FINANCING OPTIONS FOR TRANSIT INFRASTRUCTURE IN THE GREATER TORONTO AND HAMILTON AREA

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Outlined below is the current context in which Canadian cities exist, what pressures cities face with respect to infrastructure, specifically related to transit, and an overview is given of both current and prospective municipal financing tools cities could use to address these pressures and increasing demand on services.

This paper will examine Metrolinx and the City of Toronto's proposed financing options for transit infrastructure needs in the Greater Toronto and Hamilton Area (GTHA). This paper will also determine whether or not these proposed options are viable according to Professor Harry Kitchen's benefits-based theory on municipal financing. This paper goes on to recommend which of the proposed financing options should be implemented by both the City and the Province to address transit needs.

The main argument in this paper is that Canadian cities, such as Toronto, need to make better use of their financial tools and related financing decisions to address transit issues, particularly related to gridlock and congestion. In what is a very complex system, municipalities need to fully utilize their constitutional powers, however limited, to meet national and international demands being placed on them as well as utilize the current funding resources they have access to.

Infrastructure deficits - How we got here

The world is changing quickly and cities are competing with one another on a global scale. It is generally agreed that transit is an essential part of economic development. Canadian cities are currently competing with larger, better-financed and more efficient global cities that have many more financing tools at their disposal to provide services such as transit. Infrastructure gaps must be addressed and provinces must examine what municipal finance tools their cities have, or should have, to make Canadian cities more attractive, efficient, and better places to live. Unlike provincial and federal governments, municipal governments were not given any formal recognition, or right to exist, under Canada's constitution but were recognized solely as a responsibility of their respective province. As such, "provinces determine the structures, functions, and finances – even the very existence – of municipal governments within their jurisdiction."[i] These structures, functions and finances were generally prescriptive in nature and outlined what municipalities could or could not do. To this end, courts often decided that municipalities were not able to undertake any action outside of that which the province explicitly outlined.[ii] According to the City of Toronto, it operates under "laundry list" legislation; that is, its provincial governing legislation spells out every power the city has and if the power is not listed or necessarily implied, it does not have that power. The "laundry list" legislation is both restrictive and often prevents a municipality from adapting to changing conditions as each change requires the municipality to apply to the province for amending legislation.[iii] Following the infrastructure building boom of the 1950s and 1960s,[iv] when much of today's infrastructure was built, municipal governments were forced to take on the responsibility of building, repairing, and maintaining most of Canada's core infrastructure without a reasonable, reliable source of funding. Today, municipal governments are responsible for more than 60% of Canada's infrastructure, up from 34% in the 1960s. Yet the financial resources they can use have remained relatively stagnant. According to the Federation of Canadian Municipalities (FCM), in Canada's current system, municipalities collect just $.08 cents of every tax dollar, which is not sustainable for funding transit projects in growing municipalities as large as Toronto.

More than 80% of the Canadian population now lives in cities in Canada and nearly half of the population resides in three urban agglomerations, one of those being Toronto. In Toronto, like other major cities in Canada, transit capital requirements are growing faster than investments, critical infrastructure needs remain unfunded, and municipalities face operating cost pressures due to rapid growth in ridership."[v] The infrastructure gap, caused by a decline in funding and neglect by provincial and federal governments for decades, continues to grow. In order to address restrictive funding resources, municipalities over time have pushed for more legislative controls. In 2001, the Ontario government provided Toronto more legislative controls in its new *Municipal Act*, which took effect in 2003. The *Act* authorized municipalities to exercise "natural person powers and governmental powers within 10 general spheres of jurisdictions," but the Province also kept in place many prescriptive sections dealing with financial matters.[vi] Although the *Act* helped, Toronto still did not feel this was adequate and pushed for a City Charter, which it was successful in receiving when the Ontario government created the new *City of Toronto Act* in 2006. This gave Toronto some limited additional revenue raising powers for transit items such as motor vehicle ownership, parking lots, and roads and tolls and the power to negotiate on its own behalf with other governments. Although other municipalities in Ontario were later given a larger scope for action than Toronto, they were not given the same revenue raising powers.

Other cities in Canada, for example, do not fall under a municipal act but are "Charter cities." Vancouver, Winnipeg, Montreal and Saint John for example, are all Charter cities which means that rather than being subject to a municipal act of general application to other municipalities in their province, each of these four cities is governed by its own 'stand-alone' legislation, its Charter.[vii]

Under the *Act*, Toronto has power to impose, by by-law, a direct tax, subject to prescribed limitations, and it can use these powers to create and enforce its public policy objectives. Yet, according to the corporate Finance Division of the City of Toronto, "new potential tax measures or any other new tax measures identified under the *Act* are neither intended nor able to resolve the City's structural fiscal problems." This conclusion is supported by the express exclusion of almost all broadly-based taxing powers (taxes on income, sales, wealth, energy, resources, persons, etc.) under the *Act*, and confirmed through comments by the Premier of Ontario regarding the need for additional measures to address the City's acknowledged fiscal challenges and subsequent actions to initiate a review of the provincial municipal fiscal relationship. But, the Premier did go on to say, "nevertheless, the *Act* is an important part of the long-term, multi-faceted package of reforms that the City needs to develop and implement in partnership with the other orders of government."[viii] While municipalities do not have any formal link with the federal government under the constitution, federal programs and policies have long had a major impact on local government.[ix] The federal government, in its aggressive pursuit of deficit and debt reduction in[x] the 1990s, drastically reduced expenditures in areas critical to municipalities, such as transportation, which spurred the provincial level governments to respond to these reduced federal transfers by engaging in their own downloading exercises. The ability of the City of Toronto to use its powers under the *Act* depends on the precise manner in which the taxes are defined and imposed; i.e., direct or indirect and for what. The question now is, how adequately is Toronto using these powers they fought so hard for?

How is Toronto using its revenue generating power?

Even though municipalities have a larger scope for action under the 2006 *Act*, albeit with restrictions, the blame for the current infrastructure deficit in Canadian municipalities rests on all three levels of government, including municipalities themselves. Some say local governments must get beyond the limiting mindset that they are just “constitutional orphans” who must constantly plead for better treatment from the provincial (and federal) government. Instead, municipalities need to recognize their growing importance, seek out alliances within the public and private sectors, and pursue a collaborative approach to the issues and challenges that they face.[xi] The sentiment applies to Toronto as well. The decisions, and changing of decisions, on transit plans in Toronto over the last few years has received much criticism. Columnist Marcus Gee wrote in the Globe and Mail in 2013 that “no plan is ever fixed or final, all agreements are subject to change, every decision is political and projects worth billions are started then stopped, then started again, causing tens of millions in delays.”[xii] The City and Province have participated in much back and forth on plan changes, adding to delays, incurring unnecessary expenses and overall confusion. To highlight this point, it is worth outlining a number of recent changes made to transit plans in Toronto.

- Before 1998, the provincial government shared the cost of subsidizing the Toronto Transit Commission with the city of Toronto, but during the Harris government years of 1998 - 2003 provincial government funding was eliminated completely.
- Conservative premier Mike Harris cancelled the Eglinton subway in mid-construction in 1995 and filled in the hole, focusing instead on proceeding with the more expensive Sheppard line. Many feel politics were at play in this decision.
- Former Mayor David Miller and then-Chair of the Toronto Transit Commission Adam Giambrone introduced a public transit plan for Toronto in 2007 named *Transit City*. This called for the development of seven new light-rail transit lines to be integrated into existing transit infrastructure.
- Also in 2007, the Government of Ontario under then Premier Dalton McGuinty, announced its transportation plan for the Greater Toronto Area, including the *Transit City* proposal, called MoveOntario2020.

- In 2010, Premier McGuinty postponed $4 billion of funding to regional transit agency Metrolinx for the MoveOntario2020 project which included funding for *Transit City* and said it would support an Eglinton light rail line underground, effectively eliminating *Transit City*.
- As his first act of business in 2010, Mayor Rob Ford cancelled the *Transit City* plan, which some have argued was beyond his legal authority to do, which is estimated to have cost the City about $65 million in penalties and contracts and $48.5 million in unrecoverable costs of work done. This includes the light-rail transit line on Finch West and Sheppard East.
- Mayor Ford pushed for extended subway lines instead which included an extension of the Sheppard subway in Scarborough but city councilors voted him down and brought back *Transit City,* later *c*hanging plans for this route more than once.
- Council then decided it did not want part of the plan for the Sheppard subway in Scarborough replacing it with a new light-rail, and instead voted for a subway to Scarborough on a different route.
- Current Minister of Transportation Glen Murray now wants to overrule the latest plan, putting an above-ground subway on the same route as the previous route.

Outside of specific projects, other changes in policy and application of power have changed over time. Although according to the City, "fees and charges sections of the 2006 *Act* are basically unchanged from previous legislation," [xiii] there are many other decisions regarding municipal financing tools that impacts revenue generation and thus transit funding in Toronto. Some of these tools have also been subject to introduction and removal since 2006, largely based on political factors at play. For example, as of February 2008, Toronto began to collect the Municipal Land Transfer Tax (MLTT) under the legislative authority given to it by the provincial government under the *City of Toronto Act*, 2006, which it collects. Yet, the City could also introduce a Property Transfer Tax and capture some of the increase in land value each time a property is sold. This is a missed revenue generating opportunity by the City.

Toronto was given the power in 2006 under the *Act* to administer a direct tax on all ownership registrations or licenses issues known as a Personal Vehicle Tax (PVT), which former Mayor David Miller introduced in 2007. But for political reasons, Mayor Ford and Toronto City Council approved the termination of the PVT effective January 1, 2011 eliminating $64 million in annual revenues. As Mayor Ford had campaigned on, he made changes to municipal financing structures and revenue options by freezing property taxes and eliminating the Personal Vehicle Tax in 2011, costing the City $132 million in revenue. City council also passed a new user fee policy for sports fields in 2012 but after widespread backlash, the city eventually waived the user fees for 2012, forfeiting the $1.5 million in expected revenues, with the promise to consult with the public prior to the next budget. These are example of short-sighted political actions that hurt the City in the long term when infrastructure projects are delayed or new transit congestion solutions not created, due to lack of municipal funding that would have otherwise been available. Rather than allow politics to be at the forefront of decision regarding the removal of revenue generating tools as Toronto has seen, according to the Wellesley Institute "a more fiscally prudent process would have mechanisms in place to publically analyze the costs and benefits associated with such a decision while also offering alternatives."[xiv] In 2012, the City of Toronto held public consultations proposing a variety of revenue tools with ten different possibilities to fund transit across the GTHA such as the sales tax, road tolls and parking levies as the City is eligible to do, yet there has been very little movement on any of these.[xv]

Harry Kitchen and capital funding

According to municipal finance expert and academic Harry Kitchen, municipalities could begin to take necessary action and push for financial measures to address the transit crisis in places like Toronto in a much more proactive way. These measures could include financing capital projects on a "benefits-received basis," an increase in property tax for those receiving benefits from infrastructure investments, increase borrowing on long-term projects to avoid upfront payments, development charges used with varying rates, and municipalities could introduce levies on a dedicated municipal fuel tax outside of provincial or federal gas tax funds.[xvi] As is outlined below, only a small percentage of these measures are currently being considered for transit funding in Toronto. Harry Kitchen believes municipal infrastructure should be financed, as far as possible, on the basis of benefits-received yet he says, "there is seldom any relationship between who pays for new projects and who benefits from them." Benefits-received Kitchen says, provides the greatest possibility of efficient allocation and optimal levels of local capital investment. The underlying principle of benefits received is: those who benefit from local infrastructure and the services it provides should pay for it. As Kitchen outlined in a CD Howe Institute report in 2006, the benefits-based model is particularly important because it satisfies five important criteria:

• *Economic (allocative) efficiency*, which is achieved when the charge or tax per unit of output (service received) equals the cost of the last unit consumed, because this is the point where society secures the greatest net gain from the consumption of this service.

• *Accountability*, which requires that the design of a tax or charge be clear to taxpayers and that the link between the beneficiaries of a government service and payment for that service be tight.

• *Transparency*, which means that citizens/taxpayers have access to information and decision making forums so they are familiar with the way in which local tax rates and user fees are set.

• *Fairness*, which is achieved when those who consume public services pay for them.

• *Ease of administration*, which is satisfied when the financing system does not absorb unnecessary time and effort in administration and compliance.

The benefits model applies best where beneficiaries can be identified easily; where services do not generate spillovers or externalities (such as benefits or costs for neighbouring communities); where redistribution is not a concern or can be handled separately; where governments can prevent individuals who do not pay from using the service; and where precise measurement of output and costs is possible.[xvii] Municipal revenues (and provincial revenues) could also be derived from what Harry Kitchen calls "own sources revenues" such as taxes, user fees and a mix of charges, licenses, permits among others and conditional and unconditional grants from the provincial and federal governments.[xviii]

So what financing options do cities have to address the growing pressure on transit systems, maintain their infrastructure demands and meet the needs of the population?

First it is important to break out financing needs between capital and operational funding as there are different funding options available for each. Capital expenditures have more financing options than operational expenditures as capital can be drawn from internal sources such as taxes, user fees or levies, as well as from external sources such as grants, borrowing and public-private partnerships. According to the FCM, such capital investments are used for renewing and rehabilitating existing capital assets, and expanding to improve services or in response to population growth. The FCM says as well, transit operations require operating contributions to offset the shortfall between total costs of operation and total revenue from fares and "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."[xix] Second, municipal funding sources for both operating and capital subsidies derive primarily from property taxes, supplemented in some cases by gasoline sales, parking and hydro bills, and in every province, the property tax is shared by municipalities, the province and/or school boards.[xx] The FCM feels property tax alone 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 public transit. Municipal governments need help delivering transit services.[xxi] Third, senior governments continue to cut back on the money directly provided to local governments while at the same time failing to provide new revenue raising powers, resulting in a widening gap between increasing expenditures and available revenue sources.[xxii] If there was political will to actively address this gap, provinces could provide unconditional grants for example, to bolster the revenues of municipalities with a weak assessment base, much like federal equalization payments to provinces. [xxiii] Yet, transit is one example where provincial government grants originally played a positive role, only to be cut back as part of retrenchment activities in the 1990's/early2000's in Ontario (as well as in other provinces). Ontario thus ended cost sharing programs with cities when these transfer payments were cut by the federal government while transit needs continued to grow. Cities received a renewed focus in 2005 when the federal government under them Prime Minister Paul Martin, committed to the *New Deal for Cities and Communities*. This resulted in the transfer of $5 billion in gas tax revenues to Canadian communities (by 2010) for transit and other environmentally sustainable infrastructure. Yet in a major shift of focus following Martin, the gas tax transfer that was originally intended to support public transit in cities was changed to a per capita transfer to all municipalities" of all sizes. Focus by the federal government on federal funding to municipal transit needs decreased under current Prime Minister, Stephen Harper, who has decided to "respect the constitutional division of powers" and stay out of provincial jurisdictional matters however he did extend the Gas Tax Fund to provinces making this funding permanent.

Transit in Toronto: Viable financing options

According to the FCM, in order to compete globally, Canada needs fast, efficient transportation networks that connect companies to customers, workers to jobs, and communities to international markets. However, a lack of long-term funding and coordination among governments has allowed traffic to clog city streets. The average Canadian commuter spends the equivalent of 32 working days a year travelling to and from work and in the Greater Toronto Area, a person's average daily commute time is more than 75 minutes.[xxiv] The estimated costs of traffic congestion for our economy in lost productivity do not include the costs associated with moving goods across our country. A study by the Organization for Economic Co-operation and Development (OECD) did include the costs associated with moving goods and concluded that gridlock costs the City of Toronto alone $5 billion annually.[xxv] In a report released in 2012 intended to advise the Ontario government on how to reduce the Province's debt levels, economist Don Drummond estimates that within the next 25 years, commute times in the Greater Toronto and Hamilton Area (GTHA) could reach 102 minutes per round trip (from the current 75 minutes) with gridlock costing the provincial economy $15 billion per year.[xxvi] In examining some of the ways cities in Canada are trying to meet the infrastructure and transit challenges they face, Toronto is a good case study of what cities are and are not doing. Through the local Toronto Transit Commission (TTC), the regional transit agency Metrolinx in the GTHA, and the provincial government, Toronto is proposing to finance transit infrastructure and operational needs to address congestion through a variety of measures. The TTC is responsible for providing public transit in Toronto. Currently, the TTC manages four subway lines, 11 streetcar routes and more than 140 bus routes in Toronto. It also operates 13 bus routes into neighboring transit agencies and offers transit opportunities between several TTC and GO Transit, the regional public transit service, and commuter rail services.[xxvii] An eleven-member Board of Commissioners, composed of seven elected City Councillors and four citizen appointees, governs the TTC. The Board of Commissioners must ensure that service and fare levels are set so that passenger demands are met and budgets are balanced.[xxviii] Metrolinx, on the other hand, is an agency of the Government of Ontario and under the *Metrolinx Act* of 2006, it was combined with GO Transit "to improve the coordination and integration of all modes of transportation in the Greater Toronto and Hamilton Area." The *Metrolinx Act* of 2006, formerly known as the *Greater Toronto Transportation Authority Act* of 2006, describes two of Metrolinx's primary responsibilities:

1. To provide leadership in the co-ordination, planning and financing and development of an integrated, multi-modal transportation network for the region of the Greater Toronto and Hamilton Areas.
2. To act as a central procurement agency for the procurement of local transit system vehicles, equipment, technologies and facilities and related supplies and services on behalf of Ontario's municipalities.[xxix]

Before Metrolinx was created, the Ontario government withdrew itself from providing any funding for municipal transit systems and instead transferred to the municipalities the cost of an intermunicipal train service across the Greater Toronto Area. Recognizing its mistake and eventually taking this responsibility back, the Ontario government introduced grant payments covering 33% of transit operations (well down from the original 75% it previously subsidized). Since then, Ontario has established the regional transit agency Metrolinx "to plan, finance, coordinate, and develop an integrated transportation network within the Greater Golden

Horseshoe.” To date, Metrolinx has been successful in obtaining (in June 2010) $9.5 billion in provincial funding (including $300 million from the federal government) for an ambitious public transit plan, known as *The Big Move.* According to *The Big Move*’s plan for five major transit projects over the next decade, [xxx] this includes an integrated transportation system, “effective transit and transportation solutions can bolster our global competitiveness, protect our environment, and improve our quality of life.”[xxxi] As accountability and transparency for project financing are increasingly required from both public financers and from tax-payers, who in part, fund them, Ontario has mandated Metrolinx to report back with an Investment Strategy to show how its transportation plan will be financed with sustainable revenue solutions which will then be voted on by the Province in 2014. Outlined below are financing options proposed by Metrolinx (2013) for this Strategy and an analysis on the viability of these options based on reviewing Harry Kitchen’s perspectives on which options cities (and agencies on behalf of cities) could use to fund municipal transit infrastructure needs. It is also important to compare the findings and recommendations of the Transit Investment Strategy Advisory Panel, which was established by the Ontario Government in September 2013 to advise the Province on how best to respond to Metrolinx’s Investment Strategy and to assess Metrolinx’s recommendations for financing transit projects. The Panel released its final report in December 2013 entitled “Making the Move: Choices and Consequences.” Beginning with Metrolinx, its Investment Strategy includes four different investment tools to “dedicate new revenue sources for transit and transportation in the Greater Toronto and Hamilton Areas.”

1. 1% increase in Harmonized Sales Tax (HST)
2. $0.05 cents per litre regional fuel and gasoline tax
3. Business parking levy
4. Land development charges

The first option proposed by Metrolinx is a 1% increase to HST, and notes that "due to the nature of the administration and collection of HST at the federal and provincial levels, the Province may find it administratively necessary to introduce a percentage point HST increase across Ontario."[xxxii] The problem with this strategy is that the government of the day is being asked to make a politically sensitive decision to increase HST which may or may not go against a position it campaigned on, thus making it difficult for Metrolinx to be confident that funding will be provided through this source. This has shown to be the case with the current Liberal government in Ontario which has not been supportive of this option to date. Kitchen does not focus his theory of revenue-generating options directly on provincial sales taxes, but focuses instead on mechanisms *cities* can use to increase revenues needed for funding transit related projects. There is a benefit to the HST strategy however, as Metrolinx guarantees the money generated would go directly to transit related projects and not just a general fund. Metrolinx says 25% of this proposed revenue, or $500 million a year, would go directly to municipalities for their local transportation goals, going directly to the TTC, and other municipalities in Ontario. They would benefit by receiving similar financial investments resulting from the HST increase. An HST increase is addressed by the Panel, it suggests a legislatively dedicated fund for monies raised to go directly into transit projects, as does Harry Kitchen. Metrolinx also proposes a *regional Fuel and Gasoline Tax* of $0.05 cents per litre which it says would generate about $350 million annually and "provide a direct means for businesses across the region to contribute to the transit and transportation system."[xxxiii] The Panel, however, recommended two options: Option 1. a $0.03 cent per-litre increase to the *provincial* gas tax which would be followed by additional percentage increases capping out at 5 or 10% within eight years raising about $1.4 billion annually in Toronto, along with a 0.5 per-cent rise in the corporate tax rate, generating about $189 million, and the redirection of the HST on gas taxes to transit, $80 million. Option 2 is a similar approach to corporate taxes and the HST on gas taxes and starts with a $0.03 cent per-litre hike in the gas tax and increases the same rate but caps the total additional gas tax at 5 cents per lire, making up the difference with a 0.5 per-cent increase in the HST, raising about $918 million in the Toronto area. In both cases, the plan calls for leveraging the new revenues raised to borrow and then pay down around $7-billion or $8-billion. According to the Panel, this gas tax increase would raise almost $2 billion dollars annually in new transit funding beginning in 2015.[xxxiv] Anne Golden, Chair of the Advisory Panel, says "we favour the gas and fuel taxes because they match usage, affect travel behaviour, are simple to administer, raise a lot of money, and haven't been raised in more than 20 years."[xxxv] A similar recommendation is made by Harry Kitchen who believes regional tax rates are less risky than individual municipal rates but also believes "provincial governments should allow municipalities to levy a dedicated fuel tax for public transit and transportation needs."[xxxvi] Although Kitchen would likely agree a provincial gas tax option would help cities, he believes a municipal fuel tax would be a better option as it "could raise the cost of road usage to direct beneficiaries (car owners) and lower the cost on others (public transit users)" which he said is "consistent with benefit-based approach to municipal finances."[xxxvii] The principal of a benefits-based approach says if you benefit from investments you pay, if you do not benefit, you are not required to subsidize those who do. By using this theory, it could result in more efficient use of municipal roads by its users for example. An increase in a fuel tax by a regional agency such as Metrolinx would not likely sit well with the public who already pay a provincial fuel tax. A municipal fuel tax however, would be more tangible for those living in Toronto who would see the direct benefits of this tax in their city, eliminating some of the distrust from these in a region paying for a city, as could be the case under Metrolinx's proposal. The Province hasn't raised gas taxes since 1992 and the $14.7 cents unleaded fuel tax raises nearly $2.4 billion each year. Although an increase in taxes would help offset the costs of transit and reduce congestion, both provincial opposition parties and the current Mayor of Toronto reject the Panel's recommendations. It should be noted that the gas tax Metrolinx is proposing is above and beyond and separate from the federal government's Gas Tax Fund for municipal infrastructure projects. The federal program is based on population and public transit ridership but can be used for any one of six infrastructure type projects, public transit only being one. As Kitchen points out, the federal government grants to municipalities from federal gas tax revenue is a form of revenue sharing and not a municipal fuel tax because the municipalities do not set fuel tax rates and have no say over the tax base. Municipally set fuel taxes may be viewed as benefit-based taxes where the revenues are earmarked for funding local roads and public transit. Kitchen says any distortions or competition, between jurisdictions setting their own tax rates would be lower if regional taxing jurisdictions (regions, counties, districts) set local fuel tax rates for large city-regions, with all revenues used to pay for region-wide public transit and transportation infrastructure. There is a risk however that if a new municipal, regional or increased provincial fuel and gasoline tax were brought in by the Province, it could diminish the need for funding from the federal Gas Tax Fund in the eyes of the federal government and could be politically hard to sell to the many in Ontario. Metrolinx provides a third financing option in its Strategy calling for a *Business Parking Levy*. This parking levy would be applied to all off-street, non-residential parking spaces and is based on "relative current value assessments." That is, a levy is charged to a property owner based on the amount of non-residential off-street parking spaces they own. Based on the successful model in Vancouver, Metrolinx estimates the return of this revenue source to be upwards of $350 million annually, again citing this to be an opportunity for “businesses to contribute to the transit and transportation system.”[xxxviii] Kitchen agrees that parking fees are a viable and useful tool municipalities have to raise funds outside of property taxes and would likely agree with this financing option proposed by Metrolinx. The Panel, however, made no mention of the business parking levy likely because of worries the public might see it as unfair and difficult to administer. Metrolinx, as a regional agency, neglects to include fares for usage or “fare box revenue” for transit in its Strategy as it is outside the purview of this agency, but is however, addressed by the TTC which is believed to have one of the highest fare box revenues in the North America. As fares mainly cover operational funding, Metrolinx instead focuses its Strategy on raising funds for capital costs versus operational costs although some operating funds can be used for capital projects. Although Metrolinx was correct in excluding fares in its Strategy, it is important to examine what Kitchen describes as fare-setting or “marginal cost pricing” for public transit. That is, production costs and environmental costs, he says are not efficient because public transit users pay a price equal to the full marginal social cost, where automobile owners do not. Kitchen believes efficiency should be pursued through the second-best solution of subsidizing local public transit.[xxxix] As marginal cost pricing is contentious with the public and hard to determine, one way to balance this against what Metrolinx is proposing is to implement road charges to control the use of roads and assist in subsidizing public transit. The city has the power to do this but has yet acted upon it. As mentioned, the TTC does use fare-box revenue and offers a flat-fare structure, allowing customers to travel an unlimited distance per trip for one price.[xl] Kitchen believes peak-hour fares should be implemented but says this is complicated by the availability of discount fares used primarily by rush-hour travelers, effectively lowering the per trip charge precisely at a time when higher fares could make more economic sense."[xli] Above all, Kitchen says "the marginal cost of carrying a passenger varies with distance traveled and failure to use zone charges within a large metropolitan areas causes efficiency and fairness problems."[xlii]

Finally, Metrolinx recommends a fourth financing option it calls *Development Charges Amendments*. Metrolinx says "land development is a key beneficiary of improvements to our transit and transportation system" which is why there should be amendments to legislation on development charges and "how these fees are applied to new growth and development." Development cost charges fall under property tax revenues and Metrolinx projects about $100 million would be contributed annually from development charges.[xliii] The Panel does not address land development charges directly but does say, it "looked at the potential of land value capture and while we can't rely on it for reliable revenue, it can contribute to reducing the capital costs of building transit." Metrolinx suggests land value capture as a "secondary revue tool" outlined below, and the Panel supports Metrolinx in asking that the agency adopt a proactive and collaborative approach in working with the private sector to take advantage of the increase in land value created by the next wave of rapid transit projects.[xliv] Kitchen warns that the current application of development charges in municipalities does not lead to an efficient allocation of local resources because properties that cost less to service in terms of the cost of capital assets required, end up subsidizing properties that are more expensive to service.[xlv] This same warning can be applied to Metrolinx and therefore within the amendments being proposed, the development charge should vary by cost of servicing rather than a uniform development charge for a specific type of property. Metrolinx is also proposing three "secondary tools" for revenue generation, albeit to a lesser extent than the four key revenue streams, that will help influence behavior of transit users. These tools include high occupancy toll lanes, paid parking at transit stations and land capture taxes. Kitchen believes that, given increasing gridlock in cities, tolling is necessary and he would agree with Metrolinx's proposal for tolls on high occupancy lanes. Kitchen believes in the principle of "pay-as-you-use" and believes tolls rates should vary depending on the time of day.[xlvi] The Panel however, did not include road tolls in its recommendations saying "they are typically applied to new instead of existing roads and cannot be implemented quickly."[xlvii] Although Kitchen believes in parking lot fees, he may, however, disagree with Metrolinx's suggestion that transit users should pay for parking at transit stations. He would likely argue this would act as a disincentive for the public to use transit systems and continue to drive their vehicles instead. Based on the benefits-based model, Kitchen would probably agree with Metrolinx's proposal for land value capture as he believes those property owners who benefit from infrastructure investments should pay for them. Kitchen would agree with Metrolinx that provinces should work with municipalities to develop this policy proposal. Kitchen also says "whenever a direct link is made between the users of a service and its funding, one observes a more efficient use of resources, better accountability, increased transparency, and improved fairness."[xlviii] As outlined above, the Panel also agrees. For another view on some of the revenue generating tools being proposed, according to the Centre for Policy Alternatives - tolls are too administratively complex, have uncertain distributive impact and limited revenue raising potential, land and property transfer taxes are already locally important sources of revenue, vehicle registration taxes are very regressive, and fare box revenue shares (transit fares) are already too high in the GTHA.[xlix] One area Metrolinx does not touch on, but both Kitchen and the Panel do, is borrowing. Kitchen believes in increased borrowing on long-term projects to avoid upfront payment and the Panel says for every dollar raised, the

Province could borrow $2.50 which would max out at between $6.5 billion and $8.3 billion around 2023 in total and including financing. At that point the region could keep building new infrastructure for transit projects or begin paying down the debt. Overall, the Panel agreed with Metrolinx in some areas and disagreed or omitted other proposed solutions to funding the $34 billion needed for priority transit construction projects. According to the Panel's Chair, Anne Golden, the group tried to "balance the burden of paying equally on the private sector, transit riders, drivers and government alike."[l] At the end of the day, the Panel says if *The Big Move* is not implemented, the average driver will eventually be paying $700 per year more because of money lost idling in traffic as congestion worsens. The federal government could also be doing more to promote public transit use. For example, 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; yet transit benefits for employees are not. Allowing employers to deduct the costs of transit assistance for 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.[li] The new federal tax credit for the purchase of transit passes is an important first step and additional tax incentives need to be considered by the federal government to encourage greater transit use.[lii] The Canadian Urban Transit Association (CUTA) also calls for all levels of government to give "tax-exempt status to employer-provided transit benefits and this would complement the current federal tax credit for transit pass purchases, encourage employers to financially support transit commuters, and "level the playing field" with employer-provided parking benefits that are generally not taxed.[liii] *If* the provincial government and the City of Toronto were to agree to adopt all of

Metrolinx recommendations, Harry Kitchen would likely have been very supportive of the financing measures. The Panel however, would likely feel that Metrolinx's recommendations were too far reaching and not viable options. Although the Panel is said to have kept political considerations out of its recommendations, it is apparent to the average person that may not have been the case.

Conclusion

The core financial problems facing municipalities is that their expenditures are growing more rapidly than their revenues and they have complete control over neither. Municipalities also face constraints on their spending and financing activities, resulting in necessary infrastructure investments that are drawn from limited resources. Currently, municipalities have access to property tax, limited user fees, borrowing, and grants, like the federal Gas Tax Fund, that are provided by senior government bodies. As such, it is important to look for alternative funding sources that municipalities might access. Transportation is an example of how all levels of government have responsibilities to address these gaps and highlights an important area where cross-jurisdictional collaboration is required. Toronto is essentially caught in the middle of a jurisdictional overlap and conflict between who is responsible for what and who pays for transit in the city and outlying areas, and how politically popular certain decisions are or not. Transit financing and governing issues in Toronto are cyclical. The TTC gets its funding from the City of Toronto, yet the City is strapped for cash because it does not have enough revenue generating tools, mainly due to constitutional limitations, or using the ones it has to their fullest. The federal and provincial governments could help remove these limitations and increase municipal financing mechanisms, but instead the Province creates and funds a regional agency that then has to develop a transit plan that has financial implications for both the provincial government and City of Toronto. All the while, the federal government is removing itself from a provincial matter but funding specific transit projects on an ad-hoc basis. In other words, the City's hands are tied, while it is being asked to deliver funding for infrastructure and services without additional mechanisms needed to generate the funding required. Canada's overall economy is directly dependent on the transportation systems enabling its largest cities, yet municipal governments rely on the regressive property tax system to fund most of their contributions to infrastructure, a tax that does not respond to economic growth.[liv] That being said, municipalities such as Toronto, have numerous revenue-generating options at their disposal not being taking advantage of. Transit funding and project decisions are being made on political whims and there is no long-term transit-financing plan for the City being adhered to. Transit infrastructure problems arise and as Harry Kitchen says, "politicians tend to support short-term projects with re-election in mind, rather than the welfare of future generations." The question of how adequately Toronto is using the powers it fought so hard for becomes clear, it is not. Although not examined in this paper in detail, public-private partnerships (P3s) are also important for transit in some respects. Kitchen believes that P3s should be used by municipalities for financing and delivering infrastructure projects that satisfy a number of considerations.[lv] Fundamentally, Canadian cities, and Toronto in particular, need to use their revenue-generating tools at their disposal to their fullest capacity, while senior levels of government need to make financing decisions that address transit issues, specifically related to gridlock and congestion. In what is a very complex system, municipalities need to be given greater constitutional powers while using the powers they already have, to meet the national and international demands being placed on them. Infrastructure gaps will continue to exist until a cohesive plan is developed and followed to help cities, provinces and the federal government address this fundamental problem. Lastly, if all three levels of government remove the politics at play when making and often rescinding decisions regarding transit, Toronto will be able to carry forward a plan that benefits citizens, the region and the country.

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[iv]http://www.fcm.ca/Documents/backgrounders/The_Road_to_Jobs_and_Growth_Solving_Canadas_Municipal_Infrastructure_Challenge_-_Submission_EN.pdf
[v] http://www.cutaactu.ca/en/publicationsandresearch/resources/Issue_Paper_38_E.pdf *Bridging the Gap: the Federal Role in Transit Investment.*
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