Financing Regional Public Transit in Ontario

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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

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<th>Transit Investment Advisory Panel</th>
<th>Toronto Region Board of Trade</th>
<th>City of Toronto</th>
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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