BACKGROUNDER #10: Transportation Funding

Purpose: Why is this topic important to the Regional Transportation Strategy?

The Metro Vancouver region spends about $13 billion annually on transportation,[1] an investment that delivers significant economic and quality-of-life dividends. This includes spending by individuals and businesses, and by the Province, TransLink, and each of the region's municipalities. Recent public-sector investments have included the Canada and Millennium Lines, the Golden Ears and Port Mann bridges, and the Central Valley Greenway, which together have reduced regional commute times and improved the movement of people and goods.

Now, we need to decide if and how to continue this legacy. At what level should we invest in the transport network over the next 30 years? How should we raise funds to support new investments and to maintain the transport system that we already have?

The *Managing and Investing in the System* background paper discussed the level of funding required to maintain our current system, and provides high-level cost estimates of some potential major investments. This *Transportation Funding* backgrounder provides information on TransLink's current funding sources, trends and challenges confronting TransLink today and in the future, and the key questions we must answer in deciding how to fund our transportation system going forward.

TRENDS & CHALLENGES

The region will continue to grow

Demand for regional transportation investment is growing faster than the rate of population growth. Over the past decade, Metro Vancouver has grown by an average of 1.6% per year (approximately 32,000 new residents annually). Over the coming decade, that rate will increase population by approximately 500,000 people to about 3 million residents. We will need to invest in and expand the transportation system just to maintain existing levels of service. The character and timing of expansion needs will depend on how successfully the region manages transportation demand and land use.

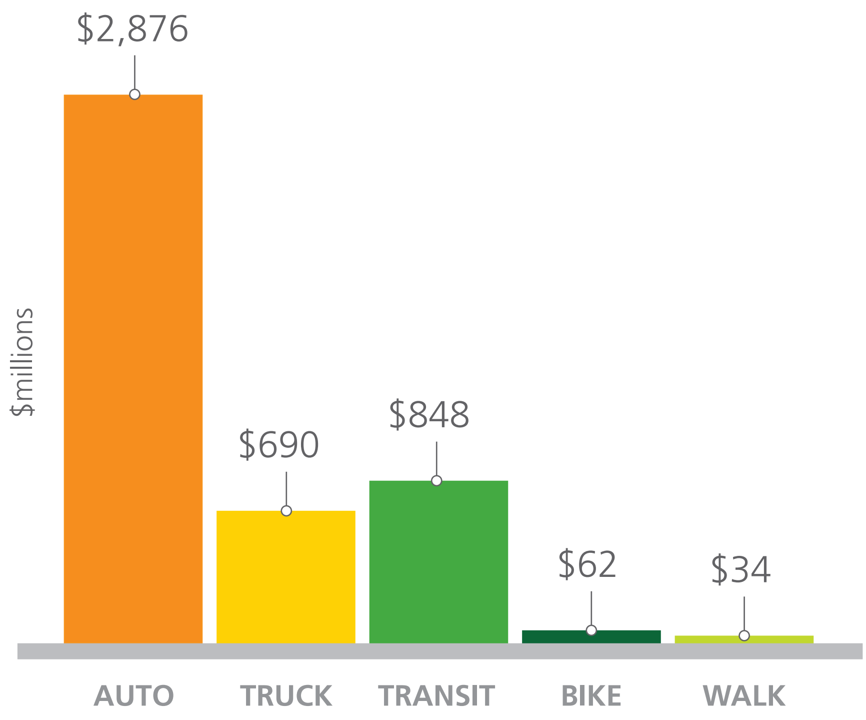
[1] This figure excludes non-monetary expenses such as travel time.

User fees don't pay the full cost of transportation

Travelers pay a portion of their transportation costs: from an individual's purchase of a bike, to a bridge toll paid by a trucking company, to a fare for a bus ride. Still, **user payments do not cover the costs of any mode or of the transportation system as a whole**.

Societies have long recognized the broad benefits provided by transportation, particularly in providing access to land and enabling economic activity. These benefits are the basis for societal contributions—also referred to as subsidies—to the transportation system. Societal contributions to the transportation system in Metro Vancouver amount to $4.5 billion per year.[2] Of this, $3.6 billion defrays the costs of trucking and driving in the region.

Figure 1: Total Annual Societal Contribution



[2] Societal contributions are provided by taxpayer revenue and by the public's burden for external costs such as pollution.

Existing revenues are declining or not keeping pace with inflation and demand

Transit users in Metro Vancouver pay for 52% of transit operating costs (not including capital costs), which is high cost-recovery ratio by industry standards. Fare increases are limited by legislation to 2% per year.[3] TransLink continually seeks to improve service efficiency and to reduce operating costs, but as ridership grows, there will be a need for additional funding to increase service and expand the transit network.

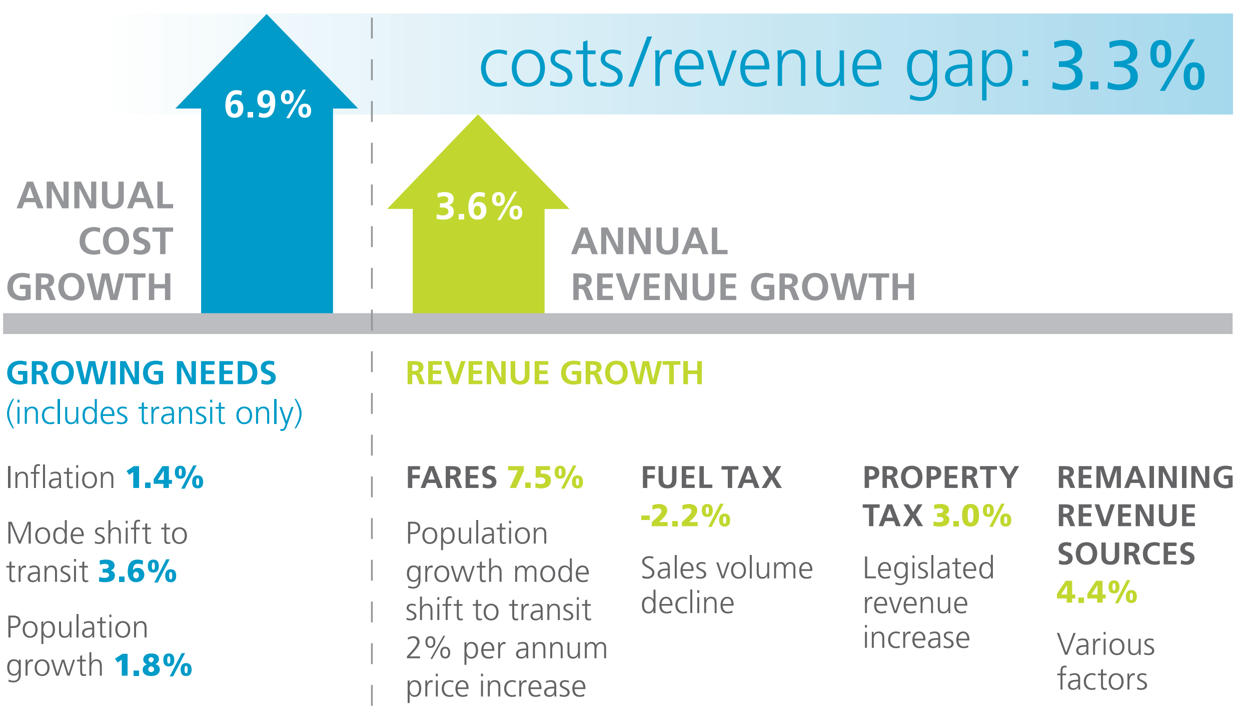
Fuel taxes provide TransLink's second largest revenue source after fares. But as fuel prices have gone up, people have driven less, bought more fuel-efficient vehicles, and/or taken advantage of improved transit service. As a result, fuel tax revenues are declining, a trend that is forecast to continue.

Property taxes are TransLink's third largest revenue source. By legislation, the TransLink property tax regional total can automatically increase by 3% per year.[4] This does not mean that property taxes increase by 3% in every household. With the growth in dwellings over the past decade averaging more than 2% per year, the effective property tax rate increase has been less than 1%, about half the inflation rate. Thus, property tax revenue is increasing, but not keeping pace with population growth.

TransLink's revenues are not matching increases in demand and costs

TransLink's existing revenues are growing at half the trends for service needs and costs. The figure below demonstrates the current relationships between revenues, costs and demand.

Figure 2: Comparison of Recent Annual Cost and Revenue Trends



[3] Any increase to transit fares above 2% requires approval of the Regional Transportation Commissioner.

[4] Any increase to property tax revenue above 3% requires approval of the Mayors' Council.

OPPORTUNITIES: What we learned from reviewing the local context (and global best practices)

A Call to Go Further

Current funding sources are not keeping pace, and there is a reason to believe that simply keeping pace is not good enough. A diverse range of stakeholders—including elected officials, members of the public, advocacy organizations, and others—are calling for continued investment in the transportation system, and for the development of a funding strategy to make sure that this happens.

Advancing Other Goals

Existing revenue sources have reached legal limits. The Mayors' Council has stated its support for advancing new funding strategies, including measures that might also help reduce greenhouse gas emissions, manage travel demand, and support transit-oriented communities. Research conducted by IBI Consulting Group on behalf of TransLink found that emerging best practices for transportation funding emphasize a resilient portfolio of multiple revenue sources, with an increasing role for user-pay funding mechanisms.

A Long-Term Funding Framework

In 2012, the Ministry of Transportation and TransLink jointly evaluated a broad range of potential funding sources, as shown in Figure 3.[5]

Figure 3: Potential Funding Sources Subject to Technical Evaluation

FUNDING SOURCE	DESCRIPTION
User Fees and Charges	
Container Fee	A charge on containers moving by truck within or through Metro Vancouver.
Carbon Tax – Reallocation of Future Provincial Revenues	A tax levied on the per tonne emission of CO2. This option contemplates a share of new provincial carbon tax revenues generated in Metro Vancouver.
Carbon Tax – New Regional Carbon Tax	A new additional charge on carbon emissions levied only within Metro Vancouver.
Fuel Tax Increase	Increase fuel tax above 17 cents per litre.
Parking Tax Increase	Increase ad valorem tax above 21% on off-street parking in Metro Vancouver.
Rental Car Tax	A tax on rental cars dedicated to transportation, with the rate potentially variable based on fuel efficiency.

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[5] See report, "Evalution of Revenue Sources to Support Transportation Improvements in Metro Vancouver" for more information

Road Pricing – Full Network Pricing	A variable charge for use of the regional road network based on distance travelled, collected monthly or per trip. Can include variations in charge by time of day, vehicle type, and/or location of road.
Road Pricing – Major Water Crossings	Toll major water crossings (bridges, tunnels), possibly varying price by time of day, vehicle type, and/or location of road.
Road Pricing – Area Cordons	Toll entry and/or exit points around a defined "cordon," possibly varying by time of day, vehicle type, and/or location of road.
Transit Fare Increase Greater than Inflation	Increase fares more than 2% per year.
Vehicle Levy – Flat Fee	An annual charge per vehicle paid at the time of registration in Metro Vancouver.
Vehicle Levy – Variable by Vehicle Emissions	An annual charge per vehicle paid at the time of registration in Metro Vancouver, varying according to engine type, fuel use, or emissions.
Vehicle Levy – Variable by Proximity to Transit	An annual charge per vehicle paid at the time of registration, variable according to the availability of transit service nearby.
Vehicle Sales Tax	A regional sales tax on motor vehicles dedicated to fund transportation.
Broader Beneficiaries	
Employer Payroll Tax	Local income or payroll taxes earmarked to fund transportation.
Flat Levy per Property (Hydro Levy)	A regional levy administered at the same rate to all households and businesses to be used to fund transportation.
Hotel Tax	A tax on hotel nights dedicated to transportation.
Land Value Capture – Development Cost Charges	A charge levied at the time of subdivision or building permit to fund (primarily) transportation infrastructure that are required in response to growth in demand.
Land Value Capture – Benefiting Area Tax	An incremental property tax or special tax assessment that captures a portion of the value uplift associated with proximity to new transportation infrastructure.
Parking Levy	A charge (property tax) on off-street parking spaces in Metro Vancouver by number of stalls or land area (includes "free" as well as paid parking). Similar to the parking site tax repealed in 2008.
Property Tax – Additional	An additional property tax over and above 3% increase per year.
Regional Sales Tax	A regional sales tax dedicated to transportation.
Project- Specific	
Project Tolls for Newly Constructed Facilities	Charges for use of a new facility that would otherwise have been free to use, set at an amount to cover the cost of construction and operation.
Land Value Capture – Tax Increment Financing	Financing based on the reallocation of incremental increases in property tax revenues that result from and would not occur without major new transportation facilities – above a baseline and within a defined area around those facilities.

The evaluation process took into consideration principles provided by the Mayors' Council[6]; considerations put forward by other stakeholders; and global best practices.

The evaluation criteria were grouped into four "accounts":

1 **Transportation system** – supporting strategic transportation and regional growth objectives

2 **Economic** – the impacts on families and businesses in the region, and the broader impacts on the provincial economy

3 **Fairness and transparency** – the degree to which those who pay for services are able to benefit from those services, and the ability of the beneficiaries to see this linkage

4 **Financial** – the ability to generate substantial and reliable funding.

In January 2013, the Mayors' Council convened a workshop regarding funding sources and endorsed a prioritized list of potential funding sources for consideration by the Province and the public. (Figure 4)

Figure 4: Potential Funding Sources for Transportation (as prioritized by the Mayors' Council, January 2013)

Funding Source Description	Rate to Generate $50 Million Annually
Near-term funding options	
Vehicle Registration Fee An annual fee applied to all motor vehicles, with rates varying based on vehicle emissions or engine size to encourage the purchase of low-polluting, efficient vehicles. Already authorized under TransLink's legislation, but implementation would require an agreement for collection and enforcement with the Province and ICBC.	$18 to $53 per vehicle, depending on vehicle emissions or engine size
Regional Sales Tax A regional tax on retail sales allows for revenue to be collected from a broad base of the population, including non-residents.	0.1%
Regional Carbon Tax Either the reallocation of new incremental carbon tax revenue generated within Metro Vancouver based on an extension of the existing Provincial Carbon Tax, or the implementation of a new regional carbon tax with the revenue allocated to TransLink.	$2.80 per tonne

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[6] See report, "Evalution of Revenue Source to Support Transportation Improvements in Metro Vancouver" for more information

Long-term funding options

Land Value Capture Investments in transportation infrastructure result in improved access and land value for properties served by such infrastructure. There are several different mechanisms that could be employed to allow TransLink to capture some of the value, including: development cost charges, benefiting are tax, and tax increment financing. Further development of alternatives and public consultation is required to determine the level of support for any of these land value capture options.	Varies based on land value capture mechanism
Road Pricing There are several different approaches to road pricing for consideration, including: tolls on major water crossings, area cordons around regional centres, and full network pricing. Further policy development is required to inform discussion about these road pricing options.	Varies based on road pricing alternative

Challenges and Implications: What Are the Areas We Need to Address?

1 What is affordable?

We need to decide what level of investment to pursue for our transportation system over a 30-year timeframe. If we depend only on current funding sources, we will be constrained in our ability to deliver services to a growing region, and will have nothing to invest in major new infrastructure.

2 Who pays?

Transportation funding is provided by those who use the transportation system and from those who benefit. The region must decide how much users should pay directly, as opposed to the amount paid through indirect tax or societal subsidy.

3 Which funding sources should be pursued?

There are many potential funding sources, including user fees and broader-based sources. Some measures help to further other transportation or societal goals: for example, carbon taxes reduce pollution and greenhouse gas emissions. In deciding which funding sources to pursue, consideration should be given to how any new mechanisms relate to TransLink's current funding mix.

4 When and how should new funding sources be implemented?

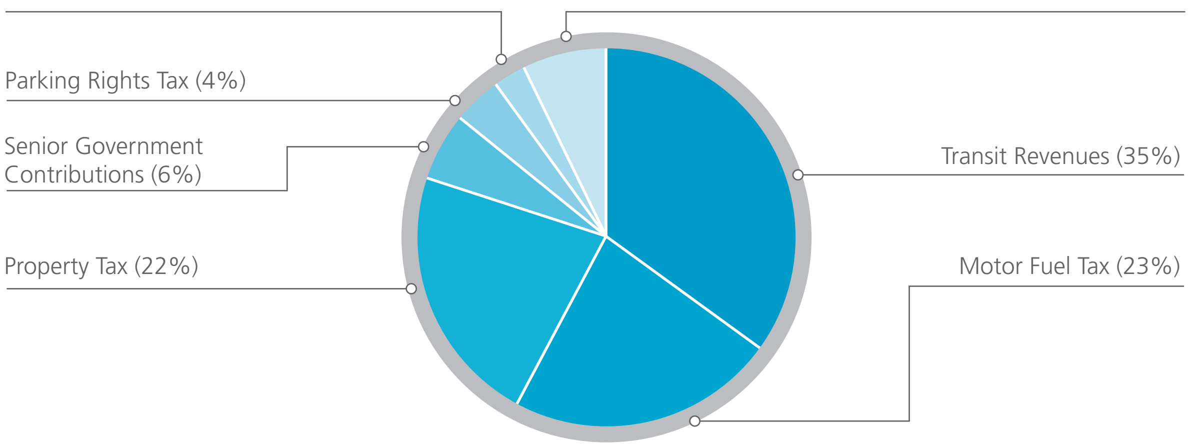
The region needs to decide how quickly to implement new sources and how to adjust the existing funding mix. New sources may raise funds or merely offset declining revenues from current sources (e.g., gradually introducing a new funding source as fuel tax revenues decline). The implementation of some potential funding sources, such as road pricing, will require significant planning and design.

Current Revenue Sources

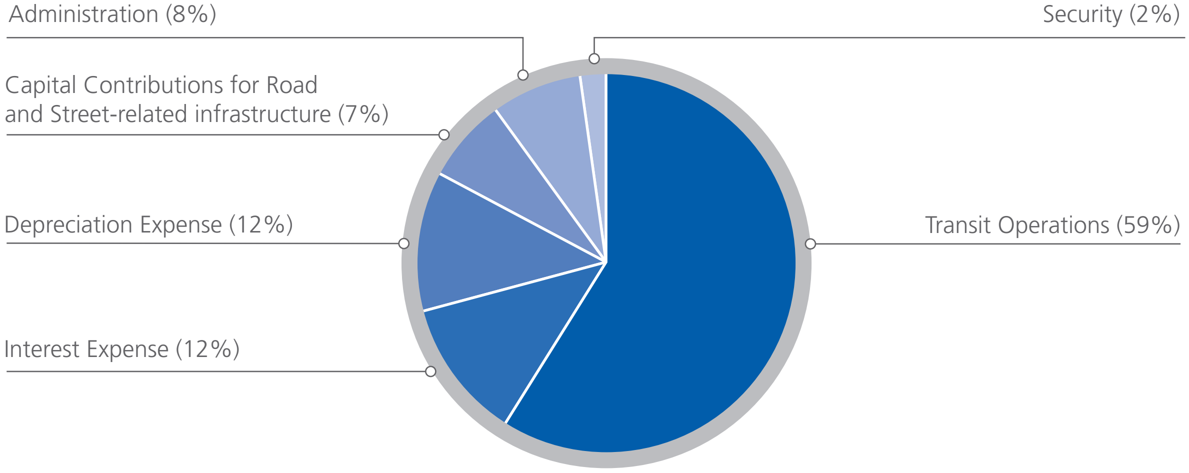
In 2012, TransLink's revenues totaled $1.4 billion. TransLink's three largest revenue sources – transit fares, fuel tax, and property tax – provided approximately 80% of the agency's revenue.

2013 Revenues & Expenditures

Revenues, $1.44 Billion



Expenditures, $1.50 Billion



Federal Gas Tax Funds

The Strategic Priorities Fund, established in 2005, allows for the transfer of federal gas tax funds for infrastructure improvements that deliver environmental benefits such as reduced GHG emissions and improved water quality. In Metro Vancouver, the revenue has been dedicated to transit initiatives. It is governed by an agreement between Metro Vancouver, the Union of British Columbia Municipalities (UBCM), and TransLink, and is administered through the UBCM's Gas Tax Fund Management Committee. To access gas tax funding, TransLink makes an application for projects that meet the fund objectives. Upon approval of these projects, funds are transferred to TransLink and released as project milestones are reached or the project is completed.

To date, gas tax funds have allowed TransLink to improve the accessibility of the fleet, replace older buses with new fuel-efficient vehicles, and expand the transit fleet, including a new SeaBus passenger ferry and 14 new SkyTrain vehicles in addition to bus fleet expansion. As a result of federal gas tax funding, TransLink was able to expand service 22.6% between 2006 and 2011.

TransLink's 2013 Base Plan has identified three fleet projects for federal gas tax funding support over the next 10 years:

- replacement of 282 conventional buses
- investment in 226 Community Shuttles
- replacement of 350 HandyDART vehicles

The total cost of the gas tax projects included in TransLink's Strategic Plan is $377 million, $334 million of which is funded by federal gas tax.