expansion projects being considered, for which the City will be responsible for part or all of the operating and capital costs.

2. Use the tools that are already available

It's most likely that a combination of new tools will be required to meet goals. Thanks to the City of Toronto Act, Toronto already has access to options that other municipalities don't, including a parking levy, road pricing and an alcoholic beverage tax. A parking levy alone could raise $535 million annually.[8]

Since there is no time to waste, municipal leaders should start by using these tools that are readily available and offer sufficient revenue potential.

Thinking about the bigger picture

It's not just municipal governments who need to act. Many cities across the country are grappling with these questions, and provincial and federal governments have an important role to play. Because of the economic and environmental benefits generated by frequent and reliable transit, all levels of government should contribute. Both the Ontario and federal governments have recently made multi-billion dollar commitments; the provincial government through its Moving Ontario Forward plan,[9] and the federal government through its Public Transit Infrastructure Fund.[10] Significant as these investments are, there is no guarantee that they will continue in the future.

The Province of Ontario should:

- Continue providing strong capital funding support.
- Adopt new revenue tools at the provincial level to guarantee stable funding for transit (capital and operations). Studies and panels have identified many promising tools, but very few have been implemented.
- Support municipalities who request additional autonomy to adopt new tools requiring changes to provincial policy.

The City of Toronto's Long Term Financial Plan is an opportunity for transit funding that needs to be seized. In the coming weeks and discussions, we need to keep our eyes on the prize: a stronger transit future that residents want and need.

Endnotes

1. City of Toronto, "Fact Sheet: City Revenue," October, 2016. http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=c98bf02ab1208510VgnVCM10000071d60f89RCRD&vgnextchannel=e52b285441f71410VgnVCM10000071d60f89RCRD
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5. John Cicuttin, "Financing Urban Transit," MPA Research Report, Department of Political Science, University of Western Ontario (1999), 11. http://localgovernment.uwo.ca/resources/docs/research_papers/1999/Cicuttin,%20John%20-%201999.pdf. 'Net operating costs' are costs after fare revenue. Note: "net operating costs" are costs after fare revenue.
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10. Government of Canada, "Fall Economic Statement, Chapter 2 – Investing in the New Economy," (2016). http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/chap02-en.html#Toc465443709.

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