DISCUSSION PAPER

A Green Light To Moving The Toronto Region: Paying For Public Transportation Expansion
Founded in 1845, Toronto Region Board of Trade is the chamber of commerce for Canada’s largest urban region. We connect 10,000 members and more than 200,000 business professionals and influencers throughout the Toronto Region. The Board advances the success of its members and the entire Toronto Region by facilitating opportunities for knowledge sharing, networking, business development, and city building. The Board plays a vital role in elevating the quality of life and global competitiveness of Canada’s largest urban centre.

Involvement with Toronto Region Board of Trade delivers valuable professional and personal advantages for members. Equally important, the Board fuels the economic, social and cultural vitality of the entire Toronto Region by fostering powerful collaborations among business, government, thought leaders and community builders.
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2013: A Gridlocked Region

The Toronto Region\(^1\) faces transportation pressures on a scale unprecedented in our history. It is truly telling that critical elements of regional public transportation infrastructure such as Union Station and Toronto’s streetcar network date back to the turn of the last century, while most of the subway system to the 1950’s and 1960’s; undoubtedly, still good pieces to have, but by themselves, woefully inadequate for a region of six million people.

No surprise then, that irrespective of who’s measuring, or how, the results are consistent: the Toronto Region’s problems of gridlock are amongst the worst of any major urban centre in the world and getting worse by the day; a fact the Region’s weary commuters know all too well as they try to navigate through our congested roads and packed transit systems.

It is quite clear that overstretched transport networks are a major threat to the future prosperity of the Toronto Region. The time has come for us to make some difficult choices. None more vexing than how to implement the regional transportation plan, known as The Big Move. The Big Move was developed and adopted by the Province’s regional transportation agency, Metrolinx, in 2008. The plan envisages over 1,200 kilometres of rapid transit – more than triple what exists now – so that over 80 percent of residents in the Region will live within two kilometres of rapid transit. Another key component of The Big Move is about improving the efficiency of the road and highway network for drivers, through improvements in traffic management systems and the identification and removal of intraregional bottlenecks.

Although Metrolinx has secured approximately $16 billion in funding from all levels of government towards realizing the plan, there is still no way identified to pay for the rest of the $34 billion worth of capital projects.

This entails facing up to some stark fiscal realities. Regardless of the level of government – federal, provincial or municipal – there is simply not the money within existing revenue sources to finance these huge investments. The debate can no longer be about the need for new revenue streams, but rather which ones we are willing to accept. In this regard, the Toronto Region Board of Trade ("the Board") welcomes the recent launch of public and stakeholder consultations on this very question by Metrolinx and the City of Toronto.

A Green Light to Moving the Toronto Region: Paying for Public Transit Expansion

With the release of this discussion paper: "A Green Light to Moving the Toronto Region: Paying for Public Transportation Expansion", the Board is actively engaging in this public conversation with concrete ideas and proposals on how to solve the funding challenge. We are also reaching out to the broader public in this debate with the launch of a multimedia campaign with the support of the Region’s business, labour and community leaders.

This paper marks an important milestone in our recent advocacy efforts. Starting with the release of The Move Ahead discussion paper and Vote Toronto campaign in 2010, further advanced in 2011 with our Scorecard on Prosperity and Vote Ontario campaign, the Board put a special spotlight on the problem of traffic gridlock, its economic impact and the fiscal challenge of paying for new infrastructure investment.

\(^1\) For the purposes of this document Toronto Region refers to Greater Toronto and Hamilton Area.
Most notably we highlighted the $6 billion in lost productivity annually in the Toronto Region and identified 16 dedicated revenue tools, which governments could consider to pay for public transportation investments.

Now, we arrive at the stage of actually putting on the table our recommended suite of dedicated revenue tools that deserve serious consideration. By no means should our proposal be construed as the final word on the subject. The Board fully realizes we will elicit strong opinions and reactions. Asking people and businesses to pay more is never easy. In putting our recommendations forward we understand this is a difficult task. But to succeed, all of us will have to contribute. For those who would criticize our recommendations, we make one special request: tell the public what your specific alternative is.

On June 1, 2013 Metrolinx is to hand to the provincial and municipal governments a financing strategy outlining how it proposes to raise the billions of dollars required for regional transit expansion. We urge elected officials at all levels of government to rise to the occasion of this watershed moment and constructively work towards meeting this deadline. By doing so, they can honour the legacy of their predecessors, who many decades ago supported the kind of visionary long-term transportation investments which to this day we benefit from as a region, province and country.

An Important Legacy – Laying the Foundations for Prosperity

Established in 1845, the Toronto Region Board of Trade is Canada’s oldest and largest urban chamber of commerce. It connects 10,000 members and more than 200,000 business professionals in firms of all sizes across the Toronto Region.

In January of this year, we celebrated the 125th anniversary of the Board’s Annual Dinner. The event provided an opportunity for the Board to take stock of its history and unique place within the institutional fabric of the Toronto Region.

What is particularly striking when reading many of the Board’s archived annual reports – some of which are over 100 years old – is to see the remarkable continuity of farsighted advocacy on the key issues of the day.

Whether it was strongly supporting freer trade and more open immigration, or promoting improved access to education to meet the labour market needs of industrialization, the Board never shied away from tackling the big issues impacting the economic and social well-being of the Region.

And right from its foundation in pre-Confederation Canada, the Board made transportation a core priority of its relationships with public and private sector partners. It understood that to compete and trade with the world’s leading cities, the Region needed to effectively move people and goods, not only within the Region, but to destinations beyond.

For this reason, the Board was an early and vociferous champion of major infrastructure projects like expansion of the Toronto Harbour; the St. Lawrence Seaway, the Yonge Subway Line and GO Transit’s regional train service, all of which enabled the Toronto Region to emerge as a 20th century economic powerhouse.
Recognizing the commitment of our Members and Partners

The Board gives special thanks to our many members and other community and corporate partners that generously gave of their time in participating in the revenue tool consultations undertaken by the Board during 2012 and into February of this year. Their informed and constructive input on our Transportation Campaign Cabinet, Infrastructure Committee, Policy and Advocacy Committee, Technical Roundtables, Advisory Council, Board of Directors and on-line surveys was invaluable.

The Board has consulted with business leaders from a wide range of industries, academics, government officials and transportation experts. We conducted focus groups with residents from across the Toronto Region, and surveyed our members, two thirds of whom agree that new dedicated sources are required to fund expanded regional transit.

As well, we would like to express our gratitude to AECOM, KPMG and Metrolinx for the research they provided to us that assisted in the drafting of our recommendations.

In closing, it is worth highlighting a consistent and emphatic theme emerging from the consultation: the time for thinking and talking about congestion is over. It is time for putting concrete proposals on the table and engaging the public on this basis.

Carol Wilding, FCA
President & CEO
The Problem and Challenge

Traffic congestion and a fraying public transit system represent a major threat to the long-term prosperity and well-being of the Toronto Region. As the Board documents annually in its Scorecard on Prosperity, when it comes to getting people to and from work in a reasonable time, the Region is the worst performer in Canada and near the bottom of global rankings based on Statistics Canada figures and comparable international data.

Most emblematic of congestion in the Toronto Region is the 401 highway, declared “officially the busiest stretch of freeway anywhere in North America” by none other than the US Department of Transportation.2

It is hardly a mystery as to how we got to this gridlocked state of affairs. The transportation system has simply not kept pace with population growth. The Region’s population swelled from about three million in 1971 to approximately six million in 2011.3 Yet at the same time, construction of rapid transit, which averaged approximately 135 kilometres per decade from the 1960s to the 1980s, was effectively halted over the past two decades.4

While competitor city-regions across the globe were busy building transportation infrastructure, the Toronto Region was stuck in neutral, producing lofty transit visions but without any strategies or plans to pay for them.

All this inertia brings with it very real economic costs. Indeed, over many years the Board has put a spotlight on the economic implications of underinvestment in transportation infrastructure and the costs of gridlock. In 2011, through our Scorecard on Prosperity and the background paper Reaching Top Speed, the Board brought to the fore the now highly-quoted figures on what congestion costs the Toronto Region economy annually; namely, $6 billion, rising to 15 billion in 2031 should no action be taken.5

But it is not just the Board saying this. Study after study, report after report, by such organizations as PricewaterhouseCoopers and the Organization for Co-operation and Development (OECD), consistently identify our Region’s overstretched transportation networks as the Achilles heel of the Toronto Region economy.

But There Is a Plan

Undoubtedly, the Region faces daunting challenges in reducing congestion and modernizing its transportation infrastructure. Fortunately though, it does have a long-term plan of action known as The Big Move. It is a plan that is in place and being implemented by Metrolinx, the Province’s transportation planning agency for the Region.

Over $16 billion from all three levels of government has already been allocated to a first wave of projects under the Plan (See Appendix 1 for list of projects).

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5 Reaching Top Speed, Toronto Board of Trade, June 2011, http://www.bot.com/AM/Template.cfm?Section=Reaching_Top_Speed&Template=/CM/HTMLDisplay.cfm&ContentID=7098
Nonetheless, $34 billion is still needed for major investments such as a new extension of the Yonge subway line north to Richmond Hill.

We are now at a critical juncture. On June 1, 2013, Metrolinx is required by legislation to hand to governments a financing strategy outlining how it proposes to raise the $34 billion.

**The Ballot Question**

Which leads us to what is in essence the main ballot question: what is the suite of new dedicated revenue tools that we are prepared to accept as a Region to pay for The Big Move?

By framing the debate in this way, the Board is not denying the significant opportunities that exist to reduce waste and inefficiencies at all levels of government and have these savings directed towards transportation investments. We also acknowledge the role alternative and public/private financing and project management models can play in expediting the rollout of projects and in achieving good value for money.

But let us be clear, given the fiscal challenges facing federal, provincial and municipal governments, there is no magic elixir that can get us to $34 billion without the introduction of new and dedicated revenue streams.

**Public Ready for a Mature Conversation**

There is no denying the difficulties that increasing taxes or introducing new fees presents for the governments in the current environment. Nevertheless, as the Board has long argued, and more recently reaffirmed in the Drummond Report, it is time for a mature and informed conversation with the public about the importance of transportation investments and the need for new and dedicated revenue sources to pay for them. Certainly, there is evidence to suggest the Region is more than ready for this dialogue.

Polling undertaken by the Board of the public and our members show transportation to be the most important local issue across the Toronto Region. This sentiment is augmented by an increasing willingness to consider new and dedicated revenue tools to pay for needed transportation improvements. Important to emphasize though, is the notion of having dedicated revenue streams to pay for the Big Move. It was a message we heard time and again through the Board’s many consultations, focus groups and polling. Without this principle in place, public support quickly evaporates.

In the past two years public concern about transportation gridlock has continued to grow. A Toronto Region Board of Trade/Environics poll in September 2011 revealed that 63% of residents described gridlock to be at crisis levels, and this past April 2012 the number had climbed to a startling 88%.

Based on the understanding that expansion of transportation infrastructure requires new dedicated revenue sources, polling on specific examples of revenue tools similarly reveals a dramatic shift toward the acceptance (however reluctant) that higher taxation or user fees need to be embraced.

Echoing these polling trends, when asked in a member survey last fall, two-thirds of our members agree that new dedicated funding sources are required for regional transportation.
Against this backdrop of opinion, the Board strongly believes that it is time for the Province to give the green light to a fiscally sound plan to pay for The Big Move. A point made loud and clear throughout our consultations was that the time for talking and thinking about the problem of gridlock was over; the Board needed to engage in this debate with concrete proposals and recommendations. With this paper, the Board takes the important step of laying out a financing approach that moves us in the direction of improving our Region’s mobility.

The Board’s recommendations are by no means cast in stone. We welcome constructive input and dialogue from all interested stakeholders in the Region. However, to those objecting to our proposal, we make the simple request: please tell us what your specific alternative is.

Before delving into our specific recommendations there are several points of discussion which although not a focus of this paper, should form part of a broader framework for implementing any transportation financing strategy.

Firstly, it is assumed this framework will include a maximization of revenue and project management opportunities inherent in: land value capture; public private partnerships (P3’s); and federal contributions through the renewed Building Canada Fund (or potential national transit strategy).

Secondly, surfacing as part of our consultations was the issue of the role transit fares could play in helping pay for transit improvements. On this question, the Board believes it is more appropriate that this funding stream be directed towards covering operating costs and service enhancements like more frequent GO train services on what is still underutilized rail infrastructure within the Region of Toronto.

In view of the major capital outlays envisaged in The Big Move, the operating side of funding public transit can’t be overlooked. From an asset management standpoint, it simply doesn’t make sense to invest vast sums of money in new infrastructure without the means to pay for its ongoing upkeep and maintenance.

Layering in the aforementioned considerations and also direction from our membership and stakeholder consultations, the Board is now advancing for public discussion four dedicated revenue tools. These are tools, which in some combination could achieve the necessary $2 billion needed annually in dedicated regional transportation infrastructure revenues (please see Section: Recommended Approach for further details on options considered and the evaluation criteria utilized). The figures provided in Table 1 represent an approximate mid-range of both potential rates and revenues which could be generated by each individual tool. The estimates factor in adjustments in driver behaviour and any upfront implementation and infrastructure costs. The figures use 2014 as a baseline year. Of course, over the life of The Big Move, there will be variations in revenues generated due to changes in driver behaviour and fluctuations in the economy.

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6 http://www.bot.com/Content/NavigationMenu/Policy/Scorecard/Transportation.pdf
7 AECOM/KPMG report “Revenue Tool Profiles, 2013”
Table 1: Recommended Revenue Tools

<table>
<thead>
<tr>
<th>Recommended Tools</th>
<th>Advantages</th>
<th>Jurisdictions Where Tools Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional Sales Tax:</strong></td>
<td>• Applicable to a broad tax base, which generally produces high revenue yields&lt;br&gt;• Successfully utilized internationally</td>
<td>• Los Angeles&lt;br&gt;• New York City&lt;br&gt;• Seattle</td>
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<td>A sales tax is a percentage applied on all goods and services sold in a region that is used to fund transportation projects</td>
<td>Revenue: $1.0b - 1.6b (1.0%)</td>
<td></td>
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<td><strong>Parking Space Levy:</strong></td>
<td>• Benefits transportation network depending on extent charge is passed on to parking users&lt;br&gt;• Predictable revenue stream</td>
<td>• Melbourne&lt;br&gt;• Montreal&lt;br&gt;• Nottingham (UK)&lt;br&gt;• Sydney</td>
</tr>
<tr>
<td>A levy paid by non-residential property owners based on parking space area (e.g. $1 per space per day)</td>
<td></td>
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<td><strong>Regional Fuel Tax:</strong></td>
<td>• Widely used, easy to implement&lt;br&gt;• Supports demand management</td>
<td>• Greater Montreal&lt;br&gt;• Vancouver&lt;br&gt;• New York City</td>
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<tr>
<td>A fuel tax is an excise tax levied on the sale of transportation fuels in the Region. The tax typically takes the form of either a flat rate per litre of fuel purchased or an ad valorem tax (i.e. a percentage of the base price). The below figures are based on a flat rate per litre</td>
<td></td>
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<tr>
<td><strong>High Occupancy Tolls:</strong></td>
<td>• Reduced congestion, especially if combined with dynamic pricing&lt;br&gt;• Directly targets driver behaviour and traffic congestion</td>
<td>• Houston&lt;br&gt;• Orange County, CA&lt;br&gt;• San Diego</td>
</tr>
<tr>
<td>Single occupant vehicles can pay a toll for the use of otherwise restricted high occupancy lanes (typically on expressways). High occupancy vehicles use the lanes for free. This tool requires the existence, creation or designation of high occupancy lanes, which can be used free of charge by vehicles with a minimum of passengers (i.e. high-occupancy vehicles with two or more people (HOV2+) or three or more people (HOV3+))</td>
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<tr>
<td><strong>estimate based on conversion of existing HOV lanes in Toronto Region to HOT lanes</strong></td>
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All of the research reviewed and presented to the Board shows clearly that there is no funding tool without certain drawbacks, implementation challenges and of course critics. However, with the four revenue tools we are recommending, we believe there is a better opportunity to ensure stability (e.g. less susceptibility to fluctuations in a single economic sector or market) and distribute costs in a fair way across all segments of the population.

As well, it is important to stress that while reduced congestion benefits commuters (drivers and transit users) in the most direct fashion, there are massive region wide benefits to the economy, environment and peoples’ health and well-being that justify the adoption of both targeted (e.g. fuel tax, High Occupancy Tolls) and broad-based tools such as a regional sales tax.

Outside the scope of this paper, we do acknowledge the major implementation and governance issues associated with implementing any new dedicated revenue tool. A number of these were highlighted in a recent study commissioned by the Residential and Civil Construction Alliance of Ontario. For example, in order to introduce a regional fuel tax or sales tax, “either a new governing body for the GTHA would be required or existing institutions would have to be given new powers”.8 “Collection and administration of the tax or levy could be piggybacked onto the corresponding existing tax (provincial fuel tax, vehicle registration fee and provincial sales tax)”.9 “The governing body should be responsible for setting the rate and spending the revenues”.10 “A new regional government might be best in principle, but one is unlikely to emerge in the near future”.11 “An alternative is to grant Metrolinx with the enhanced powers with directly elected politicians”.12

In terms of other revenue tools, like parking space levies and road tolls, there is the question of whether these would be administered by Metrolinx, municipalities or the Ministry of Transportation.

Additionally, there is the question of whether these tools should be implemented province-wide. Under this scenario, the Province would be responsible for revenue collection and provide the Region with a transit funding stream based on an appropriate formula. In deciding upon the geographic scope of any tool, it is important that due consideration be given to the potential economic distortions that could arise from the regional application of, say, a gas or sales tax. This could include the movement of businesses and consumers out of the Region to avoid higher tax rates and the resulting collateral impacts on firms, consumers and workers (e.g. reduced profit margins, higher prices and loss of jobs). In terms of business impacts, one must also take into account the compliance and administrative costs of implementing a Toronto Region Sales Tax (e.g. creation of new and separate accounting and reporting systems for Toronto Region). Moreover, in light of well documented infrastructure needs in other parts of the province, the case could also be made for a dedicated province-wide revenue generating model.

Irrespective of the financing model adopted to pay for regional transportation there are a number of core principles the Board sees as being integral to achieving public buy-in:

* **Dedicated and time-bound revenue streams**, meaning that all monies collected through any new tool must be solely earmarked for improvements in public transport infrastructure and subject to a proscribed sunset review (e.g. after a 20-year timeframe)

* **Absolute clarity on what are the policy and revenue generation objectives** of each of the revenue tools

* **Openness and transparency** about how and where public money is being spent

* **Rigorous cost-benefit analyses** to evaluate all of the potential economic, social and environmental implications of any new revenue tool or transit project

* **Ensuring maximum value-for-money for taxpayer dollars spent** through the adoption of best-in-class project management and financing models

* **Fairness and equity** related considerations must be part of any revenue tool evaluative framework; this includes assessing the impacts of a revenue tool on economically vulnerable groups and particular business sectors and identifying mitigation measures (e.g. tax rebates, exemptions) which could offset any unduly negative impacts.

Lastly, in the ongoing debate about who should pay for The Big Move and which areas will receive new infrastructure, discussion of the region-wide benefit often gets lost. An improved, expanded, and integrated regional transportation network will return economic benefits across the Region in the form of more investments and jobs.

We know it will take the combined efforts of residents and businesses throughout the Toronto Region to raise the $2 billion needed annually to further build The Big Move. We also know that at any one moment in time in the lengthy development phase, some areas of the Region will see more activity than others.

Ultimately however, the objective of The Big Move is for 80 percent of the Region’s residents to live within two kilometres of rapid transit. But most importantly, improvement and expansion of the Region’s transportation network will support a strong and globally competitive Toronto Region economy.
PURPOSE AND SCOPE

The primary purpose of this paper is to examine and make recommendations on potential dedicated revenue tools to fund long-term transportation investments in the Toronto Region\(^{13}\). Our point of reference for this discussion is the Metrolinx Regional Transportation Plan (The Big Move), which requires about $34 billion or just under $2 billion per year of new funding over a roughly 20 year period to implement.\(^{14}\)

Prior to delving into the Board’s recommended approach, we will provide context on the need for these investments and the implications of inaction.

Although the Board acknowledges the complex governance, jurisdictional and administrative issues associated with many of the revenue tools up for discussion, they are not the focus of this paper. Nonetheless, we will identify these considerations where they could potentially affect the implementation of a revenue tool and highlight those elements which require further analyses and study.

As well, we will briefly touch on the important roles, Federal funding streams, transit fares and financing mechanisms, such as Public Private Partnerships P3’s and Land Value Capture instruments such as Tax Increment Financing, can play in supporting The Big Move. The latter are mechanisms with great potential to provide added value for money to taxpayer dollars invested in infrastructure and help The Big Move projects get off the ground more quickly.

UNDERSTANDING GRIDLOCK: TIME WASTED AND HOW WE GOT HERE

2031: “The Day the Region Stopped”

A recent media story in Toronto pointed to a future dystopia, sometime around 2031, where the Toronto Region from east to west, northwards and southwards and points in between would come to a grinding stop. “Choked” by what the author describes as “...a terminal congestion that everyone saw coming but catastrophically failed to prevent”\(^ {15}\).

Overly dramatic perhaps, but on any given day, large swaths of the Toronto Region bear a striking resemblance to that fateful day in 2031. Certainly, the numbers speak for themselves.

TIME WASTED

- Our 66 minute daily commute is approaching 2 hours
- Toronto drivers are spending about 40 days a year behind the wheel

MONEY LOST

- The Toronto Region is losing $6 billion a year in productivity
- By 2031 that cost will be $15 billion a year

LOTS MORE STRESS

- Population is rapidly expanding in the Toronto CMA
  - 1986 – 3,427,170
  - 2011 – 5,583,064
  - 2031 – expected population 8.6 million
- 350,000 people commute into Toronto daily, nearly as many commute in the opposite direction
- 70% of Toronto Region residents drive to work
- 5% of the GTHA’s total daily travel is done on rail (via subway and GO Transit)
- One 12-car GO Train takes just nearly 1,700 cars off the road

\(^{13}\) For the purposes of this paper Toronto Region is defined as Greater Toronto and Hamilton Area


\(^{15}\) The day Toronto stops: True gridlock is around the corner, Toronto Star, By: Tess Kalinowski Transportation Reporter, Published on Sat Nov 05 2011, http://www.thestar.com/news/gta/2011/11/05/the_day_toronto_stops_true_gridlock_is_around_the_corner.html
Since 2009, the Board through its Scorecard on Prosperity reports has ranked the liveability and economic performance of the Toronto Region. Scorecard 2012 ranked the Toronto Region fifth against 23 other global city regions confirming its status as a powerhouse of people, businesses and communities. But the report also revealed foundational weaknesses affecting our Region’s economy and quality of life.

Figuring prominently in our scoring is the effectiveness of regional transportation systems. Regrettably though, year over year, based on Statistics Canada and comparable international data, the Region is the worst performer in Canada and near the bottom of global rankings when it comes to commuting times. In our 2012 Scorecard, the Toronto Region placed 15th out of 22 major global city-regions with respect to the length of commuting times. The 66-minute round trip spent commuting by Torontonians was twice as much as first-place Oslo.16

The picture is not much better when tracking traffic congestion via real-time GPS data, as European firm, TomTom does on a quarterly basis each year. In the third quarter of 2012, the Toronto Region finished 51 out of 57 North American urban regions, with the sixth worst congestion, worse than such major centres as New York, Montreal, Chicago, and Dallas.17

Most emblematic of road-based congestion in the Toronto Region is unquestionably the 401 highway; something for which it’s received the dubious honour of being declared “officially the busiest stretch of freeway anywhere in North America” by the US Department of Transportation.18

The Road to Gridlock is Paved with Good Studies and Reports

How we got to this state of affairs is hardly a mystery. On one level, the transportation system has simply not kept pace with population growth. The Region’s population swelled from about 3 million in 1971 to approximately 6 million in 2011.19 Yet, at the same time, construction of rapid transit, which averaged approximately 135 kilometres per decade from the 1960’s to the 1980’s, was effectively halted over the past two decades.20 As Metrolinx pointed out, since the mid-90’s, “Madrid, Spain – only slightly smaller than the Toronto Region – has built more rapid transit facilities during the past decade (88 km) than all of our subway and light rail lines (77 km) combined.”21

Notwithstanding the important transit infrastructure projects now under construction in the Region, such as the Union Station revitalization, about the only transit-related output of note in three decades is the never ending generation of transit “visions”, feasibility studies, summits and press conferences to tout some new strategy or other.

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16 Toronto as a Global City: Scorecard on Prosperity 2012, Toronto Board of Trade, http://www.bot.com/AM/Template.cfm?Section=Scorecard&Template=/CM/HTMLDisplay.cfm&ContentID=7925
From the “The Network 2011 plan” in the 1990’s to the recent One-City proposal in Toronto, the list of failed proposals is long and depressing; as Frank McKenna said at the Board’s 2010 Annual Dinner, “If announcements were streetcars, they would stretch all the way to Montreal.”

Other City-Regions Leading the Way

This lack of investment contrasts sharply with what we see elsewhere; indeed, in the United States, where car-based travel is arguably most prevalent, its large metros have invested heavily in rapid transit since the mid 1990’s.

As Table 2 highlights, between 2000 and 2009 many US city-regions undertook and completed major capital investments in large-scale transit infrastructure.

In a North American context, Vancouver is the only Canadian city to feature in the top 10 of this ranking, ahead of such major urban regions as New York and Washington. A big part of Vancouver’s transit investment was the “Canada Line”, an almost 20km light rail line, which came in at a cost of approximately $2 billion, the fourth largest transit capital project investment in North America during the last decade.

An interesting feature of this project was the successful and prominent role Public Private Partnerships (P3’s) played in helping finance, build and operate the line. From a revenue generation and governance standpoint there are perhaps some lessons for the Toronto Region.

The regionally based transit planning and revenue generating elements are coordinated by the regional transportation agency, Translink, some of which are outlined below:

- **Elected Governing Body**: Mayors’ Council represents the elected oversight body for Translink. It consists of the Mayors of the 21 municipalities under Translink’s jurisdiction.*

- **Board of Directors**: Comprised of nine members appointed by the Mayors’ Council.*

- **Committees & Advisory Boards**: The Mayors’ Council appoints a Regional Transportation Commissioner to assist with advising the Board of Directors on strategic & regional plans. The Commissioner rules on applications for fare & tax increases, approves customer satisfaction surveys and resolutions on customer complaints, and provides formal opinions to the Mayors’ Council on capital and operating plans.*

- **Revenue Generating Capacity**: TransLink has relative legislative autonomy to raise revenues and more efficiently make strategic decisions regarding capital and operating spending. The Transport Operations (TransLink Transit Authority) Act (2008) grants the TransLink Transit Authority to implement the range of revenue tools. A relatively predictable revenue stream generated by dedicated revenues (e.g. gas tax, parking sales tax) enables the agency to develop long-term plans, such as the fully-funded three-year and 10-year project delivery programs.*

*Source: Metrolinx

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Highly notable from Table 2 above is the Los Angeles region, known as much for its freeways as for Hollywood and a sunny clime. In 2008, “facing the prospect of perpetual gridlock and no money to pay for improvements,” two-thirds of Los Angeles residents voted for a half-cent sales tax increase to pay for massive expansion of its public transit system. The anticipated tax revenue allowed the city to borrow federal money, and construction has begun on a dozen rapid transit lines (light rail and bus) that will serve the whole area.26

Also impressive is the Seattle region. With its Central Link and Sounder projects (over $3 billion in capital investments) Seattle added almost 160 km of new light rail and commuter rail infrastructure between 2000 and 2009.27

In the US, these investments are now reaping benefits, observed as declines in total vehicle distances travelled and ever stronger public support for investments in transit infrastructure.28

There is also much for the Toronto Region to learn from transportation enhancements taking place in the emerging high growth economies of Latin America and Asia. An excellent case-study is the city of Curitiba in Brazil, which through a cost effective and highly efficient Bus Rapid Transit (BRT) system was able to not only reduce travel time, but also harmful airborne emissions and street congestion.29

Planning System Contributing to Gridlock

The consequences of poorly coordinated land-use and transportation planning are yet another piece of the gridlock puzzle. As the Canadian Urban Institute highlighted, the Toronto Region has 200 million square feet of office space (one of the four largest such regions in North America), but less than half of it is currently within reach of rapid transit. Thirty years ago, almost two-thirds of the GTA’s offices were on subway lines.30

“Thirty years ago, almost two-thirds of the GTA’s offices were on subway lines”.31

The story is little different on the residential side. In many of the Region’s outer suburbs, “not only do residents commute by car; they must also drive to the grocery store, school and recreational activities”.32

This is a function of car-dependent planning models which among other things, excessively separate residential uses from employment nodes, forcing more car-based travel and longer commutes.33

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GRIDLOCK: THE PRICE TAG IS BIG AND GROWING

Time Really is Money

The well known expression “time is money” lies at the heart of the economic toll inflicted by traffic gridlock and congestion. The cumulative impact of products not getting to market in time, missed meetings and workers foregoing employment opportunities because of poor transportation connectivity, is in the billions of dollars.

In tracking the Region’s economic performance year over year we find an unmistakable pattern emerging. Regardless of the indicator, whether it’s GDP and productivity growth or the unemployment rate, our long-term economic performance puts us near the bottom of North American league tables. Although the Region performs well on human capital indicators, with its diverse and well educated population, the ability of our workforce to contribute to overall economic growth is undermined by poor transportation infrastructure.

For this reason, the Board put a spotlight on the economic implications of underinvestment in transportation infrastructure and the costs of gridlock in 2011, through our Scorecard on Prosperity and the background paper Reaching Top Speed.

These documents helped bring to the fore what are now the highly-quoted figures of annual congestion costs to the Toronto Region economy of $6 billion, rising to $15 billion in 2031 should no action be taken.34

On the transportation file the Board is not alone in this assessment. Study after study, report after report, consistently identify our Region’s fraying transportation networks as the Achilles heel of the Toronto Region economy. This situation was recently confirmed in Cities of Opportunity, a study of global cities by PricewaterhouseCoopers, which ranked Toronto’s transportation infrastructure in the bottom half of cities, signaling this as the Region’s biggest impediment to global competitiveness.35

Along the same lines, the Organization for Co-operation and Development (OECD), in 2010, cited the Region’s transportation infrastructure as the leading drag on global competitiveness.36 OECD called it “a direct hit on productivity,” especially in economic sectors that depend on rapid delivery such as retail, logistics and food.37

A recent Colliers International study of Toronto Region businesses underscored transportation infrastructure as the second most important factor for business location decisions in the GTA.38 This is one of the reasons that Toronto Region Board of Trade members have identified traffic congestion as their top policy priority for over five years running. On a more granular level, the negative financial impacts of traffic congestion on key sectors of the Toronto Region economy were identified in a 2008 HDR Corporation study commissioned by Metrolinx.

33 STRATEGIC REGIONAL RESEARCH : A Region in Transition, Canadian Urban Institute, January 15, 2013
Congestion costs (see Table 3 above) transmit themselves in different ways within each of these industries. For example, we know congestion affects the costs of logistics and inventory held by retailers by reducing travel speeds and the reliability of delivery times for merchandise and supplies.\(^{39}\) Research indicates these types of effects add operational costs by inhibiting businesses from adopting inventory saving strategies such as just-in-time systems.\(^{40}\) Also, retailers must deal with the potential that some individuals may be discouraged from shopping for certain discretionary items due to a desire to avoid the loss of time and aggravation associated with congestion.\(^{41}\)

In the manufacturing industry, the economic literature indicates that high congestion levels can reduce the market area for a firm’s products and output, thereby leading to a reduction in sales.\(^{44}\) Furthermore, the Region’s manufacturers, like their retail counterparts, must deal with such gridlock related impacts as delays, reduced reliability of deliveries of materials and components, as well as shipments of finished products to markets.\(^{45}\)

It bears underlining that these congestion costs arrive in an economic environment already made more challenging by a high dollar and fierce global competition.

For many people, reports which speak of billions of dollars in lost productivity and GDP can seem a bit abstract and remote. So it is important to look at how gridlock and poor connectivity affects individual businesses.

For example, the Toronto Industry Network (TIN) reports the case of one of its members which had a truck that delivered goods to customers in the west end of Toronto from their Scarborough manufacturing plant three times a day 20 years ago. Now they can only manage one delivery a day due to congested roads; a real life example of reduced productivity.\(^{46}\)

Similarly, the journal of Canadian Manufacturing in 2012 featured a story on the serious logistical challenges facing Toronto Region firms like Nestlé Canada who need to get their products delivered to big supermarket chains and hundreds of small “mom and pop” retailers throughout the Region.

A company representative quoted in the story described the “major costs of congestion and the associated delays to the firm and its employees, suppliers and partners of lost productivity and capital (fixed assets) and operating costs, such as manpower, fuel, maintenance and parking tickets”.\(^{47}\) In the absence of any improvements to transportation infrastructure or levels of congestion, the industry was looking at the possibility of more off-peak deliveries.\(^{48}\) However, this was proving challenging for myriad reasons. These include local by-laws, dealing with complaints about noise levels from neighbouring residential areas and resistance from many retailers and drivers.\(^{49}\)

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46 http://torontoindustrynetwork.com/pages/docs/remarks-mark-lievonen/


Table 3: Industry Level Congestion Costs (2006 Dollars)

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Increased Costs* to Industry (SMillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>97.6</td>
</tr>
<tr>
<td>Construction</td>
<td>63.1</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>56.3</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>22.1</td>
</tr>
<tr>
<td>Transportation</td>
<td>16.7</td>
</tr>
</tbody>
</table>

*Costs include: firm vehicle operating costs (e.g. maintenance, fuel), logistics (e.g. costs per shipments, inventory management, delivery delays), increased labour costs (e.g. trucker time costs), reduced labour productivity (e.g. due to time spent commuting).

Not Matching People to Jobs

Not to be overlooked in our analysis, is how poor transport connectivity impacts the Region’s labour market efficiency at all levels of employment, including the high and low-skilled segments. For many businesses trying to attract skilled young employees in professional services positions, a lack of transit connectivity can be a serious impediment to recruitment. This is especially the case in suburban areas of the Region, including the 905 and inner suburbs within the City of Toronto. As the Canadian Urban Institute documented in a 2011 report, “many employers are now taking into account the costs associated with attracting, training, and retaining talent in their calculations of per-square-foot occupancy cost” and as a result eschewing many suburban work locations with inadequate transit connectivity and amenities.

Poor labour mobility within the Region also affects our most vulnerable workers who often live in so-called “transit deserts” without ready access to automobiles or public transit, a fact documented by the Board in its paper Lifting all Boats. As the Martin Prosperity Institute points out, the “employment patterns of low-paying service class occupations often follow inconsistent and non-traditional work schedules,” consequently, “having consistent access to reliable and affordable transit is crucial to their long-term employment.” For many low-income people who live far from good public transit options, many employment opportunities are simply not realistic because of their distance.

Multiply these scenarios thousands of times throughout the Region and you begin to get a picture of how the aggregate costs to the economy escalate. In short, we are not optimizing the potential of what economists call the “agglomeration economies” of the Toronto Region. That is the critical mass of firms, workers and public institutions that call the Region home.

While some parts of the Region such as the urban core of downtown Toronto thrive in large measure because of good transit links (over 200,000 people use Union Station daily) others are stagnant or decline due to poor transport and land use policies. Increasing the potential of all parts of the Region through enhanced transportation connections is one way of improving our economic performance and the well-being of all our residents.

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52 http://www.bot.com/AM/Template.cfm?Section=Promoting_Social_Cohesion&Template=/CM/ContentDisplay.cfm&ContentID=4793
55 http://www.toronto.ca/union_station/quick_facts.htm
Big Economic Gains Possible

We must examine the economic upsides of reducing congestion and creating more and better transit and transportation options.

Effective transportation and road infrastructure would allow workers in the Region to better connect with employment centres and deal with challenges described earlier. This would improve the performance of the labour market through more effective matching of jobs with skilled labour and thereby reduce unemployment and increase total productivity. Indeed, recent research in the U.K. demonstrates that effectively doubling the population’s access to places of employment boosts overall productivity by 4 percent. The impact is strongest for the business and professional services sector, at 8 percent.

If this effect were to hold true for the Toronto Region, it makes sense to increase accessibility and employment density particularly as the Region – in both the core and some suburbs – shifts toward more office based employment.

With the Toronto Region competing with regions from across the globe to attract the best in talent and business, ease of movement for people and goods is a strong asset to have from an economic development and marketing standpoint. It is thus one of the key criteria that global city-regions use in promoting themselves.

As well, it is important to stress the major economic payback for the Region of new transportation investment. A 2011 Conference Board of Canada report documented how implementation of Metrolinx’s “Big Move” investment strategy would produce direct and indirect benefits, in the order of:

- $19 billion in real capital investment between 2009 and 2020
- $22.7 billion cumulative increase in real GDP
- 279,133 person-years of employment
- Real GDP increase of $1.19 for each dollar of real capital investment in the Big Move

Similar analysis undertaken in the Los Angeles region, pointed to a total of $70 billion in new economic output and 16,000 new construction jobs created per year as a result of investments in its 30 year regional transit plan.

Beyond the broader economic costs and benefits there is also a direct pocket impact. Increased car travel carries with it big expenses in terms of fuel, maintenance and insurance costs. An American study noted that by just reducing the overall level of driving by one mile per day (1.6 km) in the US’s 51 largest metros, total savings in driving related expenditures would be close to $29 billion, producing a significant “green dividend” for individuals and local economies. Crunching those numbers slightly differently, the study’s author found that on average in those cities where a person drives 20 miles (32 km) per day, 15 percent of household income is spent on transportation versus 18 percent when the daily commute is 30 miles (48 km).

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56, 57, 58, 59 http://www.conferenceboard.ca/temp/90683fd2-5015-47d4-8936-929caef8b59/12-003_connectingjobsandpeople-rpt.pdf
61, 62 How Cities Gain by Making Small Improvements in Metropolitan Performance: Joe Cortright, Impresa, Inc. for CEOs for Cities September 2008. www.suny.edu/.../Conv1_HVCC_CarolColetta_City%20Dividends_F
A Better Environment Too

Undoubtedly, economic factors and their impact at a regional and firm level weigh most heavily on the Board’s advocacy efforts in support of transportation infrastructure investments. Nonetheless, we are cognizant of the many negative social, health and environmental effects of traffic gridlock – effects that ultimately have substantial downstream economic costs if they are not considered and mitigated. Over the long-term, we know healthy economies need healthy communities.

Traffic congestion takes an enormous toll on our quality of life. This includes social costs, such as less time to spend with family and friends and increasing levels of daily stress. In 2012, The Pembina Institute surveyed 1,000 drivers in the GTA whose commute was 30 minutes or longer and found that two-thirds of these drivers saw a diminished quality of life.63 Meanwhile, the health impacts of congestion are significant as well, both in human and financial terms. According to a study by the City of Toronto’s Department of Health, mortality-related costs associated with traffic pollution in Toronto were about $2.2 billion.64 The study’s authors noted that a 30% reduction in vehicle emissions in Toronto could save 189 lives and result in $900 million worth of health-related benefits and savings.65

Given the absence of viable public transit options in many parts of the Toronto Region, significant numbers of commuters have little choice but to travel to their desired destinations via car. Unfortunately, this reliance on car-based travel and the gridlock it generates, is a major component of the total production of CO2 emissions, a major Greenhouse Gas (GHG) and contributor to climate change. On a per capita basis, the Toronto Region’s CO2 emissions are above places like Paris, Vancouver and Helsinki.66 Within the Toronto Region, almost half of CO2 emissions (48.3%) are from various modes of transportation, with about 23% of that figure coming from personal vehicles.67

Obviously, this points to major environmental and economic paybacks if we were to reduce the number of car trips and idling vehicles stuck in traffic across the Toronto Region. Something which full implementation of The Big Move would do by adding over 1,200 kilometres of rapid transit – more than triple what exists now. This would allow over 80 percent of residents in the Region to live within two kilometres of rapid transit.68

Indeed, data from GO Transit forcefully demonstrates how increased provision of public transit options would impact emissions from personal vehicles:

• “During rush hour, the average Toronto-area car carries about 1.15 people. One 10-car GO Train carries about the same number of people as 1,400 cars, one 12-car train takes about 1,670 cars off the road, and one GO Bus can replace around 50 cars”.69

• “In just one hour on a typical weekday morning, some 45,000 passengers arrive at Toronto’s Union Station by GO Train – if all those people drove instead of taking transit, the GTA would need to build four more Gardiner Expressways and four new Don Valley Parkways to accommodate that amount of traffic”.70

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**THE PLAN BUT HOW TO PAY FOR IT?**

“*The Big Move*”, a Plan that Needs Money

Though the Region faces daunting challenges in reducing congestion and modernizing its transport infrastructure it does have a long-term plan of action known as *The Big Move*. It is a plan that is in place and being implemented by Metrolinx, the Province’s transportation planning agency for the Region.

Over $16 billion from all three levels of government have already been allocated to a first wave of projects (see appendix 1 for complete list of projects). This represents the largest financial commitment to transit expansion in Canadian history and includes such initiatives as expansion of Union Station, the Eglinton Crosstown line and expansion of Bus Rapid Transit systems in York Region and Mississauga.

But $34 billion is still needed for major investments like a Downtown Relief line in the City of Toronto, improving access to the regional core for residents from across the Region, as well as a new extension of the Yonge subway line north to Richmond Hill. With this in mind, on June 1, 2013 Metrolinx is required by legislation to hand to governments a financing strategy outlining how it proposes to raise the $34 billion.

Paying the Bill: Dedicated Revenue Streams the Way Forward

Certainly, the Province and the Region have made progress in addressing the transport deficit through recent investments in GO, expansion of the Region’s public transit system and our highways. Even so, these investments are merely a down payment when we consider how far behind the Region is in comparison with other jurisdictions on such metrics as commuter rail capacity and per-capita investment on transportation infrastructure.71

Given the current fiscal state of all levels of government, bridging this funding gap will require new and dedicated funding streams. To suggest there are opportunities to find $34 billion from within the existing provincial and municipal funding envelope by reducing waste or finding efficiencies is simply not realistic. As the Drummond Report highlighted, for the provincial government to just meet its projections of annualized 1.4% increases in spending up to 2017 and balance its budget, it must reduce spending by $30.2 billion.72

Likewise at a municipal level, similar funding constraints are at play. As the Board detailed in the 2011 paper *Reaching Top Speed*, all of the Region’s major cities and regions lack the fiscal capacity for major new capital expenditures because of several factors:

- Regional single tier municipalities with generally older infrastructure face increased pressure to meet their infrastructure obligations (partly due to a relatively narrow funding base primarily composed of property taxes and user fees), with some capital and maintenance costs “intruding” into their operating budgets;

- At the same time there is a decreasing ability for development charges to mitigate the costs of capital as build-out and intensification plateau over time across the Toronto Region.*

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There’s room to find savings which can support transit investments

We are not suggesting that there is not room for improvement in government administration, spending practices and the rooting out of waste. Recent examples of poor spending practices and a lack of accountability for delivering projects on-time and on-budget threaten the public’s faith in the credibility of government to carry out major new initiatives on the scale of The Big Move. As such, the Board has and will continue to be a champion of prudent, open and transparent fiscal management.

Value for Money Financing and Project Management Models Still Critical

Financing tools such as Public Private Partnerships (P3’s) must be an important component of the government achieving value for money and getting Big Move projects up and running in a more expedited fashion.

The P3 model is being leveraged by a number of governments of various political stripes around the world, including most notably, the Provinces of British Columbia and Ontario.

“As the name suggests, Public-Private Partnerships involve a collaborative effort between government and private-sector companies. Under such an agreement, private companies are contracted to build public infrastructure for citizens. Since the private company’s pay is based on performance, workers have an incentive to deliver high-quality work in a timely manner. Likewise, the private company is fully responsible for all cost overruns, which transfers risk away from the government and encourages innovation.

As a result, Public-Private Partnerships can help governments ensure that large, complex and risky projects get built on time and on budget. If the work fails to meet quality standards outlined in the contract, the private company faces penalties, and is required to bring the work up to standard.”

However, it must be stressed that they are not new revenue streams. In many respects they are akin to a mortgage; you shop around for the best rate and get savings, but in the end, you still have to pay the interest charges and principal. As well, there is the caveat that not all transportation projects fit a P3 model. In particular, larger projects have a greater potential than smaller ones to generate the efficiency gains necessary to offset the fixed costs incurred by the public and private sectors during the development and procurement phases.

Land value capture instruments such as Tax Increment Financing (TIFs) or localized property taxes are often used to fund transit work on a project by project basis. These instruments can create new funding streams and borrowing mechanisms that might not otherwise be available through more conventional government investment and financing mechanisms.

Tax Increment Financing is a public finance technique used by local government jurisdictions to fund infrastructure initiatives and stimulate economic development in designated geographic areas. TIFs work by leveraging future tax revenue increases to finance current infrastructure projects.

73 P3 discussion and wording provided by Vancouver Board of Trade
74 http://www.p3canada.ca/p3-canada-fund-faq.php
The mechanism effectively dedicates the incremental tax revenue between the assessed value of designated areas ("TIF zones") prior to the development and its assessed value over time. By doing this, future tax gains are leveraged to finance the present costs of eligible improvements in designated areas.

This financing technique was originally used in California as a way to stimulate development in blighted areas and has since been authorized in 49 of the 50 US states.

TIFs are much less prevalent in Canada. In Ontario, the Province only recently introduced them on a pilot basis for the Toronto-York-Spadina Subway Extension and the West Don Lands redevelopment initiative.

TIFs have the potential to be implemented by municipalities along corridors directly impacted by the construction of new public transit. Under the TIF model, municipalities could project a future increase in property values related to the new public transit investment (i.e. above the expected natural increase in property values) and use those future revenues to finance the construction of the project.  

Another variant on the land value capture concept are special property taxes (i.e. transit district benefit tax) imposed in areas with high quality public transit. These are intended to recover a portion of the increased land values provided by transit and to help finance the service improvements. Land value capture in the form of transit benefit districts is used in some U.S. cities including Miami, Florida; Los Angeles, California; and Denver, Colorado.

However, because of their location based bias (i.e. major urban centre redevelopment projects) they would not cover the entire costs of large cross region transit projects.

Keeping the Federal Role in Play

While the Board certainly recognizes the primary role provinces and municipalities play in transportation infrastructure investment and operation, we continue to see an important role for the federal government in this space.

There is no denying that recent federal infrastructure investments - the Federal Gas Tax Fund, Economic Action Plan, Building Canada Plan and making the Gas Tax Fund permanent – have supported important transit projects including:

1. York Region Transit Network Improvements  
   (Total Project Cost: $164.4 Million  
   Federal Contribution: $50 million)*

2. GO Transit Rail Improvement Program (GO TRIP) (Total Project Cost: $1.005 Billion  
   Federal Contribution: $385 million)*

3. Toronto Transit Commission Strategic Capital Projects  
   (Total Project Cost: $1.05 Billion  
   Federal Contribution: $303.5 million)*

4. Toronto-York Spadina Subway Extension  
   (Total Project Cost: $2.6 Billion  
   Federal Contribution: $697 million)*

5. Union Station Revitalization  
   (Total Project Cost: $640 Million  
   Federal Contribution: $133 million*)

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75 AECOM/KPMG Revenue Tool Profiles, 2013
76, 77 http://www.vtpi.org/tranfund.pdf
For this reason the Board strongly supported Budget 2012’s commitment to develop a new long-term infrastructure plan and has participated at a national level in consultations regarding the next iteration of this plan.

To further this very important agenda the Board participated in the Federation of Canadian Municipalities’ Municipal Infrastructure Forum (MIF). MIF is a unique partnership of government, business and labour organizations which recently came together to agree on a common set of objectives to guide federal infrastructure spending, including the need for secure, stable and predictable funding streams.

As well, the Toronto Region Board of Trade has collaborated with its counterparts in the Hub-City Chambers of Commerce Caucus. The Caucus represents Chambers from Canada’s largest city-regions, including Vancouver, Calgary and Montreal and in December 2012, released a joint policy statement on the leading principles that should guide renewal of the federal government’s long-term infrastructure plan. Highlights of the statement include:

- **Dedicated funding stream to fund core infrastructure (i.e. public transit, roads, bridges, sewage and water):** Canada’s large urban centres face daunting challenges in meeting the core infrastructure needs of their communities. This includes the over $20 billion cost of meeting new federal wastewater standards; inadequate public transit; and adapting municipal roads, bridges and water systems to extreme weather caused by climate change. Creating an earmarked funding stream for this purpose will help municipalities better plan and undertake these economically vital investments.

- **Strengthening municipal role in infrastructure financing:** Although municipalities are responsible for much of the ownership and maintenance of core infrastructure they collect just 8 cents of each tax dollar paid by Canadians, with the other 92 cents collected by federal and provincial-territorial governments. Although recognizing and respecting the provincial jurisdiction over municipalities, raising more revenues locally would greatly assist municipalities in paying for needed infrastructure investments. At the same time, governments at all levels need to ensure this revenue generating capacity does not increase the burden on taxpayers, but rather secures the tax revenues needed to sustain municipal infrastructure.

**Transit Fares in the Funding Mix?**

Surfacing as part of our consultations was the issue of the role transit fares could play in helping pay for transit improvements. On this question, the Board believes it is more appropriate that this funding stream be directed towards covering operating costs and service enhancements like more frequent GO train service on what is still underutilized rail infrastructure within the Region of Toronto.

In view of the major capital outlays envisaged in The Big Move, the operating side of funding public transit can’t be overlooked. From an asset management standpoint, it simply doesn’t make sense to invest vast sums of money in new infrastructure without the means to pay for its on-going upkeep and maintenance.

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78 Addressing Urban Canada’s Infrastructure Challenges through a Long-Term Infrastructure Plan: A joint statement from Canada’s Major City-Region Chambers of Commerce and Boards of Trade, December 2012
http://www.bot.com/AM/Template.cfm?Section=Policy_News&Template=/CM/ContentDisplay.cfm&ContentID=8424

RECOMMENDED REVENUE TOOLS AND APPROACH

We now arrive at the important stage of laying out a financing approach that moves us in the direction of not only ending traffic gridlock but also the political gridlock that has long stymied effective action on this critical policy issue. These recommendations it should be stressed are the result of an extensive public and stakeholder consultation, the main elements of which are described below.

Public Ready for a Mature Conversation

There is no denying the difficulties that increasing taxes or proposing new revenue raising instruments present for governments in the current environment. Nevertheless, as the Board has long argued, and more recently reaffirmed in the Drummond Report, it is time for a mature conversation with the public about the importance of transportation investments and the need for new revenue sources to pay for them. Certainly, there is evidence to suggest the Region is more than ready for this dialogue.

Indeed, polling data undertaken by the Board of the public and our members show transportation to be the most important local issue across the Toronto Region. This sentiment is augmented by an increasing willingness to consider new and dedicated revenue tools to pay for needed transportation improvements. Important to emphasize though, is the notion of having dedicated revenue streams to pay for The Big Move. It was a message we heard time and again through the Board’s many consultations, focus groups and polling. Without this principle in place, public support quickly evaporates.

In the past two years public concern about transportation gridlock has continued to grow. A Toronto Region Board of Trade/Environics poll in September 2011 revealed that 63% of residents described gridlock to be at crisis levels, and this past April 2012, the number had climbed to a startling 88%.

With the understanding that expansion of transportation infrastructure will require new revenue sources, polling on specific examples of revenue tools similarly reveals a dramatic shift toward the acceptance (however reluctant) that higher taxation or user fees need to be embraced.

Another Environics poll commissioned by the Pembina Institute (April 2012) shows support for such potential new revenue tools, such as tolls, sales tax and parking tax, reaching above the 50% level. Just a few years ago support would have been in the 30% range or lower.

Echoing these public polling trends, two-thirds of our Board members agree that new dedicated funding sources are required for regional transportation.

Consultation Process

This discussion paper is also the product of an extensive consultation process that included our broad membership, Board of Directors, Infrastructure Committee/Transportation Cabinet, Advisory Council, and our stakeholder network of business, consumer and community organizations such as CivicAction and Evergreen.

Additionally, we coordinated a technical roundtable comprised of consumer, industry and environmental organizations to discuss the various revenue tools up for discussion.
In designing our consultation process careful consideration was given to ensuring a proper representation of key industry sectors which could be impacted directly or indirectly by the introduction of new revenue generating tools. These sectors include:

- Commercial/Residential Construction and Development Industry
- Infrastructure design and construction
- Manufacturing
- Transportation and Logistics
- Retail
- Financial and Professional Services
- Property Owners and Managers

Evaluation Criteria and Tools Considered

Our first order of business in this process was developing a set of criteria by which to evaluate the revenue tools on offer. An overriding message from our consultation was the need for a consideration of the economic effects and impact on certain industry sectors in the Region.

Secondly, and equally important, there had to be a substantial revenue generation potential in any given tool for it to be considered in play.

Thirdly, there was an acceptance that there must be an element of fairness and equity in terms of how the burden of new revenue tools would fall on all segments of the public and business community.

Finally, added to these main considerations, there was a consensus, that political/public acceptance, impacts on travel behaviour, implementation costs and the experience with certain revenue tools in other jurisdictions, also needed to be considered as part of the evaluation.

Taking this input into account, the following criteria were selected:

- **Revenue generation**: Potential size of revenue stream
- **Equity and fairness**: How does the revenue tool impact, fairly or unfairly, different segments of the community, including commuters and non-commuters alike
- **Public acceptance**: Degree of public and stakeholder acceptability of each funding option based on polling survey and other public opinion data
- **Economic effects**: How does the revenue tool impact regional economy (e.g. does it move economic activity outside the Region)
- **Revenue sustainability and variability**: Is the tool sustainable over long-term and how susceptible is it to cyclical variations in economy or energy, property markets, etc.
- **Impact on travel behaviour**: Does the tool induce increased public transit usage and better network performance
- **Cost of implementation and operation**: To what extent do start-up and operating costs impact revenue generating potential
- **Successful track record elsewhere**: Does the tool have a successful national or international track record applicable to the Toronto Region
With these criteria in hand, our consultation examined seven specific tools (see list below), narrowed from the Board’s original list of 16 tools released through our 2010 discussion paper, The Move Ahead, and an expanded examination of a total of 26 potential tools.

- **Road Tolls/Charges** - $1.3b - 1.5b ($0.10 per km)
- **Non-Residential Parking Space Levy** - $1.2b - 1.6b ($1.00)
- **Regional Sales Tax** - $1.0b - 1.6b (1.0%)
- **Increased Income Tax** - $640m - 740m (0.5%)
- **Higher Property Taxes** - $670m (5% increase)
- **Higher Fuel Taxes** - $640m - 840m ($0.10/L)
- **Employer Payroll Tax** - $630m - 730m (0.5%)

Source: AECOM/KPMG Revenue Tools, 2013, Mid Range Estimates

Using our evaluation criteria as a broad guideline, four tools were eventually eliminated from the final recommended suite of revenue tools. For each of these tools there were particular downsides that made their endorsement difficult, a few of which are outlined below:

- **Increased Income Tax**: The potential for economically negative impacts for the Region, such as smaller businesses moving out of Region and disruptions in local capital markets, given tax could cover income derived from investments.\(^{80}\)

- **Higher Property Taxes**: Property taxes are a critical source of revenue for municipalities to cover wide-ranging infrastructure and operating needs besides public transport. Consequently, municipalities would want to retain their flexibility with how funds from this source are spent. As well, there are considerable local and political sensitivities associated with this tool that would make it problematic to implement.

- **Road Tolls/Charges**: Strong political opposition both at a municipal and provincial level would make mandatory implementation of such a tool a dim prospect in the foreseeable future. Moreover, there is the concern that the existing public transit infrastructure does not offer viable travel alternatives for drivers in many parts of the Region, particularly suburban 905 areas.

- **Employer Payroll Taxes**: As with increased income taxes the prime concern with payroll taxes was economic in nature. For many groups and organizations, the tool was seen negatively as a tax on employment; specifically, the concern being that employers may choose to relocate outside the Region or employ less people if tax creates excessive additional costs.

**Recommended Revenue Tools and Approach**

Layering in the aforementioned considerations and also direction from our membership and stakeholder consultations, the Board is now advancing for public discussion four dedicated revenue tools. These are tools, which in some combination could achieve the necessary $2-billion needed annually in dedicated regional transportation infrastructure revenues. The figures provided in Table 1 represent an approximate mid-range of both potential rates and revenues which could be generated by each individual tool. The estimates factor in adjustments in driver behaviour and any upfront implementation and infrastructure costs. The figures use 2014 as a baseline year. Of course, over the life of The Big Move, there will be variations in revenues generated due to changes in driver behaviour and fluctuations in the economy.\(^{81}\)

\(^{80, 81}\) AECOM/KPMG Revenue tool profiles
### Table 1: Recommended Revenue Tools

<table>
<thead>
<tr>
<th>Recommended Tools</th>
<th>Advantages</th>
<th>Jurisdictions Where Tools Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional Sales Tax:</strong></td>
<td>• Applicable to a broad tax base, which generally produces high revenue yields</td>
<td>• Los Angeles</td>
</tr>
<tr>
<td></td>
<td>• Successfully utilized internationally</td>
<td>• New York City</td>
</tr>
<tr>
<td></td>
<td>Revenue: $1.0b - 1.6b (1.0%)</td>
<td>• Seattle</td>
</tr>
<tr>
<td><strong>Parking Space Levy:</strong></td>
<td>• Benefits transportation network depending on extent charge is passed on to parking users</td>
<td>• Melbourne</td>
</tr>
<tr>
<td></td>
<td>• Predictable revenue stream</td>
<td>• Montreal</td>
</tr>
<tr>
<td></td>
<td>Revenue: $1.2b - 1.6b ($1.00)</td>
<td>• Nottingham (UK)</td>
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<tr>
<td></td>
<td></td>
<td>• Sydney</td>
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<tr>
<td><strong>Regional Fuel Tax:</strong></td>
<td>• Widely used, easy to implement</td>
<td>• Greater Montreal</td>
</tr>
<tr>
<td></td>
<td>• Supports demand management</td>
<td>• Vancouver</td>
</tr>
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<td></td>
<td>Revenue: $640m - 840m ($0.10/L)</td>
<td>• New York City</td>
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<tr>
<td><strong>High Occupancy Tolls:</strong></td>
<td>• Reduced congestion, especially if combined with dynamic pricing</td>
<td>• Houston</td>
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<td></td>
<td>• Directly targets driver behaviour and traffic congestion</td>
<td>• Orange County, CA</td>
</tr>
<tr>
<td></td>
<td>Revenue: $25m-45m ($0.30 km)</td>
<td>• San Diego</td>
</tr>
<tr>
<td><em>High Occupancy Tolls:</em></td>
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<tr>
<td>*estimate based on conversion of existing HOV lanes in Toronto Region to HOT lanes</td>
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All of the research reviewed and presented to the Board, shows clearly, that there is no funding tool without certain drawbacks, implementation challenges and of course critics. However, with the four revenue tools we are recommending, we believe there is a better opportunity to ensure stability (e.g. less susceptibility to fluctuations in a single economic sector or market) and distribute costs in a fair way across all segments of the population.

As well, it is important to stress that while reduced congestion benefits commuters (drivers and transit users) in the most direct fashion, there are massive Region-wide benefits to the economy, environment and people’s health and well-being that justify the adoption of both targeted (e.g. fuel tax, High Occupancy Tolls) and broad-based tools such as a regional sales tax.

Keeping in mind some of our evaluation criteria, the Board believes these four tools also address a variety of revenue generation and broader public policy objectives:

- **Revenue Generation Potential:** Regional Sales Tax, Non-Residential Parking Space Levy, High-Occupancy Toll and Fuel Tax, have the potential to act as the “heavy-lifters” of revenue collection.

- **Public and Political Support:** Based on our consultations this suite had strong overall buy-in, though certain stakeholders had concerns about how specific tools would impact their sectors.

- **Equity/Fairness:** The proposed suite of tools is fair in the sense that it targets a number of constituencies that directly or indirectly benefit from reduced congestion, including business, consumers and drivers.

- **Impact on Driver Behaviour and Network Performance:** Though recognizing the concerns about road tolls, there was a strong desire to include some revenue generation mechanisms that would impact driver behaviour and in particular congestion during peak times of day. Hence the inclusion in our final suite of tools of High Occupancy Tolls which provide drivers with a choice as to whether they wish to pay a premium for the privilege of driving in an otherwise restricted lane.

Although, outside the scope of this paper, we do acknowledge the major implementation and governance issues associated with implementing any new dedicated revenue tool. A number of these were highlighted in a recent study commissioned by the Residential and Civil Construction Alliance of Ontario. For example, in order to introduce a regional fuel tax or sales tax, “either a new governing body for the GTHA would be required or existing institutions would have to be given new powers”.82 “Collection and administration of the tax or levy could be piggybacked onto the corresponding existing tax (provincial fuel tax, vehicle registration fee and provincial sales tax).”83 “The governing body should be responsible for setting the rate and spending the revenues.” “A new regional government might be best in principle, but one is unlikely to emerge in the near future.” An alternative is to grant Metrolinx with the enhanced powers of directly elected politicians.” In terms of other revenue tools, like parking space levies and road tolls there is the question of whether these would be administered by Metrolinx, municipalities or the Ministry of Transportation.

Additionally, there is the question of whether these tools should be implemented province-wide. Under this scenario, the Province would be responsible for revenue collection and provide the Region with a transit funding stream based on an appropriate formula. In deciding upon the geographic scope of any tool, it is important that due consideration be given to the potential economic distortions that could arise from the regional application of a gas or sales tax. This could include the movement of businesses and consumers out of the Region to avoid higher tax rates and the resulting collateral impacts on firms, consumers and workers (e.g. reduced profit margins, higher prices and loss of jobs). In terms of business impacts, one must also take into account the compliance and administrative costs of implementing a Toronto Region Sales Tax (e.g. creation of news and separate accounting and reporting systems for Toronto Region). Moreover, in light of well-documented infrastructure needs in other parts of the province, the case could also be made for a dedicated province-wide revenue generating model.

Irrespective of the financing model adopted to pay for regional transportation there are a number of core principles the Board sees as being integral to achieving public buy-in:

• **Dedicated and time-bound revenue streams**, meaning that all monies collected through any new tool must be solely earmarked for improvements in public transportation infrastructure and subject to a proscribed sunset review (e.g. after a 20 year timeframe).

• **Absolute clarity on the policy and revenue generation objectives** of each of the revenue tools

• **Openness and transparency** about how and where public money is being spent

• **Rigorous cost-benefit analyses** to evaluate all of the potential economic, social and environmental implications of any new revenue tool or transit project

• **Ensuring maximum value-for-money for taxpayer dollars spent** through the adoption of best-in-class project management and financing models

• **Fairness and equity related considerations** must be part of any revenue tool evaluative framework; this includes assessing the impacts of a revenue tool on economically vulnerable groups and particular business sectors and identifying mitigation measures (e.g. tax rebates, exemptions) which could offset any unduly negative impacts.

Lastly, in the ongoing debate about who should pay for The Big Move and which areas will receive new infrastructure, discussion of the Region-wide benefit often gets lost. An improved, expanded, and integrated regional transportation network will return economic benefits across the Region in the form of more investments and jobs.

We know it will take the combined efforts of residents and businesses throughout the Toronto Region to raise the $2 billion needed annually to further build The Big Move. We also know that at any one moment in time in the lengthy development phase, some areas of the Region will see more activity than others.

Ultimately however, the objective of The Big Move is for 80 percent of the Region’s residents to live within two kilometres of rapid transit. But most importantly, improvement and expansion of the Region’s transportation network will support a strong and globally competitive Toronto Region economy.
Appendix 1: Metrolinx First Wave Projects

- Toronto-York Spadina Subway Extension
- Union Pearson Express
- York Region vivaNext Rapidways
- Eglinton Crosstown LRT
- Mississauga BRT Project
- Scarborough Rapid Transit Extension
- Finch West LRT
- Georgetown South Project
- Sheppard East LRT
- Union Station – Train Shed Revitalization