



Financing Regional Public Transit in Ontario

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Enid Slack and Richard Bird
University of Toronto

IMFG
Institute on Municipal
Finance & Governance

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Introduction

- ❑ People are more likely to be willing to pay taxes when they are linked to the services they are getting
- ❑ Ballot initiatives for transit in the US (and Vancouver?)
- ❑ Public sector operates more efficiently when there is a link between expenditure and revenue decisions – the Wicksellian connection

Outline of Presentation

- ❑ What does linking taxes and expenditures mean for regional transit funding?
- ❑ How well do we actually link taxes and services? -- case study of proposals for transit financing in the Toronto region
- ❑ What can we do to move to a closer link between taxes and expenditures?

Linking Expenditures and Revenues

- ❑ To improve responsiveness and accountability of politicians and bureaucrats and ensure public goods meet preferences of beneficiaries and taxpayers, need to link:
 - ❑ those who decide
 - ❑ those who benefit
 - ❑ those who pay

Linking Expenditures and Revenues



Who are the Beneficiaries from Transit Investment?

- ❑ Direct – transit users, drivers
- ❑ Indirect – businesses, property owners, residents and visitors
- ❑ Plus – everyone benefits from reduced congestion, lower GHGs, and more environmentally sound compact development



What are appropriate revenue sources for regional transit investment?

Direct Beneficiaries



Transit fares
Highway tolls
Parking fees
Fuel tax
Vehicle registration tax

Indirect Beneficiaries



Property tax
Sales tax
Income tax
Land value capture
Development charges

Financing Regional Transit in the Toronto Area: Background

- ❑ GTHA – 7 million people
- ❑ 2 single-tier cities; 4 regional governments; 24 lower tiers
- ❑ Each government is responsible for major transit and local roads
- ❑ Provincial government responsible for major highways (except 407)
- ❑ Metrolinx – regional transit agency (provincial agency) that includes GO Transit
- ❑ Metrolinx Investment Strategy to raise \$50 billion over 25 years

Recommendations for Transit Funding, Selected Reports

	Metrolinx	Transit Investment Advisory Panel	Toronto Region Board of Trade	City of Toronto	Kitchen/Lindsey
Reform transit fares					X
Highway tolls				X	X
High occupancy toll (HOT) road	X		X	X	
Parking levy					X
Business parking levy	X		X		X
Paid parking at transit stations	X				
Fuel tax	X	X	X	X	X
Vehicle registration levy				X	X
Property tax					
Sales tax	X	X	X	X	X
Land value capture	X				
Increased development charges	X			X	
Corporate income tax		X			

How Do Proposals Fit With Wicksellian Approach?

- ❑ Elements that do fit:
 - ❑ Earmarked revenues
 - ❑ Improved accountability
 - ❑ Modest attention to pricing (but few recommend highway tolls or improved transit fares)

- ❑ Do proposed payers line up with those who benefit?

Fuel Tax

- ❑ Tax on road users but not related to congestion
- ❑ Creates incentive for drivers to use transit
- ❑ Possibility that drivers will buy gas outside taxing jurisdiction
- ❑ Levied by provincial government

Parking Levies

- ❑ Rationale for business levy – businesses benefit from better transportation
- ❑ May reduce number of parking spaces and result in land being put to more economically rewarding uses
- ❑ Parking fees at transit stations
- ❑ Omitted from most proposals: better pricing of on and off-street parking with fees that vary with time of day, duration, and location
- ❑ Levied by local governments



Development Charges

- ❑ Developers benefit from increased development opportunities and higher property values from public investment
- ❑ Charges likely passed on to new homebuyers who make use of infrastructure
- ❑ Charges can provide incentive for more compact development
- ❑ Problem with service level standards for transit in greenfield areas
- ❑ Levied by local governments

Land Value Capture

- ❑ Property value created by transit investment is captured to help pay capital costs e.g. tax increment financing
- ❑ Links benefits to property owners to costs of infrastructure
- ❑ Projecting land value appreciation accompanying investment can be difficult and depends on planning considerations (e.g. density along transit line)
- ❑ Risk that revenues will not materialize and municipality has to find other ways to pay for infrastructure
- ❑ Levied by local governments

Regional HST

- ❑ Not directly related to transit use
- ❑ Indirect beneficiaries: residents and businesses throughout the region benefit (including visitors and commuters)
- ❑ Largest proposed source of revenue in proposals
- ❑ Provincial government would likely be responsible for setting tax rate and collecting the tax
- ❑ How to implement?

Final Observations

- ❑ Need to link decisions on spending and financing to determine whether policy decisions accord with what citizens want
- ❑ To do so, requires that local governments are self-financed as much as possible
- ❑ Many proposals do not link those who decide, those who benefit, and those who pay:
 - ❑ largest recommended sources (sales and fuel tax) are at the provincial level
- ❑ Proposals do not tackle road pricing directly

Final Observations

- ❑ Revenue tools reflect politics more than economics

- ❑ Difficult to convince people that they have to pay for what they get and to explain that redistribution through mispricing local services is a bad idea

- ❑ How to get there?
 - ❑ improved information base for officials and citizens
 - ❑ better technical support for pricing systems
 - ❑ appropriate local equalization system to induce local governments to focus more on efficient service provision at least cost