6
TRANSFER OF PROVINCIAL GAS TAX TO MUNICIPALITIES FOR PUBLIC TRANSPORTATION

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, October 28, 2004, from the Commissioner of Finance and the Commissioner of Transportation and Works:

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council authorize execution of a letter of agreement with the Ministry of Transportation to enable the Region of York's participation in the Dedicated Gas Tax Funds for Public Transportation Program.

2. Regional staff be authorized to establish a Provincial Gas Tax Reserve for receipt and disbursement of gas tax revenues in accordance with the letter of agreement.

2. PURPOSE

The purpose of this report is to advise Finance and Administration Committee and Regional Council of the provincial government's recent announcement concerning the transfer of gas tax revenues to municipalities, and more specifically, to outline the financial implications of the program for York Region.

3. BACKGROUND

The Liberal Party of Ontario, in its pre-election platform before the 2003 provincial election, made a commitment to allocate two cents of the existing provincial gas tax to municipalities for public transit investment.

After being elected, the new government, through Minister of Public Infrastructure Renewal, the Honourable David Caplan, and Minister of Transportation, the Honourable Harinder Takhar, has confirmed this intent, however, specifics concerning how the revenue would be allocated across the province and the timetable for implementation, have not been forthcoming until the formal announcement on October 22, 2004.

To assist in determining the allocation formula, the government consulted with the Association of Municipalities of Ontario (AMO), who in turn established a task force consisting of representatives from various municipal councils, finance departments, associations such as Ontario Good Roads, Municipal Engineers and Finance Officers, as well as the Canadian Urban Transit Association (CUTA).

CUTA, in turn, convened meetings of Ontario transit managers to develop a position on the allocation methodology that could be recommended to AMO. The General Manager of York Region Transit participated in these meetings

4. ANALYSIS AND OPTIONS

The two options initially presented for the allocation of provincial gas tax revenues were based on population and on transit ridership. From the standpoint of a growth municipality such as York, a population-based allocation is by far the most favourable. If it is assumed that $300 million is generated by a two cent a litre tax, a population-based formula would generate $21.7 million for the Region, while a ridership-based formula generates only $4.0 million. This difference is larger in percentage terms for York than any other municipality in the province. Toronto, on the other hand, would experience a difference of $195 million versus $75 million, based on ridership and population, respectively. (The above figures are based on 2002 ridership and population data.)

The meetings of Ontario transit managers saw a range of positions presented. On the one hand, York supported a population-based formula since it would begin to flow the funding needed to build higher order transit infrastructure in the Region. In this regard, it was argued that York needs access to a similar scale of funding that both Toronto and Ottawa have received to build their rapid transit systems over the past 25 years or more. Toronto, logically, supported a ridership-based formula.

Given the opposite views expressed by Toronto and York, the transit managers tried to find a compromise position that could be put forward to AMO. In the end, a formula that would include a combination of population, current transit ridership and ridership growth was suggested, although the weighting of each factor was not determined.

Since these consultations earlier in the year, the provincial government has held further consultations that both the Regional Chair and General Manager of Transit have participated in. These consultations have resulted in an allocation formula based 70% on ridership and 30% on population. This formula was confirmed in the provincial government announcement made on October 22, 2004.

While, initially, this formula appears to penalize growth municipalities that do not have mature transit systems and therefore lower per capita ridership rates, York Region will qualify for increasing gas tax revenues as ridership grows. York Region has seen double-digit ridership increases in each of its first three years and is projecting a similar increase for 2004. The introduction of rapid transit is expected to produce even larger increases.

4.1 Federal Fuel Tax

Deliberations are also beginning concerning the allocation of federal fuel tax revenues. Although the federal government itself has just now begun a process to define an allocation methodology, the so-called ‘Hub-City Mayors’ have already endorsed a formula for allocation to the provinces that is based 75% on the provincial share of fuel sold in Canada and 25% based on share of national transit ridership. They have not indicated how it would be allocated to municipalities, however, in Ontario it would likely be based on the provincial gas tax allocation formula.

It should be noted that the Hub-City Mayors position relates to taxes on both gas and diesel fuel sales, although the federal government has yet to confirm if they intend to include diesel fuel sales.

At a meeting held on October 1, 2004, the Hub-City Mayors' position was also endorsed by the GTA Mayors and Chairs.

4.2 Eligibility Requirements

In a document released the day of the funding announcement entitled 'Dedicated Gas Tax Funds for Public Transportation Program - 2004 Guidelines and Requirements', the provincial government makes it clear that the purpose for providing gas tax funds to Ontario municipalities "…are to ensure that local public transportation services continue and increase overall ridership through the expansion of public transportation infrastructure and levels of service."

Municipalities receiving dedicated gas tax funds must ensure that all funds received are used exclusively towards the provision of public transportation service. They will be required to provide annual reports detailing their spending on public transportation services.

Beginning in 2005, gas tax revenues are intended to support increased expenditures on municipal public transportation and not to reduce or replace current levels of expenditures. Dedicated gas tax funds, including all interest earned, are to be kept in a reserve account and can be used only for eligible public transportation expenditures.

The eligibility requirements increase in specificity in successive years of the program as follows:

- In 2004, gas tax funds must be used exclusively for public transportation.
- In 2005, increased priority must be given to increased capital spending and then increased operating spending that support increased ridership; Ridership Growth Plans and Asset Management Plans are required to be submitted to the province.
- In 2006, gas tax funds are required to be spent on incremental public transportation expenditures. These are to be calculated on a baseline equal to the municipality's own spending on transit for the years 2001 to 2003.

For GTA municipalities specifically, they must develop Ridership Growth Plans that are aligned with the GTA Transportation Strategy and they must demonstrate participation in the GTA Farecard Project. Finally, they must demonstrate that their payments are current for the one-third share of GO Transit's capital expansion program.

Another key requirement is that municipalities must execute a letter of agreement with the Ministry of Transportation and forward a copy of a municipal by-law authorizing the agreement.

4.3 Relationship to Vision 2026

The provincial gas tax program is supportive of the Vision 2026 goals relating to “quality communities for a diverse population”, “enhanced environment, heritage and culture”, “a vibrant economy”, “managed and balanced growth”, and “infrastructure for a growing Region”.

In particular, the program will assist in the implementation of the “making transit accessible” action area of the “infrastructure for a growing Region” goal.

5. FINANCIAL IMPLICATIONS

The provincial government announcement advises that the gas tax revenues will begin at 1 cent in 2004, go to 1.5 cents in 2005, and then 2 cents in 2006. Based on just released 2003 ridership and population data, York Region will qualify for $5.6 million in year one of the program (October, 2004 to October, 2005). This translates to $1.4 million for the remainder of 2004 and $6.3 million for 2005 budget year. The 2005 figure is an estimate that assumes York Region’s current share of provincial population and ridership which undoubtedly is conservative given the Region’s growth in both areas.

Table 1 estimates provincial gas tax funding by budget year through to year three of the program when a full two cents will be allocated.

Table 1
Provincial Gas Tax Allocation by Budget Year

Budget Year	Gas Tax Allocation To York Region
2004	$1.4 million
2005	$6.3 million
2006	$9.1 million
2007	$11.2 million

As previously noted, these estimates do not attempt to calculate changes in population and ridership in future years. York will capture an increasing share of the total provincial gas tax allocation since both population and ridership growth in York are outpacing all other municipalities in the province. Funds received under this program will be deposited to a dedicated Provincial Gas Tax Reserve and disbursed for public transportation purposes in compliance with the letter of agreement with the Ministry of Transportation.

Gas tax allocations for Greater Toronto Area (GTA) municipalities in year one of the program are outlined in Table 2.

Table 2
Provincial Gas Tax Allocation in Selected GTA Municipalities (Year 1)

Municipality (Transit System)	Gas Tax Allocation (Year 1)
Toronto	$81,250,894
Mississauga	$7,367,243
Hamilton	$5,906,764
York	$5,624,776
Brampton	$3,023,264
Ajax Pickering	$1,176,793
Oshawa	$1,137,179
Oakville	$1,091,889
Burlington	$1,008,495

The total amount allocated in year one of the program will be $312 million.

6. LOCAL MUNICIPAL IMPACT

The provincial gas tax program will assist the Region in expanding public transit services in all of its local municipalities.

7. CONCLUSION

The provincial gas tax program will provide municipalities with a dedicated and growing source of funding to assist in the expansion of their public transit services. While the formula is less supportive of the needs of growth municipalities than those with established transit systems, York Region's share will continue to grow as population and ridership grows.

This funding is most welcomed but it is by no means adequate to meet York Region's capital infrastructure needs for public transit. York's ten year transit capital program includes expenditures of $2.4 billion, which will require far more funding from the province than is available from the gas tax program. In addition, net operating costs for public transit will reach $100 million by 2007. Growth municipalities such as York, that are building or expanding their rapid transit systems, will have to pursue funding through provincial infrastructure and other programs.

It is recommended that authorization be given to execute a letter of agreement with the province to enable York Region's participation in the provincial gas tax program.

The Senior Management Group has reviewed this report.