

Putting Canada on Track

A BLUEPRINT FOR A NATIONAL TRANSIT FRAMEWORK

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APPLIED PUBLIC POLICY RESEARCH
INFORMED BY ONTARIO'S REALITY

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Executive Summary

Canada's big city mayors are calling for greater federal investment in public transit. A number of prominent organizations, such as the Canadian Chamber of Commerce, the Canadian Urban Transit Association, and the Toronto Board of Trade, are lobbying for a National Transit Strategy and a more deliberate role for the federal government in our municipal transit systems. There are hints that the federal government is receptive.

However, federal involvement in public transit needs to be structured in a way that maximizes the public's investment. It would be a shame, for example, if the federal government equalizes its investment, spreading it thinly across the country in order to avoid offending anyone.

Instead, federal investment in transit needs to be focused on where it would do the most good—namely the city regions of Toronto, Montreal, and Vancouver.

The case for federal involvement is strong. The positive impact of transit is widely recognized, which is why all central governments in the G7 but Canada have some form of predictable and dedicated funding for transit. In Canada, Ontario, BC, and Quebec are the single largest investors in transit capital.

All indicators are that the federal government recognizes the importance of efficient transit to our economy and environment. But it currently contributes less than 11 per cent of transit funding, through a patchwork of different funds with different eligibility rules and reporting mechanisms. The funds are also largely dispersed on a per capita or merit—sometimes derided as lottery—basis. Federal transit investment needs to be more strategic.

It needs to be targeted, predictable, and transparent. It also needs to minimize the administrative burdens of the recipients by taking advantage of the strong accountability mechanisms already in place at the provincial level.

Funding is one problem. Governance is another. What are the implications of a sustained federal investment for decision making and governance? How do we ensure that projects can be identified, planned, funded, and implemented without undue delay arising from too many levels of government involved in decision making?

There are already too many actors involved in transit governance. The transit sector is rife with blame-avoidance, credit-taking, and intergovernmental tension.

Transit governance in this country needs to be rationalized. Local transit authorities should be uploaded to regional transport agencies. And, all funding, including federal, needs to be directed at this regional level.

Efficient public transit is crucial to the success of large city regions. And successful large city regions are lynchpins of a vibrant economy in a globalized world. These facts are widely accepted. Most countries have adjusted their public policies accordingly. Canada, however, is a laggard. Put simply, a well-designed national strategy and targeted strategy will generate more value and go further.

PUTTING CANADA ON TRACK

A BLUEPRINT FOR A NATIONAL TRANSIT FRAMEWORK

Josh Hjartarson with Kelly Hinton and Michael Szala

EFFICIENT PUBLIC TRANSIT is crucial to the success of large city regions. And successful large city regions are lynchpins of a vibrant national economy in a globalized world. These facts are widely accepted. Most countries have adjusted their public policies accordingly.

Canada's large cities, however, suffer from a lack of public transit infrastructure when compared to their international peers. The reason is threefold. First, Canadian municipalities do not have the revenues to expand and maintain their transit systems. Second, there has historically been insufficient financial support from other levels of government, particularly from the federal government. And finally, progress is hampered by poor governance and intergovernmental coordination.

Canada is the only G7 economy that does not provide predictable, dedicated funding for municipal transit systems.¹ This paper joins the chorus calling for a national policy framework for public transit. However, it also poses a few simple questions: What are the parameters of a national transit framework? How should federal transit funding be allocated?

The paper examines the implications of a sustained federal investment for decision-making and governance. How do we ensure that projects can be identified, planned, funded, and implemented without undue delay arising from too many levels of government and veto points?

A dedicated federal fiscal transfer to support public transit must be designed according to internationally agreed upon benchmarks so that funding is adequate, equitable, predictable, and transparent. The transfer must also promote accountability to citizens. The bottom-line recommendation is the creation of a single transfer that focuses federal investment where it is needed most, namely the city regions of Toronto, Montreal, and Vancouver.

The paper also recommends that this funding be directed to regional transport authorities responsible for deciding what gets built where and when. The recommendation is based on the principle of subsidiarity—that decision-making should reside with the level of government 'closest to the problem.' Given their proximity to local issues plus that fact that public transit is increasingly regional (e.g. transcending municipal boundaries), decisions about what gets built, where, and when should reside with regional transport authorities that are provincially mandated and integrate neighboring municipalities.

The majority of funding arrangements for federal investment in public transit expire in 2014, the same time as the Canada Health Transfer, Canada Social Transfer, and the Equalization program. The federal government and the provinces are already discussing these major transfers. A private members bill proposing a National Public Transit Strategy is before the House of Commons. This is an opportune moment to discuss the contours of a targeted federal transfer for public transit.

Table 1 - Summary of Recommendations

Recommendations	Rationale	Projected Impact
The federal government should create a national transit framework, dedicated to expanding and improving transit systems	<ul style="list-style-type: none"> Improving public transit efficiency produces national benefits Municipal revenues are inadequate Provincial governments have already stepped up 	<ul style="list-style-type: none"> Positive economic returns, including increased productivity and competitiveness Reduced greenhouse gas emissions (GHG) Reduced congestion
A national transit framework should allocate funding according to measures such as transit ridership, congestion, and capital costs	<ul style="list-style-type: none"> Greater ridership numbers translate into greater capital needs Subway and rail costs are relatively more capital intensive Economic, environmental, and quality of life costs from congestion are concentrated in Toronto, Montreal, and Vancouver 	<ul style="list-style-type: none"> Greater returns on federal investment Enhanced competitiveness of Canada's leading global city regions
A national transit framework should include long-term, predictable funding with sufficient time horizons to facilitate large capital projects	<ul style="list-style-type: none"> Planning horizons for transit systems are in the order of decades 	<ul style="list-style-type: none"> Would facilitate plan for the long-term needs of regions
A national transit framework should include a single transfer with a clear and principled allocation formula	<ul style="list-style-type: none"> Accountability in transit is weak Lack of transparency increases risk of non-strategic use of funds 	<ul style="list-style-type: none"> Increased accountability in the sector Reduced intergovernmental tension More strategic spending
A national transit framework should defer to provincial accountability arrangements and not include onerous reporting requirements between governments	<ul style="list-style-type: none"> Provincial and local governments already have extensive accountability mechanisms in place Duplicating these procedures at the federal level increases delays/costs 	<ul style="list-style-type: none"> More will be directed where it is needed Less blame dodging and finger-pointing Reduced intergovernmental tension Quicker turnaround for projects
A national transit framework should give decision makers at the regional level full authority to allocate funds to regional transport priorities	<ul style="list-style-type: none"> Transit has too many joint-decision traps, which slow decision-making and delay projects Regional authorities are best suited to make long-term strategic decisions, with input from municipal, provincial, and federal representatives 	<ul style="list-style-type: none"> More streamlined decision-making Regional priorities will be more adequately addressed Integrated and coherent transit plans and spending across the appropriate geographic area (i.e. the city region) Improved accountability

CURRENT FEDERAL INVESTMENT

THE FEDERAL GOVERNMENT DELIVERS support for municipal transit through a number of funding streams, mostly through infrastructure programming. Since the 1990s and the introduction of the Infrastructure Canada Program, public transit has been an eligible category in most Government of Canada infrastructure programs (Ruffilli 2010). According to Transport Canada, the federal commitment to transit projects has totaled more than five billion dollars since 2001 (“Federal Investments in Public Transit” 2011).

In total, around 13 per cent of the \$33 billion in federal investment in infrastructure since 2007 has been allocated to transit projects. Table 1 surveys the current suite of federal funding programs where transit qualifies as an eligible investment.

Table 2 - Federal Programs with Transit Eligibility

	Amount in Federal Program (total)	Mandate/ Eligibility	Allocation Method	Expiry
Building Canada Fund (BCF)	\$8.8B	5 national priorities: highways, drinking water, wastewater, transit, and green energy	Per capita	2014
Infrastructure Stimulus Fund (ISF)	\$4B	Water, wastewater, public transit, roads, culture, parks, trails and community services infrastructure	Merit	2011
Gas Tax Fund (GTF)	\$11.8B 2007-14, \$2B annually thereafter	Environmentally sustainable municipal infrastructure	Per capita	Permanent
Prov./Terr. Base Funding Initiative	\$175M per jurisdiction	Same as BCF	Base funding per jurisdiction	2014
Public transit tax credit	\$130M annually	NA - transfer to individuals	NA	Permanent
P3 Fund	\$1.2B	Water, wastewater, public transit infrastructure, core national highway system infrastructure, green energy, disaster mitigation, solid waste management, brownfield redevelopment, culture, connectivity and broadband, shortline rail, short sea shipping, regional and local airport infrastructure, tourism	Merit	2014
Green Municipal Fund (GMF)	\$550M endowment	Investments in brownfields, energy, transportation, waste, and water	Merit	Permanent

Federal support for transit is the culmination of one-off investments under a variety of program umbrellas with different program objectives and selection criteria that are delivered by different agencies. Funding has been focused on single projects that are in line with the federal priorities of the day. As noted in a study commissioned by the Canadian Urban Transit Association (CUTA), “(w)hile these initiatives may help fund public transit services in places where a strong case can be made for federal funding, these projects are not strategically coordinated...” (Stantec 2011, 11).

In fact, Canada is the only G7 economy that lacks a federal policy of long-term, predictable investment dedicated to transit. National transit plans exist even in highly decentralized federations, including Switzerland, where, constitutionally, transit is a local responsibility.

Being an outlier is not always bad. But Canada’s results on measures such as commute times in our big cities and GHG emissions suggests our outlier status should be viewed as a problem to overcome rather than a source of national pride in our exceptionalism.

THE CASE FOR A NATIONAL TRANSIT FRAMEWORK

When it comes to advancing the economic, social, and environmental sustainability of our cities, the highest connective infrastructure priority is urban transportation... The federal and provincial governments [must] work together to prepare a national urban transportation strategy.

- Conference Board of Canada (Golden and Brender 2007, 2)

CANADA IS ONE of the most highly decentralized federations in the world. Neither municipalities nor public transit are federal responsibility under the Constitution. Both are assigned to the provinces. As such, some argue that the federal government should not play a role in public transit—financial or otherwise.

However, the Constitution is often a poor predictor of roles and responsibilities in the federation. The federal government has inserted itself in many areas outside its jurisdiction, often by spending money directly, or transferring funds to provinces. There are numerous examples, such as health care and post secondary education, of areas once thought to be exclusively in the purview of the provinces where the federal government is now involved.

When the federal government and Canadians believe there is a compelling national purpose for action, the federal government finds a way to get involved. The federal government already makes a modest contribution to transit because, as noted by the

current Prime Minister, “(m)aking long-term investments in communities will keep Canada growing. Improving the efficiency of public transit has a real, long-term and positive economic impact.” (“PM Announces Improvements for Tri-Cities Commuters” 2010)

There is a strong case to be made for even greater and smarter federal investment in transit.

1 Positive Environmental Impacts

The federal government has committed to reducing Canada’s total greenhouse gas emissions by 17 per cent from 2005 levels by 2020 (*Canada’s Action on Climate Change* 2008). Public transit is part of any credible national plan to reduce GHGs. Consider these facts:

- The transportation sector is responsible for close to 30 per cent of the country’s total GHGs. Passenger vehicles account for 70 per cent of transportation emissions. Two-thirds of these emissions are generated within urban areas (Big City Mayors’ Caucus 2007, 7).
- The U.S. Department of Transportation calculates that the average transit trip emits 47 per cent of the CO₂ per passenger mile of a single occupant personal vehicle (Hodges 2010, 2).²

2 Positive economic impacts

In addition to negative environmental impacts, congestion is a drag on growth and economic performance. According to the Toronto Board of Trade *Scorecard on Prosperity 2010*, congestion costs in the Toronto area alone exceed \$6 billion annually (2010, 9). Public transit is among the best investments that a government can make in the future economic success of a community.

It is well understood that the more efficient movement of people within cities produces a number of “wider benefits” to regional, provincial, and national economies, far beyond the immediate stimulative impact of building transit networks.

As noted by the Conference Board of Canada, investments in transit facilitate the match between labour needs and labour supply and the flow of goods, “resulting in enhanced productivity and reduced unemployment” (Gill, Iacobacci and Owusu 2011, ii). For example, efficient public transit provides employers with access to a larger pool of potential employees in a given area (Gill, Iacobacci and Owusu 2011, 2-3).

“For individual Canadians, transportation accounts for most greenhouse gas emissions, primarily due to automobile use.”

- David Suzuki Foundation
 (“Canada’s Emissions” 2008)

CONFERENCE BOARD OF CANADA

Connecting Jobs and People: Exploring the Wider Benefits of Urban Transportation Investments

This report estimates that the construction phase of the (Great Toronto and Hamilton Area’s - GTHA) regional transportation plan would have an economic impact of \$1.19 of GDP per dollar of real capital investment. The report forecasts a cumulative impact of 279,000 person-years of employment through 2020, along with an annual boost to Ontario’s real GDP of \$342 million in 2009, rising to \$2.3 billion by 2020. Furthermore, the federal and provincial governments would expect to cumulatively receive \$7.5 billion more in personal income taxes and indirect taxes, and \$1.2 billion in corporate income taxes, between 2009 and 2020 (Gill, Iacobacci and Owusu 2011, i).

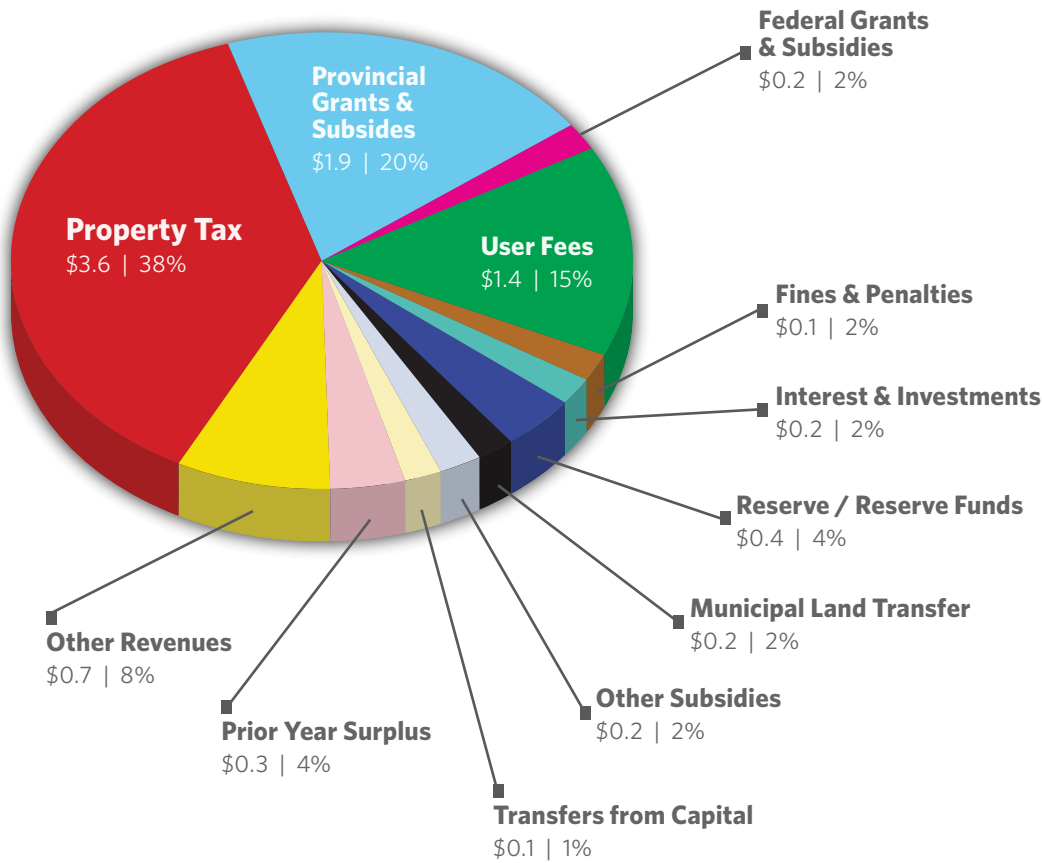
The wider economic benefits of investment in transit are corroborated in other research. According to the American Public Transit Association, every dollar invested in public transportation generates an average of \$6 in economic returns (2011).

3 Local Revenues are Inadequate and the Provinces have Already Stepped Up

Local government revenues are said to be adequate when they are able to raise enough money to perform their designated responsibilities. Revenue adequacy is essential for the effective functioning of any federal system.

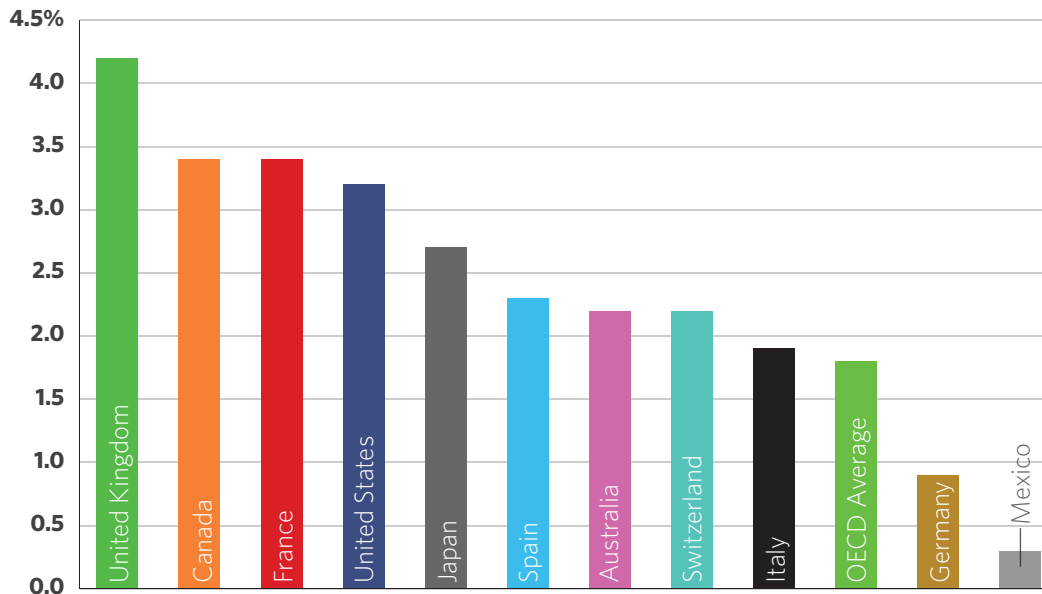
In 2009, the federal government accounted for 39 per cent of combined government revenues, the provinces 43 per cent, and cities 10 per cent (OECD 2011, 1). The provinces and the federal government have access to all major tax bases. Cities do not.

Figure 1 - Sources of Revenue, City of Toronto (\$billions)



Source: City of Toronto (2011, 3)

Figure 2 - Property Taxes Relative to GDP in Select OECD Countries

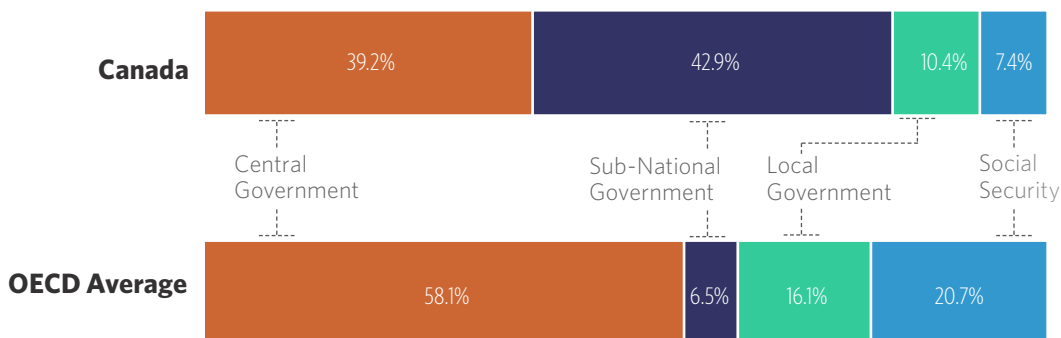


Source: OECD Tax Database (2011)

For example, cities in Canada cannot levy income or sales taxes. They rely disproportionately on property tax and fees to fund major capital investments, including public transit. This is problematic because revenues from property tax are flat, and trend behind GDP and the growth of other government revenues (Kitchen and Slack 2006, 11-12).

Figure 1 shows that for the City of Toronto, 38 per cent of its revenues come from this static tax base. Another 15 per cent comes from user fees. A further 20 per cent comes from provincial grants and subsidies, which are not under municipal control. Figure 2 further shows that Canada’s cities rely on property taxes far more than most other OECD countries, with only the United Kingdom having a higher proportion of property taxes as a proportion of GDP.

Figure 3 - Distribution of Government Revenues, Canada & OECD



Source: OECD iLibrary (2011).

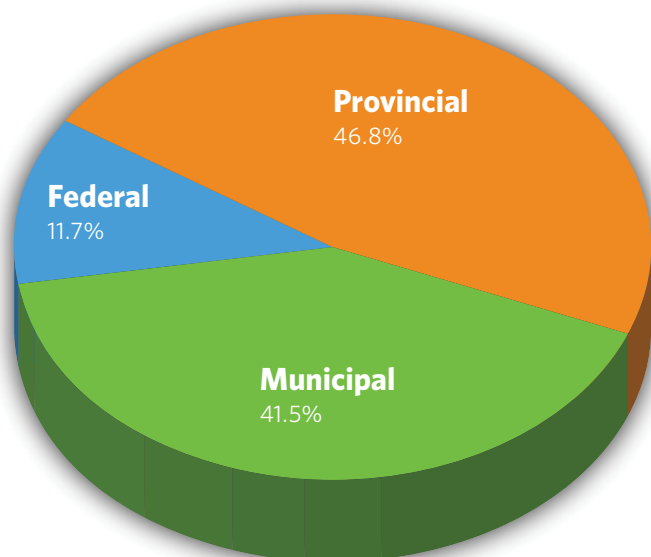
After years of neglect and underinvestment, municipalities now face daunting infrastructure deficits. Between 1978 and 2000, new investment for urban infrastructure grew by only 0.1 per cent (Golden and Brender 2007, 4). Despite recent investments, the funding challenges in the transit sector still hover around the \$50 billion range (CUTA 2010a, 3).

Property taxes in Canada are already among the highest in the OECD, as shown in Figure 2, suggesting that there is limited capacity to increase revenues from this tax base. As noted by the OECD, closing the infrastructure gap with property taxes exclusively is unrealistic and inappropriate, and would severely crowd out spending for other municipal programs (OECD 2010, 169).

The provinces have largely stepped up, having announced significant long-term plans for investment. Provincial support for transit has steadily climbed since 2003-04. The provincial governments of Ontario, BC, and Quebec are now Canada's largest investors in public transit.

Figure 4 shows the breakdown of total government funding for public transit in Canada for 2009. Provinces and municipalities are responsible for the lion's share of funding, with the federal government contributing less than twelve per cent. Canada's municipalities have a lower share of government revenues compared to other OECD countries (as shown in Figure 3), which further compounds the problem of relying on municipalities to fund public transit.

Figure 4 - Government Contributions to Transit



Source: Transport Canada (2009a, A49)

Provincial Investment in Public Transit

Recognizing transit's contribution to the competitiveness of their large city regions, three provinces provide long-term, dedicated funding for transit.

Ontario

The Government of Ontario is the largest investor in transit in Canada. Since 2003, the Province has invested \$10.8 billion in public transit, mostly directed for projects in the GTHA. In 2007, the province announced MoveOntario—committing \$11.5 billion toward rapid-transit initiatives over a period of 12 years.

British Columbia

In 2008, the BC Government announced a Provincial Transit Plan of \$7.6 billion until 2020 (BC Ministry of Transportation 2008, 4).

Quebec

From 2004 to 2008, the Government of Quebec committed more than \$2.6 billion directly to public transit. The province allocated approximately \$3.7 billion to public transit over 2006-2011 (UTTF 2009, 12). According to Quebec officials, a new plan is in the works.

A federal transit framework could complement existing provincial commitments to funding, and reflect the numerous positive externalities associated with the provision of world class transit systems and the negative impacts of failing to provide them.



Recommended Federal Action

THE FEDERAL GOVERNMENT SHOULD CREATE A NATIONAL TRANSIT FRAMEWORK, DEDICATED TO EXPANDING AND IMPROVING TRANSIT SYSTEMS.

A PRINCIPLED FEDERAL APPROACH

THERE IS STRONG EVIDENCE supporting the need for increased federal investment in public transit, but what are the parameters for that investment? How should funding be allocated? What is the best method for delivering federal investment? How should transit governance mechanisms be adjusted to account for sustained federal involvement?

The next section proposes a funding mechanism consistent with internationally accepted benchmarks identified by the World Bank in its seminal study of intergovernmental fiscal transfers. It makes concrete recommendations for the design of federal funding for transit that incorporate five principles—equity, predictability, transparency, accountability, and autonomy.

As noted by the World Bank, “the design of fiscal transfers is critical” in strengthening public sector governance and improving outcomes for citizens (Boadway and Shah 2007, xvii). As noted by the Conference Board of Canada, “(m)unicipalities need access to more revenue. Equally important is the need for access to revenues that meet the tests of accountability, fairness, and transparency” (Conference Board of Canada 2007, 48).

Principle 1 Equity

A key goal in the proper design of intergovernmental funding arrangements is ensuring equity in distribution of funding. Equity can mean different things depending on program objectives. For programs of general application, equity can be achieved by transferring funds on an equal per capita basis.

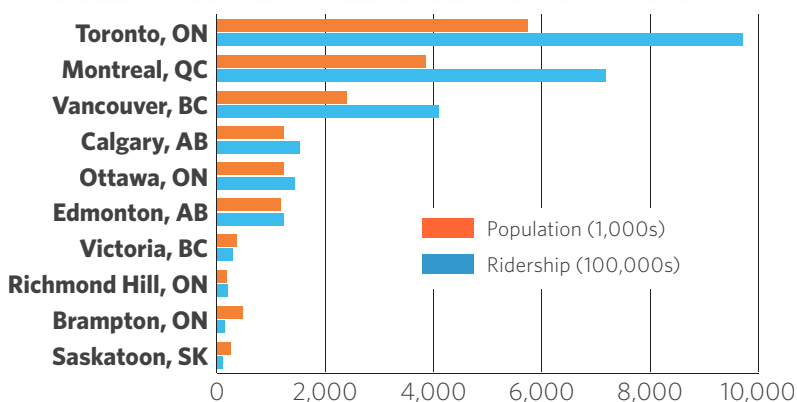
However, it may be more appropriate to target funding when it is meant for a specific purpose or a specific population (such as the unemployed or homeless). Consistent with the equity principle, different types of equity are appropriate for different types of fiscal transfers. The rationale for a more targeted transfer in public transit (as opposed to equal per capita) is compelling.

First, the transit challenges faced by large Canadian cities are greater and more capital intensive than those faced by smaller communities. Most estimates describe the cost of building a subway at roughly \$250-300 million per kilometer and \$35-40 million per kilometer (\$150 million underground) to build an LRT. This is substantially higher than the construction of dedicated bus lanes (approximately \$200,000 per kilometer) that are more appropriate for smaller urban centres (Metrolinx 2008, 7-13).

Second, the environmental gains from reduced congestion in large cities are greater. According to a 2011 Statistics Canada report, “workers in the greatest metropolitan areas are more likely to experience traffic congestion daily on their way to work” (Turcotte 2011, 30). In the Toronto census metropolitan area, 29 per cent of full-time workers were caught in traffic jams every day of the week. In Montreal and Vancouver, the figure is 26 per cent and 25 per cent respectively. This is well above the national average of 20 per cent.

Further, according to *The Cost of Urban Congestion in Canada*, a Transport Canada publication, half a billion litres of fuel is wasted due to congestion. Of this, 90 per cent comes from Canada’s three largest urban areas (Transport Canada 2009b, 12).

Figure 5 - Transit Ridership by City Region, 2010



Source: Author’s compilation (based on data from APTA³; Statistics Canada 2011; Brampton 2011; City of Richmond Hill 2011.)

More Local Revenue or Federal Investment? We Need Both

Several proposals have been put forward suggesting ways to raise adequate revenues for public transit. These include expanding the revenue raising capacity of municipalities through additional tools, such as congestion charges, high-occupancy toll lanes, parking, income or sales taxes, land use development, and user fees. A recent CD Howe report calculated that high occupancy toll lanes in the GTHA could net \$926 million annually (which presumably could be shared across a range of local transport initiatives—including transit) (Dachis 2011, 5).

These options should be explored and some will likely be part of any renewed long-term funding framework (see Irwin and Bevan 2010 for summary of options). However, local revenues are insufficient to address the infrastructure gap on their own.

Given a lack of sustainable funding for public transit in Canada’s city regions, CUTA, the OECD, Civic Action Alliance, Federation of Canadian Municipalities, and the Toronto Board of Trade all recommend the creation of a dedicated and long-term \$2 billion annual fund, representing less than one per cent of the federal budget. This wouldn’t necessarily be \$2 billion in additional funding, but could be, in part, consolidated from the number of existing infrastructure programs.

Third, we know that the city regions of Toronto, Montreal, and Vancouver account for 67 per cent of total national ridership and a combined ridership of 1.07 billion passengers (UTTF 2009, 7). Figure 5 graphically shows that the ratio of transit ridership to population is higher than the next tier of cities (i.e. Calgary, Edmonton, and Ottawa), and much higher than that of the smallest cities in the sample.

Of course, there are a number of variables that could factor into funding allocations. Population and population density are secondary factors that may help refine a formula. Deciding which measures to include or exclude is politically sensitive. Debates about how to best achieve equity in intergovernmental transfers are pervasive in Canada (Hjartarson, Pearce and Mendelsohn 2010).

However, international and domestic experience suggests that this challenge can be overcome. In order to maximize the economic and environmental returns on this investment, it must be targeted to Canada's largest cities. Sharing or "equalizing" federal transit investment by distributing it thinly across Canada would diminish its strategic application and the benefits for the country writ large. Other Canadian cities would still be eligible for funding. But with ridership as a key determinant of allocation, Canada's three global city regions would receive most of the transfer.



Recommended Federal Action

A NATIONAL TRANSIT FRAMEWORK SHOULD ALLOCATE FUNDING ACCORDING TO MEASURES SUCH AS TRANSIT RIDERSHIP, CONGESTION, AND CAPITAL COSTS.

Targeted Funding for Transit – Some Examples

Ontario

Ontario shares two cents per litre from gas tax revenues with municipalities for public transit. A total of 89 Ontario transit systems, serving 111 municipalities receive provincial gas tax funding. The government has provided more than \$1.3 billion in gas tax funding to municipalities since 2004. The allocation formula is based on a ratio of 70 per cent ridership and 30 per cent population. As a result, Toronto received 51 per cent (\$164 million) of the \$321 million of funding.

Germany

In Germany, *Verkehrsverbunds* (transport networks) receive a higher share of federal and state funding based on their ability to attract passengers and a number of other measures (Buehler and Pucher 2011, 132).

United States

In the United States, over 90 per cent of federal grants for urban transportation are distributed based on published formulae. There are several grants that are allocated according to population density and transit usage (Stantec 2011, 20).

Principle 2 Predictability

Recognizing the positive impacts of transit investment, France, Germany, Japan, the United States, the United Kingdom as well as most OECD countries have long-term, predictable funding dedicated to public transit from the central national government. Three Canadian provinces have also developed long-term, predictable funding arrangements for transit.

The provincial commitments are a fairly recent development in Canada. Historically, transit investment has suffered from a “gap between the general short-term thinking of politicians and the required long-term view that is needed for transport infrastructure planning and implementation” (Blindenbacher and Balmer 2008, 318).

Federal funding arrangements, on the other hand, have primarily been short-term. The federal Gas Tax is a notable exception, although it is not dedicated exclusively for public transit. The Infrastructure Stimulus Fund (ISF) expired in October 2011. The Building Canada Plan (BCP) expires in 2014. It is unclear what federal resources will be available to fund transit thereafter.

For the ISF, municipalities submitted thousands of proposals in the hope that their projects would be selected. These funds were allocated for shovel-ready projects which had to be completed by October 31, 2011. Because transit requires substantial lead time and planning, few transit projects actually received funding under this program. Only 7 per cent of the ISF went to transit capital expenditures (CUTA 2010b, 2).

The average time to provide transit infrastructure varies significantly by mode. However, it can take as long as ten years to plan and build an express rail, regional rail, or subway line. As noted by one federal government MP, “(r)apid transit systems require levels of investment beyond municipal means. These systems also have planning horizons in the order of decades, many years beyond the budget cycles of federal or provincial governments” (Chong 2010, 3).



Recommended Federal Action

A NATIONAL TRANSIT FRAMEWORK SHOULD INCLUDE LONG-TERM, PREDICTABLE FUNDING WITH SUFFICIENT TIME HORIZONS TO FACILITATE LARGE CAPITAL PROJECTS.

Principle 3 Transparency

Transparency in the design of fiscal transfers refers to whether or not the formula and the allocations for transfers are public and disseminated widely. It also refers to the simplicity and accessibility of how these allocations are communicated. Can citizens clearly follow the flow of money from taxpayer to government(s) to final policy outcome? Can provincial governments easily track the direction of federal funds and vice versa?

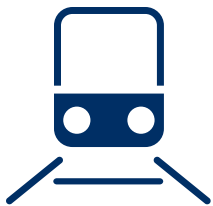
According to Canada's foremost experts, Canada scores particularly poorly with respect to transparency on intergovernmental transfers (Hjartarson, Pearce and Mendelsohn 2010, 12). The complex web of infrastructure transfers epitomizes Canada's failure in this regard (see Table 1 on page 4).

As previously outlined, federal funding arrangements for public transit come from a variety of sources and are allocated according to a variety of methods, often with few principle-based explanations for these differences. The sheer multitude of transfers involved further reduces the transparency. Citizens and even governments cannot follow the flow of money.

Some federal transfers have been merit-based (Infrastructure Stimulus Fund, for example) and some have been formula driven (Building Canada Fund and the Gas Tax Fund are examples). When projects are selected based on 'merit,' it is nearly impossible to assess whether or not the measures used are consistent and fairly applied. As a result, the 'merit'-based selection for infrastructure projects has been described as a 'lottery' or 'free-for-all.'⁴

Transparency is necessary to hold governments accountable, but current funding arrangements make tracking funds, and more importantly, government responsibility for these funds, nearly impossible. If Canadians are unhappy with the lack of government support for their transit systems—and they are⁵—they need to know who is responsible. The public should be able to follow the trail of money and have a general understanding of how much each level of government contributes, where it goes, and how decisions are made.

In practical terms, that means disentangling the current web of infrastructure funding arrangements into a single, simple formula-driven fund in order to present a clear picture to Canadians. The formula should be clearly stated and understood. And as noted in the previous section, it should also be targeted.



Recommended Federal Action

A NATIONAL TRANSIT FRAMEWORK SHOULD INCLUDE A SINGLE TRANSFER WITH A CLEAR AND PRINCIPLED ALLOCATION FORMULA.

“The announcement of stimulus-funded projects and general communication about infrastructure initiatives has not always been consistent and straightforward. Consequently, it has been difficult for the public ... to fully understand what projects are being funded and when projects will be procured.”

– Consulting Engineers of British Columbia (2009, 9).

Principle 4 Accountability

Governmental accountability is a pillar of modern democracy. As folk punk icon Billy Bragg noted, “no power without accountability.” Citizens should be able to reward and punish their elected representatives.

Any federal system will always suffer from accountability issues since one or more levels of government frequently occupy the same policy space. In Canada, knowing which government is accountable for a particular policy or outcome can be especially problematic given the multitude of program areas where two and sometimes three governments are involved. The overlap in jurisdiction and programming enables governments to dodge blame, point fingers, and take credit when none is deserved. Blame-dodging, finger pointing, and credit taking are endemic in the transit sector.

There are multiple ingredients for facilitating accountability to citizens in areas where more than one government is active. The first is streamlined and concentrated decision-making at one level (which is addressed in the next section).

As noted in the previous section, intergovernmental transfers must also be designed so that commitments, intended outcomes, and results are transparent and discernable to citizens.

Effective accountability, however, also implies forgoing onerous hierarchical accountability relationships between governments whereby the federal government imposes a set of program objectives and reporting requirements based on those objectives. This hierarchical reporting relationship “detracts from the ability of public officials to carry out their substantive tasks and address the key problems of the day” (Hjartarson, Pearce and Mendelsohn 2010, 20).

For instance, the very act of demanding certain forms of accounting can distort local policy objectives and displace local priorities (see textbox 4 on page 21 for an example). Also, as noted in a forthcoming study by Graefe, Simmons and White, “the requirement to prepare reports may also lead to a reassignment of resources to the task, and potentially to changes in expertise valued in an organization or department” (forthcoming). In plain terms, more resources get tied up in writing reports at the expense of program delivery.

This would be less problematic if provincial and local governments did not have extensive accountability mechanisms already in place. But most provincial governments and many

“One of the core issues underlying the lack of a national strategy is accountability—ensuring the funds will be directed to the intended purpose.”

– Civic Action Alliance (Irwin and Bevan, 16)

local governments do have extensive and effective mechanisms to ensure accountability to taxpayers already. These include Offices of the Auditor General, Ombudspersons, and detailed Directives on Transfer Payments. These mechanisms largely mirror what is in place at the federal level.

The logical consequence is that a national transit framework should defer to provincial accountability mechanisms already in place. The federal Treasury Board's Blue Ribbon Panel 2006 report, *From Red Tape to Clear Results*, suggests the same conclusion:

In the case of a provincial or territorial government, for example, where audit standards and capacities may well be as high as those of the federal government, it seems pointless and, indeed, redundant for the federal government to impose audit obligations in addition to those of the recipient government. There should be more appropriate ways to integrate and collaborate in meeting audit objectives to avoid duplication and unnecessary burden on these recipients (2006, 9).



Recommended Federal Action

A NATIONAL TRANSIT FRAMEWORK SHOULD DEFER TO PROVINCIAL ACCOUNTABILITY ARRANGEMENTS AND NOT INCLUDE ONEROUS REPORTING REQUIREMENTS BETWEEN GOVERNMENTS.

Principle 5 Autonomy & Governance

According to the World Bank study on intergovernmental transfers, “subnational governments should have complete independence and flexibility in setting priorities. They should not be constrained by the categorical structure of programs and uncertainty associated with decision-making at the centre” (Boadway and Shah 2007, 15).

Federal interference in local decisions is problematic for two reasons. The first is the decision trap, whereby decision-making is slow and unable to keep up with societal and/or economic transformation because each level government has a veto on planning and programs. Decision traps are common in Canada because there are multiple sectors where multiple levels of government are active.

It has taken years (and sometime decades) for governments in Canada to harmonize and make seemingly easy fixes, such as a single standard for advertising the cost of consumer loans, the size of truck tires, and even the color of margarine. In these instances, accountability also suffers because it is not clear which government is responsible for delays.

In the Greater Toronto Area, for example, there are eleven separately governed local authorities and one regional body (appointed by the province). In addition, recent federal engagement in transit has complicated matters. Local and provincial agencies wanting to leverage federal investment must tailor capital plans to match federal priorities and timelines.

Given the sheer number of actors involved in transit governance and the need to broker solutions across many layers, the current transit governance model is a joint-decision trap on steroids. The results are predictable. The transit sector is rife with blame-avoidance, credit-taking and intergovernmental tension. It takes too long to get transit infrastructure approved and built.

Furthermore, at various times, governments have vetoed plans after the fact, resulting in wasted money and a lack of progress (for instance, approximately \$90 million was spent on the Eglinton subway that was started but never built). It was more of the same with Transit City—one of the world's largest transit expansion projects—with the mayor's administration deciding to scrap large portions in favor of an alternative plan.

The ability to sustain agreement over three levels of government, on both the political and bureaucratic side, over an extended period of time and over several election cycles is extremely challenging. In many cases, the result is stagnation.

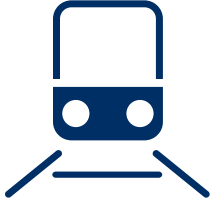
Overcoming the trap requires properly designed intergovernmental transfers and tightly coordinated decision-making concentrated at the right level of government. In public transit, this implies decision-making at the regional level.

The second reason why federal interference is problematic draws from the notion of subsidiarity. The principle of subsidiarity suggests that decisions ought to be made and matters handled by the least centralized competent authority. In practical terms, this means that federal involvement is only necessary where provinces and local government do not have sufficient competence to make decisions or where federal action brings added value over and above what could be achieved by provinces.

Another corollary of the subsidiarity principle is that decisions should be taken as close as possible to the citizen. However, since transit is increasingly regional in nature (i.e. subway, LRT and bus lines increasingly transcend municipal boundaries), it is appropriate that decisions about what gets built, where and when reside with regional agencies. All of this suggests a targeted federal transfer for public transit that enables regional decision makers to fund regional priorities.

Importantly, a transfer could be designed to enable federal input and ensure that the federal government receives proper acknowledgement for its investment. The recommendation of a dedicated and federal transfer for transit should also be accompanied by a guarantee of some federal participation in the decision-making process (including a representative on the board of the regional transport authority) and public acknowledgement of federal investment (including strict protocols around assuring a federal presence as part of all communications).

From a provincial perspective, what this implies is that provincial governments must vest authority for public transit decision-making within regional agencies, like Metrolinx in Toronto, *Agence métropolitaine de transport* in Montreal, and TransLink in Vancouver. It will also mean uploading to these agencies residual municipal public transit organizations, such as the Toronto Transit Commission and the *Société de transport de Montréal*.



Recommended Federal Action

A NATIONAL TRANSIT FRAMEWORK SHOULD GIVE DECISION MAKERS AT THE REGIONAL LEVEL FULL AUTHORITY TO ALLOCATE FUNDS TO REGIONAL TRANSPORT PRIORITIES.

CONCLUSION

THIS PAPER JOINS THE CHORUS of calls for a national transit framework. It adds to this discussion with a series of recommendations on the design of this framework. First and foremost, we recommended that federal investment be targeted where it would do the most good. It would be a shame if the federal government adopts a framework designed to equalize its investment, spreading it thinly across the country in order to avoid offending anyone.

An “equalizing” strategy would diminish the impact of this investment and its strategic application. So much of our national GDP is vested in our global city regions. Canada’s economy has a stake in the ability to move people and goods through these places as efficiently and effectively as possible. Targeting federal investment in these areas would also be an effective way to help reduce Canada’s contribution to GHG reduction.

We also make the case for a framework that includes adequate, predictable, and transparent funding mechanisms. The framework must also enable Canadians to hold their governments to account. The federal government is currently involved in funding public transit in myriad ways, through a patchwork of different funds. Our proposal outlines how the federal investment in public transit could be more strategic and make a greater contribution to the prosperity in and quality of life of Canada’s major cities.

To cite two old clichés, a National Transit Framework is really only half the battle. The devil is also in the details. Put simply, a well-designed framework and transfer consistent with accepted international practice will generate more value and go further. Canadians should accept no less. [MC](#)

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ENDNOTES

1. All other G7 economies provide either predictable operating or capital funding. The US, Germany and the United Kingdom provide both (Santec 2011, 5).
2. And, according to the American Public Transit Association, “a single person, commuting alone by car, who switches a 20-mile [32.19km] round trip commute to existing public transportation, can reduce his or her annual CO2 emissions by 4,800 pounds [2,177.24 kg] per year, equal to a 10 per cent reduction in all greenhouse gases produced by a typical two-adult, two-car household. By eliminating one car and taking public transportation instead of driving, a savings of up to 30 per cent of carbon dioxide emissions can be realized” (2008, 2).
3. Ridership figures are taken from American Public Transportation Association, “2010 Canadian Systems Ridership.xls,” Thanks to Matthew Dickens of the APTA who provided this file. Vancouver’s ridership figures are lower than the actual numbers as Coast Mountain Bus stopped reporting its figures after March 2010.
4. See for example, Standing Committee on Government Operations and Estimates, 40th Parliament, Second Session. Thursday, May 14, 2009 (Parliament of Canada 2009).
5. A Harris/Decima poll in 2011 showed that a significant majority of respondents had serious concerns about the lack of funding toward public transit (“Canadians Say Transit Missing As a Priority From Governments” 2011).

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