# Position on a Permanent Federal Transit Fund

*Written request and recommendations for the implementation of a permanent federal transit fund*

**Canadian Urban Transit Association**

**October 14, 2022**

# Position on a Permanent Federal Transit Fund

## Recommendations:

1. We recommend the Government of Canada accelerate funding to begin in April 2024 to better align with the sunsetting of ICIP and to make faster progress on housing supply and emissions reduction.

2. Mindful of inevitable cost pressures in a capital fund, we recommend the value of the fund be protected over time. For its first five years, we recommend the fund be set at $3 billion, increasing by an additional $150 million a year.

3. We recommend that funds can be used in a flexible manner, as set out by transit system partners, to ensure investments addressing state of good repair for existing infrastructure and capital expansion projects are sufficiently financed.

4. We recommend the majority of the funds be allocated to a core fund, distributed to transit systems based on ridership.

5. We recommend a set-aside for small and medium-sized transit systems, aimed at boosting ridership.

6. We recommend the Government of Canada allow funding recipients to access and stack other governmental funding and financing sources.

7. Finally, we recommend the Government of Canada engage with the issue that systems must be operated once they are built. To that end, we recommend:

    a. That the "housing action/transit operating support" arrangement set out in the winter 2022 federal budget be renewed for one year in the next budget; and

    b. That a working group is struck to recommend long-term measures addressing how transit operating costs will be financed, while the permanent federal transit fund is in place.

## Background:

The Canadian Urban Transit Association (CUTA) welcomes a permanent federal transit fund to enable longer-term transit planning across Canada, bringing with it an array of associated environmental, social, and economic benefits. These include decarbonizing the transport sector, fostering more inclusive economic growth, advancing affordable housing, and promoting social equity.

The fund is an opportunity to bridge a significant infrastructure gap seen across Canada, particularly in major urban centres, where transit systems have struggled to keep pace with population and economic growth. The fund is a critical step toward integrated city building, where affordable urban mobility makes all aspects of life more accessible, affordable, and environmentally sustainable.

A summer of extreme weather events around the globe reminds us that the issue of climate change has not gone away, despite the emergence and continuous presence of other challenges such as COVID-19. Like all countries, Canada needs to decarbonize its economy – specifically its transport sector – as rapidly as possible. Nearly a quarter of Canada's carbon emissions are generated in the transport sector.

To help address this in part, governments in Canada are investing heavily to transition Canada's auto and truck manufacturing towards electric vehicles. But are EVs really our principal solution to transport decarbonization? The Government of Canada plans to welcome over a million new Canadians within the next five years. Most of Canada's road networks, especially those in major population centres, cannot be further expanded and are already some of the most congested in North America.

> ***By the mid-2040s, Canada will have a population of 45 to 50 million people with transit systems built for 25 million people.***

Investing in public transit is a better solution and should be at the centre of the Government of Canada's climate action plan. In committing to a permanent transit fund, the Prime Minister is implicitly acknowledging this reality, and is bringing a most welcome element of stability and predictability to this funding. We applaud this initiative.

The Government of Canada is exploring tying transit investments to housing, land-use, and urban mobility outcomes. This can impact the evolution and growth of the sustainable urban mobility landscape in Canada. We welcome this effort, understanding that it can lead to a more plentiful and affordable housing supply, and improve access to nearby transit infrastructure for residents.

Public transit has the power to drive social equity, only when it is sufficiently resourced, to enable the full inclusion of all Canadians within the labour force, education, and society. CUTA welcomes predictable federal investments in public transit to ensure transit systems are robust enough to serve all Canadians and continue to grow to address their growing transportation needs.

## *The core fund:*

We recommend the core fund be distributed based on ridership – a straightforward method that establishes a virtuous incentive. Our national goal should be to get people out of their automobiles and onto efficient, convenient, affordable, and electrified public transit – reducing congestion, and the manifold environmental and economic costs of individual vehicles of all types in cities. Funding can and should reward and reinforce success in this. We recommend that Initially during the launch of the fund, ridership data should be based on an amalgamation of ridership levels from the pre-pandemic and pandemic periods. Moving forward, we will use rolling ridership data to determine future funding allocations after the initial disbursement period.

## *Flexibility in using funds:*

Many systems face the challenge of maintaining state of good repair for fleets, rail, and other supporting infrastructure. Funds should be allocated in a manner to ensure flexibility of use, as set out by transit systems, to ensure state of good repair for existing infrastructure or for capital expansion.

## *A set-aside for small and medium-sized systems:*

Transit systems in medium-sized and smaller communities face unique challenges. Suburban systems need to develop point-to-point routes that link where people live to growing suburban employment and retail centres. Small community and rural systems need to operate efficiently in low-density markets. Success on priorities like this may not be fully and fairly captured by a purely ridership-based distribution formula. A set-aside for small and medium-sized transit systems can support infrastructure aimed at boosting ridership outside of Canada’s largest urban centres.

## *Timing to ensure a smooth transition of funding programs:*

We recommend accelerating permanent transit funding to begin in April 2024 to make faster progress on housing supply and emissions reductions. Additionally, we advise that program intake begins in 2023 and project cost incurred in 2023 be eligible. With the acceleration of the ICIP deadline for project submission from 2025 to 2023, as outlined in the 2022 federal budget, this creates the potential for a two-year gap where rolling intake for transit projects will cease before permanent transit funding begins in 2026. By accelerating permanent transit funding by two fiscal years, the federal government can eliminate this gap in the availability of core transit funding.

## *Addressing inflationary pressures:*

Even before the pandemic, municipalities had to increase contributions to capital projects to address inflation. Construction costs increase year-over-year, and the fund should address this at its inception. We recommend protecting the value of the fund over time with annual increases of $150 million a year for the first five years and evaluating leading up to the five-year mark.

## *Stacking other federal funding and financing:*

Transit systems continue to face pandemic-related revenue shortfalls, with some projecting revenue shortfalls upwards of half a billion dollars in 2023. Expanding networks and ridership will require a significant amount of support. We recommend the Government of Canada allow funding recipients to access and stack other governmental funding and financing sources, including loans from the Canada Infrastructure Bank.

## *Renewing the housing/transit operating arrangement:*

Canada needs more affordable housing – and more public transit to serve it. We welcomed the "housing/transit" policy pair set out in the 2022 budget. Transit operating budgets remain under considerable pressure as system ridership continues to recover from pandemic-related disruptions. It is critical that we avoid a downward spiral of reduced operations leading to reduced ridership, which can have lasting effects on ridership patterns, emissions reduction, affordability, and social equity for many years. We recommend this measure be renewed for one year in the next federal budget.

## *A study group on operations:*

Apart from immediate pandemic-related operating shortfalls, transit systems must contend with how to cover the cost of operating higher-order infrastructure into the future. Many municipalities are not able to increase operating budgets to expand transit service to bridge this gap. The government of Canada is planning to double the number of new homes built annually, from 200,000 to 400,000 and public transit service will need to be expanded to service new residents. Reliable and frequent service is a major driver of ridership, which is why operations need to be considered as complimentary to capital expansion. Therefore, we recommend a joint study group made up of senior officials from the Government of Canada as well as CUTA and its transit system members to examine options for how transit systems operations can be funded after they have been capitalized through this new fund.

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