

FUNDING TRANSIT INFRASTRUCTURE



Rob Jowett

New revenue-generating tools are likely to be needed to make up for a shortfall in fuel tax funding due to a decreasing use of gas-powered cars.

A new report from the **Residential and Civil Construction Alliance of Ontario** (RCCAO) says uptake of more fuel-efficient and fully electric cars is leading to a faster-than-anticipated decrease in fuel tax revenue than had been projected in 2013. The province charges a 14.7-cent tax per litre of motor fuel (gasoline) and a 14.3-cent tax per litre of diesel fuel. This revenue is conveyed back to municipalities for road-related infrastructure funding. The RCCAO report specifically assesses the provincial fuel tax and does not consider the federal tax, sales tax, or carbon tax.

“What that means is that the

government’s just not going to get the revenue in the future,” report author and **Trent University** economics department professor emeritus **Harry Kitchen** told *NRU*. “As more and more people start to use more fuel-efficient cars or electric vehicles, and if there’s no [tax] charge on those, they get to use the road basically free of charge. So... [the government] should start to look at other ways of... charging for using roads, and that’s where you get into... putting road tolls on, putting [on] congestion charges and things like that.”

The report compares the **National Energy Board** (NEB’s) predicted Ontario fuel tax revenues for 2000-2035, from a report prepared in 2013, with the NEB’s Ontario 2018 fuel tax revenue projections for 2005-2040. The revenues projected in

the 2018 report are significantly lower than those that had been projected in 2013. According to the NEB’s updated projections, revenue generated by the gasoline tax in 2035 has fallen from a projected \$119 per capita to \$99, and projected revenue generated by the diesel tax has fallen from a projected \$61 per capita in revenue to \$37 in 2035.

Kitchen says he did not calculate the exact amount of revenue the provincial government will lose based on this change, but adds that it would amount to billions of dollars. He notes that although the report focusses on Ontario, the issue will likely be seen in all the provinces, and in other countries that use fuel tax to fund transportation infrastructure.

When reached for comment, **Ministry of Finance** senior

media relations advisor **Scott Blodgett** told *NRU* that while the ministry cannot comment on the RCCAO report’s findings, it has seen an increase in fuel tax revenue over the past few years and projects that it will continue to increase this year. According to Ontario’s fall economic update, the fuel tax is projected to bring in \$2.741-billion this

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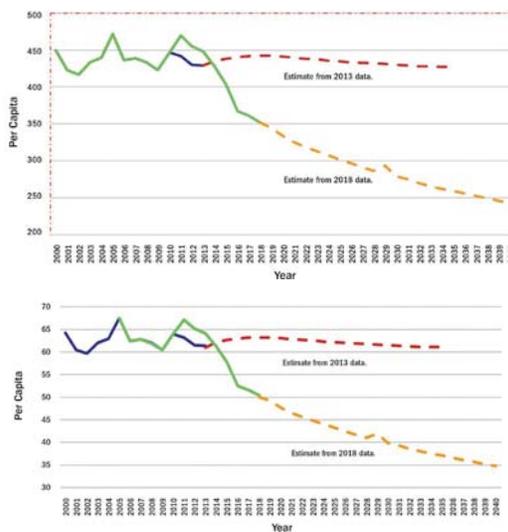
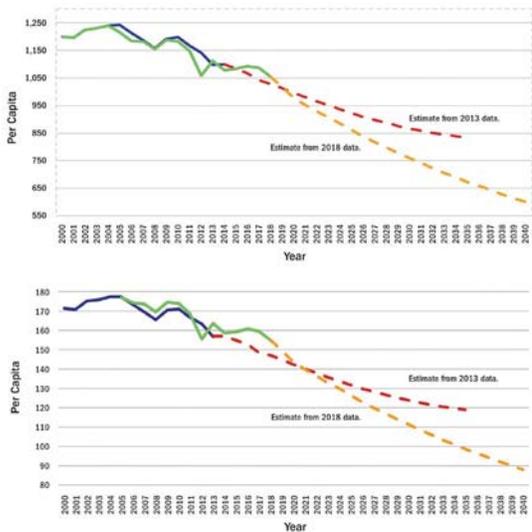
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Graph showing estimated per capita demand for motor fuel (gasoline) in litres in Ontario from 2000 to 2040. According to 2018 data collected by the National Energy Board, demand for motor fuel is falling faster than was anticipated in 2013 and will continue to decline significantly over the next 20 years. SOURCE: RCCAO

Graph showing estimated per capita demand for diesel fuel in litres in Ontario. According to 2018 data collected by the National Energy Board, demand for diesel fuel is falling faster than was anticipated in 2013 and will continue to decline significantly over the next 20 years. SOURCE: RCCAO

Graph showing estimated per capita revenue in dollars generated by diesel fuel taxes in litres in Ontario. Data collected by the National Energy Board in 2018 suggests that revenue generated by diesel fuel taxes is falling faster than was anticipated in 2013, and will continue to decline significantly over the next 20 years. SOURCE: RCCAO

Graph showing estimated per capita revenue in dollars generated by motor fuel taxes in Ontario. Data collected by the National Energy Board in 2018 suggests that tax revenue generated by motor fuel taxes is falling faster than was anticipated in 2013 and will continue to decline significantly over the next 20 years. SOURCE: RCCAO



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fiscal year, an increase from the \$2.709-billion generated last fiscal year. However, the ministry's numbers consider the real dollar amount generated, while the RCCAO report is considering the amount on a per capita basis, where revenue would be declining on a per capita basis year-over-year. The ministry did not provide any per capita revenue forecasts.

The RCCAO report recommends new policies such as road pricing and parking levies as ways to replace the revenue lost from declining fuel tax revenues while ensuring that all drivers continue to pay the costs for building and maintaining roadways. Road pricing, or tolls, and efficient municipal parking charges could allow municipalities both to raise money for transit and transportation infrastructure, and to control congestion.

Additionally, these measures would put a higher cost burden on the people using those roads.

"The right way to be funding the infrastructure for municipalities that... [the fuel tax] previously funded is to move towards those things like tolls and dynamic parking charges and zone fees that... more closely align with the user benefit," C.D. Howe Institute research associate director **Grant Bishop** told *NRU*. "Putting these

in place would be better aligned with the way that different citizens use this infrastructure and [would] compel choice around transportation methods over the long term that is more efficient [and] lively."

If implemented correctly, these new policies have the potential to reduce congestion as well, **Harmonize Mobility** co-founder and chief innovation officer **Bern Grush** told *NRU*. He says controlling congestion should be the primary goal of road tolling and parking levies, which could be achieved by raising prices during peak traffic hours in order to incentivize people to adjust travel times whenever possible. Grush also reviewed the RCCAO report prior to its release.

New York City recently adopted a congestion management plan, which is scheduled to take effect in 2021. It would be the first such plan in the United States or Canada. The city will charge drivers between US\$9.50 and US\$15 to drive into Manhattan south of Central Park in order to reduce traffic and to raise up to US\$15-billion for transit improvements. While a price range for the fee has been determined, the exact price has not yet been set. London, Stockholm, and Singapore have also adopted congestion pricing methods in their busiest

areas and have reported seeing reduced traffic as a result.

The RCCAO report says congestion pricing on highways would be an option for Ontario, as well as in any defined area like in New York's plan. In 2012, a **City of Toronto** staff report found that a 10-cent charge per kilometre on its highways would raise \$1.5-billion in annual revenue for the city. The RCCAO report recommends supplementary policies, such as allowing single-occupancy vehicles to drive in high-occupancy lanes for a fee, to raise even more money for road maintenance and repairs.

"The tolls mean people who use a service pay a commensurately higher amount for the service in accordance with what they use of it," says Bishop. "As much as folks may bristle at paying a toll instead of what used to appear as free, folks are recognizing more and more that they are paying for it either way, and that we should be using the most efficient tools to fund... our public expenditures. And in the case of transportation infrastructure, that is clearly tolls."

While they would not raise as much revenue, the report suggests that dynamically-priced parking levies are a way that municipalities could raise money without the need for provincial intervention, which would likely be needed to administer road tolls, especially on provincial highways. In a dynamically-priced parking levy scenario, municipalities would adjust parking prices to the maximum market potential during peak

parking periods during the day, which would compel some drivers to choose different, cheaper parking lots at those times rather than wait for a spot to open up in the most desirable location. According to the report, as much as 30 per cent of traffic in US cities can come from people searching for or waiting for desirable parking spots.

Grush says that there is no single solution to replacing the revenue lost from the fuel tax, and that the province and its municipalities will likely need to consider and coordinate several policies in conjunction to find a solution. However, he adds that the main task is not merely identifying the best policies for generating lost fuel tax revenue, but also in gathering enough political will to implement these policies.

For example, the City of Toronto attempted to introduce a \$2 per trip toll on the Don Valley Parkway in 2016. However, the provincial Liberal government at the time overruled the city, saying the cost was too much for families to bear.

"The bottom line is government can't set prices because it's not politically appropriate to set prices," says Grush. "Airlines can set prices, toll road owners can set prices, banks that own parking systems can set prices, but we can't do that, and it's a critical problem with democracy. All of a sudden, it's a democratic problem, it's not even an economic problem because we don't have the political will to do so." 🌍