TORONTO

Cam Weldon
Deputy City Manager &
Chief Financial Officer

City Hall, 7th Floor, East Tower
100 Queen Street West
Toronto, Ontario M5H 2N2

Tel: 416-392-8773
Fax: 416-397-5236
cweldon@toronto.ca
www.toronto.ca

September 24, 2012

Transportation Funding Strategy- Appendix B

1. Summary

The report from the Expert Advisory Panel regarding transit on Sheppard Avenue East described various funding options for that project. In response, Council directed the City Manager to propose a long term strategy for funding the broader transit expansion plans for consideration in the fall of 2012.

The options strategy contemplates a variety of regional taxes and fees by the Province via Metrolinx dedicated to transportation system expansion that could be the basis for funding transit, active transportation, roads and highway infrastructure over 25 years. The options examined in this discussion paper are considered by staff to be the most appropriate and feasible in terms of policy fit, revenue potential, fairness and administrative efficiency.

The options are intended to be the subject of public consultation, and the results brought back to Council for final endorsement and transmitted to Metrolinx for consideration as part of their transportation plan Investment Strategy report due in June 2013.

The transportation funding options outlined here-in, if implemented by the Province through Metrolinx, would increase taxation or fees for the dedicated purpose of investing in required transportation expansion projects identified in the Big Move report. These investments are seen as necessary to mitigate traffic congestion and facilitate continued growth and economic prosperity in the Greater Toronto and Hamilton Area (GTHA).

2. Financial Implications

The identified regional revenue options are required by the Province through Metrolinx to fund up to $50 billion in capital expenditures, plus related operating & maintenance costs, and transfers to municipalities to support local transportation investment. It is estimated that annual funding of about $4 billion, or an additional $2 billion per year compared to current Metrolinx appropriations, is required from a variety of measures, potentially impacting all citizens of the GTHA. Property taxes are among the potential new sources of revenue that could comprise the final plan. Development charge rates could also be impacted across the GTHA.

It is anticipated that any such measures would take effect only after Provincial consideration of the Metrolinx Investment strategy report due by June 2013, and implementation of related legislative changes.

3. History of City Council Decisions

City Council, on February 8, 2012 adopted the following:

City Council direct the City Manager to forward a letter to the Federal and Provincial governments requesting a long term transit funding agreement for future transit infrastructure, operation and maintenance costs for the City of Toronto

City Council on March 21 & 22, 2012 adopted the following:

City Council direct the City Manager to prepare a long term rapid transit funding strategy for consideration by Executive Committee and City Council by the fall of 2012, that outlines a diverse array of public and private revenue tools that could be implemented in the City of Toronto to generate sustainable revenue dedicated to financing continuous rapid transit expansion, such strategy to take into consideration the results of the public consultation from part 5 above.

City Council on July 11, 12 and 14, 2012 adopted the following:

City Council request the City manager to engage and participate with Metrolinx in establishing a working group of appropriate officials representing the City of Toronto, Greater Golden Horseshoe municipalities, the Ontario Ministry of Transportation, the Ontario Ministry of Finance, the Ontario Ministry of Municipal Affairs and Housing, and any other relevant bodies to provide input into the preparation of a funding strategy for the Metrolinx regional transit plan.

4. Background

The funding formula for transportation mobility is one of the most important fiscal issues facing the City of Toronto, and has been the subject of many reports and intergovernmental discussions over the years, particularly since 75% percent Provincial capital funding and 50% operating subsidy for transit were abandoned by the Province in 1998.

Transportation funding is also a regional issue, as was recognized by the creation of GO Transit in 1967, the Greater Toronto Services Board in 1999, and Metrolinx (as the Greater Toronto Transportation Authority) in 2006.

Metrolinx is required to produce a funding plan ("Investment Strategy") for its $50 billion, 25 year Big Move Transportation Plan by June 2013. If Metrolinx and the Province are to succeed in delivering the Big Move to the GTHA, they must have new revenues to support the capital, operating and maintenance costs of expansion. Any new revenues are likely to be generated predominantly from GTHA taxpayers, imposed across the entire region.

GTHA municipalities including Toronto have an enormous amount at stake. The key projects have been identified in the Big Move, but the source of up to $50 billion in capital funding, plus operating and maintenance funding, has not been identified. As hosts and beneficiaries of the projects, GTHA municipalities will play a role in explaining to the public the necessity of these investments, and the best approach to funding them, taking into account issues such as revenue sufficiency, cost of implementation, and fairness.

Toronto and its citizens have unique experience and insights about these issues to share with our municipal counterparts and Metrolinx, due to the City of Toronto Act Part X taxation authorities that have been considered and tested in Toronto.

5. Comments

Traffic congestion is increasingly affecting the quality of life and the cost of doing business in the Toronto region.

- Current traffic congestion is already a major burden on the local economy, estimated at $6 billion per year (source: Metrolinx, based 2006 data) and growing to $15 billion by 2031 without expansion investment
- Investment in transportation infrastructure in the GTH& A has lagged major North American and world cities, and Toronto has ranked poorly in total transit expenditure per capita (OECD – Toronto Territorial review 2009, Toronto Board of Trade, Scorecard on Prosperity 2011)
- At an average of 80 minutes in 2006, Toronto ranks poorly in average commute times in North America (despite relatively large population in high rise buildings) (Toronto Board of Trade, Scorecard on Prosperity 2011)

The Toronto region is also growing, faster than many competing city regions, and is expected to continue to grow, by 2.8 million residents, over the next 25 years. If this growth is to be sustained, governments must invest in improving traffic mobility.

In order to address this problem, in 2006 the Province of Ontario created the Greater Toronto Transportation Authority, later renamed Metrolinx. In 2008 Metrolinx approved the $50 billion Big Move Transportation Plan primarily for the GTA & H. It was developed with input from GTA&H municipalities and adopted by the Metrolinx Board comprised at the time of mostly municipal political nominees.

The Big Move consists of transit, GO Transit, walking, cycling, roads and highway projects over the next 25 years needed to offset congestion by increasing mobility and facilitating intensification. The projects outlined in the Big Move Transportation Plan that impact the City of Toronto directly are identified below. The projects are an indication of the commitment to invest, but the specific projects, their scope and timing may all be influenced by further input from the municipalities and through public consultations.

Metrolinx Big Move Transportation Plan Projects in Toronto

	Project (Metrolinx Project No.)	
Funded & Underway - $12.3 billion		
15-Year Plan	30	Finch West LRT: Phase 1 Keele to Humber College
	31	Eglinton Crosstown LRT: Phase 1 Jane/Black Creek to Kennedy Sta.
	36	Sheppard East LRT: Phase 1 Don Mills to Morningside/Conlins Yard
	37	Scarborough RT: Replacement Kennedy to Sheppard
	1-15*	GO Transit Rail Improvements:
	2*	Air Rail Link Union Station to Pearson Airport
	16*	Toronto-York Spadina Subway Ext'n: Downsview Sta. to Vaughan Centre
Unfunded		
15-Year Plan	17*	Yonge Subway Ext'n: Finch Station to Richmond Hill/Langstaff Gateway
	31*	Eglinton Crosstown LRT: Phase 2 Jane/Black Creek to Pearson Airport
	30	Finch West LRT: Phase 2 Keele to Don Mills, south to Sheppard
	30*	Finch West LRT: Beyond Phase 2 Humber College to Pearson
	36	Sheppard East LRT: Phase 2 Morningside/Conlins Yard to Meadowvale
	37	Scarborough RT: Extension Scarborough Centre to Malvern
	32*	Hwy 427 South BRT/LRT: Pearson Airport to Kipling Station
	27*	Waterfront West BRT/LRT: Port Credit to Union
	33*	Jane BRT/LRT: Vaughan Centre to Bloor-Danforth Subway
	34*	Don Mills BRT/LRT: Hwy 7 to Bloor-Danforth Subway
	21*	Dundas Street West BRT/LRT : Bronte Street to Kipling Sta.
	1-15*	GO Transit Rail Improvements
	38*	Highway 2 BRT/LRT : Scarborough Centre to Oshawa
25-Year Plan	46,47*	GO Transit Express rail Improvements
	48	Downtown Core Subway Capacity Relief : East & West
	58	Scarborough-Malvern BRT/LRT: Kennedy Station to Malvern
	55	Steeles BRT/LRT: Jane/York University to Milliken GO
	57*	McCowan BRT/LRT: Scarborough Centre to Markham Centre

*Indicates project spans municipal boundaries.

These projects, subject to any refinements and sequencing changes, reflect the major strategic transportation investments previously identified by the City. Other priorities may evolve, such as the recent identification of the East Bayfront (Waterfront East) corridor by Council in July 2012.

In addition, the City, like other municipalities, will be required to make many other local transportation improvement investments over the same period. The identification of transportation priorities for the City will be developed through the process outlined in Appendix A of the City Manager's Report on the Long Term Transportation Plan and Investment Strategy.

Why are new revenues appropriate?

There have been big transportation investment plans in the past in the Toronto area, although none as comprehensive as the Big Move. Most were cancelled, deferred or only partially implemented, due to subsequent funding constraints. As Ontario continues to work to eliminate its fiscal deficit by 2018, the Big Move projects could face a similar fate unless new dedicated taxes and fees are implemented to pay for them. Experience in Toronto and elsewhere shows that the public is willing to accept tax increases when they are associated with a specific outcome – such as a particular project or series of projects.

Part of the reason for public support of transportation investments is that they have benefits across the entire local, regional and national economies. The benefits are widespread and include employment opportunities, improved transit accessibility and convenience, reduced travel times, more efficient movement of goods, and increased property values. The link between the beneficiaries of transportation investment and potential taxes and fees to pay for them is illustrated below.

Transit Beneficiaries and Related Taxes & Fees

Who	**Benefits**	**And Pays**
Employees	Jobs	Sales Tax, Income Tax
Residents	Time Savings, Convenience	Sales Tax, Income tax
Businesses	Truck mobility, Employee availability & satisfaction, Cost reduction	Property tax, Payroll Tax, Parking levy, Tolls, Development Charges
Government	GDP growth, revenues	
Property Owners	Convenience, Property Value	Property Tax, Land Transfer Tax
Car owners	Travel times, Parking availability	Parking Levy, Gas Taxes, Vehicle Tax
Transit Riders	Time savings, Employment access, reduced car ownership	Fares
Highway Users	Time savings	Tolls

In many cases the public has supported dedicated revenues for specific transportation investments, and in some cases clamoured for more. In Ontario, major bridge work in Hamilton and St. Catherines for the QEW was paid for through tolls in the 1960s, and helped improve mobility for people and goods. More recently international bridges and tunnels and the 407 ETR highway have been funded by tolls. In the United States, the Utah Transit Authority was able to overcome anti-tax, anti-LRT attitudes and get support to fund over 200 kms of light and commuter rail in Salt Lake City through special taxes. In Los Angeles, $40-billion will be spent on 12 major transit and highway projects over the next 30 years, funded from a half-cent regional sales tax with the support of two thirds of voters.

Without adequate public support, major new investments can be jeopardized. For example, recently the State of Georgia failed to get public support for taxes to fund a major new transportation in the Atlanta region, despite the fact that Atlanta shares Toronto's reputation for among the worst average commute times in North America.

None of the potential benefits will result in public support unless the public understands them. Metrolinx has indicated that as the program delivery agent their role is limited to providing information as opposed to advocacy. Consequently, community, business and government leaders must speak out in favour and support communication about the plan if public acceptance is going to occur.

What are the criteria for selection appropriate revenue options?

In order to evaluate new revenue options, various criteria have been proposed and applied through past studies such as for the City of Toronto Act revenue tools review, the City's user fee policy, and other agencies such as Metrolinx. They are categorized into four main areas, each elaborated on below the following table:

	Revenue Tools Screening Criteria
Policy Fit	Alignment of market response with objectives of reduced congestion, increased intensification and transit use, minimizing negative collateral market impacts/distortions
Revenue	Potential revenue amount, predictability – revenue capacity, predictability, sustainability
Fairness	Equity, fairness, in terms of beneficiary pay, affordability, equitable enforcement
Efficiency	Cost, complexity – implementation, collection & enforcement cost, public understanding & acceptance

1. Policy Fit – alignment of consumer response with policy objectives. Ultimately, the best taxing options result in the desired market response – such as reduced congestion or increased intensification or transit use - and minimal 'collateral' impacts (such as disincentives to business investment). Considerations such as these render consumption taxes, parking taxes and road pricing most appropriate only on a broad regional scale.

2. Revenue quality – sufficiency, stability, future expectations. For example, is the amount of revenue associated with a tax comparable to the amount needed to fund the projects? Is the revenue stream consistent enough to offset fixed financing or service payments? Is the revenue expected to be stable or grow in the future, or perhaps decline, such as gas tax if electric vehicles and transit were to increase market share?

3. Fairness – incidence, avoidance opportunities, affordability. In broad terms the incidence of the tax should be linked to the benefit from the expenditures – geographically, and across various segments of the economy. Also, if a tax is fair and reasonable, it doesn't unduly impact vulnerable segments of society - such as small business, or low income citizens. It must be generally enforceable so that those who are intended to pay, do pay.

4. Efficiency – implementation, collection, enforcement. It is important that the new tax revenue is not significantly used-up paying for the administration of the tax. In the case of Toronto's Toronto Act taxes, overhead costs have been generally less than 3% because the City piggy-backed on existing collection and compliance/enforcement measures.

What new taxes and fees should be considered?

The Province has already committed to funding the first $13 billion in capital expenditures, resulting in debt that will eventually be repaid mostly from provincial sales and income taxes. Due to the Province's deficit situation and already high debt load, the proposed Investment Strategy will need to focus on funding the next tranche of capital and related operating and maintenance expenditures over the 25 year planning period.

If financed conventionally, the debt service charges alone on $50 billion would be over $2 billion per year. The operating and maintenance costs will depend on a number of factors including the performance of new transit lines and the revenue sharing agreements with local operators. Metrolinx has estimated that combined financing, operating and maintenance, and municipal transfer costs will be up to $4 billion per year for the entire plan at maturity, depending on the amount of work to be financed, the pace of build out, the cost of financing, and operating and maintenance subsidy requirements. Therefore, they indicate that an additional $2 billion is required annually over and above current allocations of a similar amount to complete the plan.

The City has considered various revenue options in the past: i) as it sought revenues that grow with the economy in concert with FCM; ii) when it considered its new powers of taxation under the City or Toronto act; and iii) more recently in the March 2012 expert panel report on financing the Sheppard subway.

When the screening criteria listed above are applied in terms of the requirements for a GTHA wide plan, the following are considered the most suitable options worthy of further discussion and public consultation. Each is described in terms of these criteria below the table:

Key Regional GTHA Revenue Generation Options

				Preliminary Relative Ranking [1 is best]				
	Nominal Rate	GTHA Annual Revenue ($Million)	Who Pays	Policy Fit	Revenue	Fairness	Efficiency	Known examples of City's with these taxes dedicated to transportation investments
Personal Income Tax	1%	$1,400	Everyone	2	1	1	1	
Sales Tax	1%	$1,300	Everyone	2	1	1	1	Chic, Georgia, LA, NYC, San Francisco
Property Tax	1%	$90	Property owners	2	3	1	1	Montreal, Vancouver, Portland
Payroll Tax	1%	$500	Business	3	2	2	2	NYC, Paris, Portland
Hwy Tolls	10cents/ Km	$1,500	Drivers	1	1	1	3	Vancouver, Georgia, London UK, NYC, PANYNJ, San Francisco
Fuel Tax	10 cents	$500	Drivers	1	2	1	1	Montreal, Vancouver, NYC, Washington DC, Georgia, Portland
Vehicle Tax	$100	$300	Vehicle owners	1	2	1	1	Montreal, NYC
Parking Levy	$365 / space	$1,080	Drivers	2	1	1	2	Vancouver, PANYNJ
Land Transfer Tax	1%	$600	Real Estate Buyers	2	2	2	1	
Development Charges	$5,000/ unit	$200	Land/ Property Developers	2	3	2	1	

<u>Taxes that reflect the universality of mobility improvement</u>

Personal Income Tax – Estimated based on Ontario Budget for Personal Income Tax and GTHA share of Ontario GDP. Increased income tax does not advance congestion, intensification or transit use policy goals, and increases have fallen out of favour with government policymakers. But income tax does have significant revenue potential that grows with the economy. This tax has broad incidence, and so doesn't target any particular group. It is not strongly related to the distribution of broadly based mobility benefits, and it is means tested so would not unduly impact low income individuals. Implementation of a tax surcharge or premium based on place of residence would be relatively inexpensive. Corporate income tax is not listed as it is a disincentive to investment, has less and more variable revenue potential, and may be more difficult to tax based on location.

Sales Tax –Estimate based Ontario Budget for Sales Tax and GTHA share of Ontario GDP. Increased sales tax does not advance congestion, intensification or transit use policy goals except to the extent that it applies to gasoline sales. It can cause consumers to shift some purchases outside the taxation zone, especially for larger consumer purchases. But the tax has significant revenue potential that grows with the economy (and may be slightly less variable than personal income tax). This tax has broad incidence, so does not unduly impact any particular consumer segment. Sales tax credits or rebates can be used to mitigate the impact on low income individuals. Implementation of a tax surcharge or premium based on place of transaction would be relatively inexpensive.

Payroll Tax – Estimate based on statutory employee deduction data from StatsCan and GTHA share of National GDP. Payroll taxes don't discourage congestion, or encourage intensification or transit use, and they are sometimes associated with negative implications for job creation. But, payroll tax has significant revenue potential that grows with the economy. The tax has broad incidence, and some correlation to the benefit to employers from increased mobility. If it is tied to pay rates it resembles income tax and would not disproportionately impact low wage employment. This would be a brand new tax, and would require some system development likely based on income tax.

Taxes and fees applicable to road users

Highway Tolls – Estimate based on MTO highway traffic data and 10 cent/km distance charge. Highway tolls have the best policy fit of all the options, because they reduce highway congestion, and tend to increase both intensification and transit use. Highway tolls have significant revenue potential that grows with the economy. This tax has broad incidence, but is strongly related to the distribution of mobility benefits – particularly for goods movement. As long as transit and live work alternatives exist, tolls are generally paid by those who can most afford it. Implementation and administration can be relatively expensive, but technology improvements tend to reduce costs. Road pricing by distance and congestion or cordon charges are not included in the list because they are relatively more expensive to implement or have higher collateral impacts than either highway tolls or fuel taxes.

Fuel Tax – Estimate based on Ontario Budget for Fuel Tax and GTHA share of Ontario GDP. Vehicle fuel taxes also support policy objectives, although to a lesser degree than tolls. They may have a marginal impact on reduced travel, and increased intensification and transit use. Their biggest impact may be on vehicle efficiency and reducing CO_2. Fuel tax has significant revenue potential that grows with the economy, but over the long term is vulnerable to a shift to alternative fuels. This tax has broad incidence, and is strongly related to the distribution of mobility benefits. As long as transit and live work alternatives exist, taxes will generally fall on those who can most afford it, and avoidance is limited to those who live near the boundary or travel outside the tax zone. Implementation and administration is easily and inexpensively accomplished.

Vehicle Tax – Estimate Based on MTO personal motor vehicle registrations. Vehicle tax may be similar to fuel tax from a policy standpoint, although at modest levels it has little impact on the vehicle ownership decision. Vehicle tax revenue potential is much lower, but very stable and grows with the assessment base and related automobile ownership. This tax has broad incidence, and is strongly related to the distribution of mobility benefits. Avoidance, based on the City's limited experience, was not a major factor. Implementation and administration is inexpensively accomplished through the Province's vehicle registration system.

Revenues specific to land owners

Property Tax – Estimate based on 2010 Municipal Financial Information Returns for the GTA & H. A new property tax would have little policy related impact on congestion or transit use, although it could marginally induce more development outside the tax zone. Property tax revenues are very stable, and increase with assessment growth, but the room to impose new property taxes is highly constrained, particularly since this tax is not related to disposable income, and is heavily relied upon by municipalities and the public education system. The tax has broad incidence, and at a modest rate might reflect the benefit to property owners from transportation investments that improve property values. It is relatively inexpensive to implement and enforce.

Parking Levy – Estimate based on Toronto Parking Authority parking space inventory and extrapolated for GTHA. Parking levies on commercial parking spaces are similar to commercial property taxes. From a policy standpoint, they are most effective when they result in new or increased fees for parking users, favouring reductions in automobile use and transit reliance, but the incidence of parking fees would most likely be concentrated downtown. Another effect could be a reduction in the provision of parking spaces, which may not be the desired outcome. Tax revenues would be very stable. The tax has uneven incidence, disproportionately impacting certain types of businesses such as mall owners, although at a modest rate might reflect the benefit to property owners from transportation investments. A new parking levy would require establishment and maintenance of an inventory of spaces, but could be relatively inexpensive to administer and enforce once up and running, based on the property tax system.

Land Transfer Tax – Estimate based on Ontario Budget for Land Transfer Tax and GTHA share of Ontario GDP. Land Transfer Tax doesn’t directly support policy goals regarding congestion, intensification, or transit use, and at the margin may reduce the propensity to move to a location closer to work. Revenues from land transfer taxes can be substantial, subject to market fluctuations. The tax has been criticized the tax in Toronto due to its perceived impact on the marketplace, particularly near tax boundaries. The City's experience is that the impacts on the market as a whole have been negligible. In Toronto, since a tax rate of up to 4% of the purchase price is already in effect, an additional Metrolinx tax would be ill-advised. The collection system is easily modified to impose a GTHA rate, and has generally has an excellent compliance and enforcement record.

Development Charges ("D.C.s") – Estimate based on the provincial GTHA population forecast, average dwelling occupancy, and 20% of Big Move capital expenditures being recoverable from growth (commercial and industrial charges were excluded for simplicity). Development charges have no direct impact on congestion and transit use, and as currently implemented have little impact on intensification. In some areas D.C.s are already a significant portion of the cost of development, and so ability to increase revenues from this source is constrained by the market.

D.C. revenues are only available to offset growth related capital costs, and by statute are related to the benefit to the development. The collection system is effective and relatively easily modified to impose a charge related to GTA &H transportation investments.

Revenue Assessment Summary

All of these revenue options have the potential to be part of a Metrolinx funding plan. No single option is likely to be sufficient to fund the entire program. No single option is perfect – even sales taxes, for example, can impact consumer and therefore business investment decisions, particularly near the taxation boundary. But it appears that a modest application of at least a few of these options would be sufficient to generate the funds required by Metrolinx, and any negative impacts would be more than offset by the benefits from additional transportation investment.

It is also important to note that Public Private Partnerships (P3s) have not been included on the list, despite the fact that the Province and Metrolinx generally seek to apply their Alternative Financing and Procurement (AFP) process, essentially a P3 approach, where ever possible.

The reason is that P3s are a "project delivery mechanism" intended to reduce cost and improve delivery timelines, not a source of funding. Even in cases where the private partner provides financing, the repayment stream inevitably comes from government controlled revenues, i.e. not private sector funding. The recent study of the Sheppard Subway East illustrated this distinction.

Why should a municipal tax base contribution be considered?

Three of the top ten revenue options are currently used by all municipalities in the GTHA– property tax, parking levy (tax on commercial parking spaces), and development charges.

In the past, municipalities have contributed to roads and transit capital expansion from their tax revenues in cases where the assets were to be owned by the municipality. Typically municipalities paid for 50% of eligible road work and 25% of transit capital. These contribution rates reflected municipal fiscal capacity and interests in local investment priorities. Where infrastructure was of regional importance, such as 400 series highways and GO Transit expansion, 100% was paid by the Province.

In recent years cost sharing protocols have been changing to adapt to changing fiscal situations at municipal, provincial and federal levels. Direct provincial support for major capital roads was eliminated in the 1990s. Municipal contributions were made obligatory for GO Transit operations for a brief period, and subsequently changed to only support capital expansion. Provincial conditional subsidies for local transit were reduced, then eliminated, then partially restored through gas tax sharing and other programs.

Over time, traffic congestion has grown into a regional issue, requiring regional solutions. But local property owners continue to have a stake. They benefit primarily from local mobility and service improvements. Municipalities benefit from increased intensification and assessment growth when mobility is enhanced. Therefore recovering some portion of the costs of the Big Move from the municipal assessment base could be justifiable. The question is, how much can fairly be recovered from property taxpayers and developers, when in many cases current tax rates and development charge fees are already very high by international standards.

If Metrolinx is empowered to raise revenues from traditional municipal sources, it is expected that they would impose rates and require municipalities to collect on their behalf, similar to the way education taxes are currently administered. Any such taxation powers should be very limited, and linked to local municipal benefits, so as not to over burden the tax base and/or crowd out municipal taxation requirements. This has been the approach historically - GO Transit and highways were funded by the Province, and municipal property taxes paid only for a portion of local transit and roads.

It is possible that some of the funds raised by Metrolinx would be re-allocated to the municipalities to be used to invest in local transportation priorities, maintain existing transportation infrastructure, or to offset any ancillary costs related to Big Move projects. In Los Angeles for example, 15% or revenues are remitted back to local municipalities. This might justify some incursion into municipal tax fields.

Another possible outcome is that as an alternative Metrolinx could be provided the power to levy municipalities, leaving the choice of how to pay the levy up to the individual municipality. This is similar to the GTA Equalization program (currently about to end), and the way that municipal contributions to GO Transit capital expansion are handled.

Neither of these programs has been a success in the long run. One reason is that when municipalities are required to pay for a program, their taxpayers deserve some control over how the funds are spent ("pay for say"). Currently Metrolinx does not have municipal representation on its board, having removed them after the Big Move plan was adopted, in preparation for the project implementation phase.

	Provincial Property Tax	**or**	**Provincial Municipal Levy**
Province	Adds new tax (like Education) to bill		Levies municipalities akin to GO Transit, Pooling
	Sets amount/rate as required		Sets levy amount by jurisdiction
	Encroachment on municipal tax base		Provides new tax options/flexibility to municipalities (LTT, PVT)
			Collects new taxes (LTT, PVT) as requested by municipalities
Municipalities	Collect and remit on behalf of Metrolinx		Choose/impose new tax/fee (LTT, PVT, Property tax, other)
	No municipal “debt”		Incur debt-like obligations to Metrolinx
	No municipal say		Require say in spending decisions

What were the results of staff consultation with our municipal counterparts?

In keeping with Council direction, the City manager and the DCM & CFO discussed transit funding issues with municipal counterparts over the summer. The feedback was often consistent with what had been learned from the City's direct experience.

For example, new taxes need to be implemented evenly over the entire GTHA urban envelope in order to minimize market distortions in boundary areas. As might be expected, this concern remains most acute where there are nearby or adjacent urban jurisdictions just outside the GTHA.

Also, it is universally appreciated that the funds must be linked or dedicated to clearly defined project expenditures.

Taxes with broad rather than narrow incidence – such as sales tax or gas tax – were least objectionable, although most GTHA municipal officials have expressed concern over any further pressure on property tax rates to fund the Metrolinx Big Move. Residential property tax rates are higher outside Toronto, and increasing at a faster rate as infrastructure investments climb (non-res rates are lower outside Toronto).

The preferred approach is that Metrolinx levies all its new revenue measures directly. In this way, municipalities are not responsible to raise the funds although they could play a role in collecting them on behalf of the province – similar to Education property taxes. Similarly, municipalities would likely have little formal say in how the funds are spent.

Total capital spending for Big Move projects is expected to be fairly evenly distributed among GTHA regions and cities. However, timing differences, varying operating and maintenance impacts, and especially differences in the perceived benefits from the program, could cause significant political backlash, unless people are convinced of the benefit to the entire region from these investments.

Finally, the old GO Transit expansion municipal funding model, based on obsolete and impractical cost sharing mechanisms, should be terminated. The City currently contributes $20 million per year to GO Transit as a requirement to receive Provincial gas tax funding. Other municipalities pay only a patchwork of development charge collections. Municipalities should be relieved of these obligations in order to provide room for new fair and equitable regional taxes to be implemented.

What else is required to make this successful?

Public Support: Metrolinx cannot continue to implement its Big Move plan without funding. Since most of the funding will have to come from new taxes on GTHA taxpayers, those taxpayers need to be convinced that the investments are worthwhile. A concerted effort from business, community and government leaders is required to put the arguments on the table.

Without public support the Province will be unlikely to implement the new taxes that are required to fund the plan.

A key aspect of public support is the knowledge that the new revenues will be well managed, dedicated to a specific outcome, i.e. not used for other purposes, and that the work will be completed as promised (and not watered down to some less than adequate and cheaper alternative). As a first step, it is vital that Metrolinx achieve a positive track record from the projects it is currently undertaking.

Federal Participation: The success of this plan is relevant to the success of the entire country. Major investments like this should be supported by the federal government, either through a National Transportation Funding Strategy, or project specific funding, or even through Federal P3 funds.

Transparency and accountability: Maintaining the public trust throughout the construction period and thereafter requires appropriate flow of information, and accountability. If municipalities will play a role in paying for the work, they may need additional revenue options to avoid an already overburdened assessment base. Accountability and governance models will have to be changed to reflect municipal responsibilities.

What options should be considered for public feedback?

Due to the magnitude of the Big Move plan, a number of new revenues may be required. They may also change over time. For example, high way tolls might not be considered appropriate until after GO Transit service improvements provide alternatives for commuters. The public should have an opportunity to comment on a wide array of potential options.

The list of the 10 most viable options proposed for consultation is provided in the table above. Other viable options may exist and if brought forward in the consultation could be considered in terms of the screening criteria above.

At least three of the 10 revenue options involve the municipal tax base – property taxes, parking levies (which are comparable to a property tax on parking spaces), and development charges. It is assumed that Metrolinx could obtain authority to levy these charges directly, in keeping with its mandate to build and own the assets, and its governance structure which includes no direct municipal representation. Public tolerance for Metrolinx to use these tax fields should be gauged through the consultations.

In the covering report, the City Manager proposes to seek public input on transportation expansion and funding through a public consultation process.

The results of the consultation would be included in a report to Council in the spring, to help Council make recommendations to Metrolinx for its Investment Strategy report due June 30th, 2013.

Contact

Robert Hatton,
Director, Strategic Initiatives & Intergovernmental Finance
Corporate Finance Division,
Tel: 416 392-9149;
E-mail: rhatton@toronto.ca

Signature

____
Cam Weldon
Deputy City Manager and Chief Financial Officer