Permanent Public Transit Funding

Nate Wallace, Clean Transportation Program Manager

MEDIA BACKGROUNDER
July 2024

environmental defence

Quick Summary

It is expected that the federal government will soon unveil the details of the forthcoming *Permanent Public Transit* funding program, which is the next-generation federal-provincial cost sharing program for building public transit infrastructure across the country.

What to Look Out For

- Whether the new program includes funding to directly improve public transit service hours and frequencies or if this continues to be ineligible (also known as **operations funding**).
- Whether the new program aims at achieving real GHG reduction outcomes by including minimum expected targets in city-region agreements for increasing the share of travel done sustainably and reducing how much people drive overall (known as **sustainable mode share** and **vehicle kilometres travelled**, respectively).
- Whether the program requires cities that are using federal funding to procure new buses **shift toward only buying electric buses**, and phase out buying diesel and natural gas buses.
- Whether the program will continue to **delay the funding until 2026**, after the next federal election, and maintain the current pause on funding new major capital projects like subways and light rail that began in 2023.

Will the Transit Funding Program Actually Fund Transit Service?

There is a difference between public transit *capital* and *operating* funding. Currently, all public transit funding coming from the federal government is capital funding, not operating funding. Capital funding goes towards construction of new subways, light rail transit, or bus procurement. Operating funding goes towards hiring drivers, mechanics, maintenance and repair of assets, and increased service frequencies and hours.

A Lack of Operational Funding Means:

1. **Lower Ridership and Higher GHG Emissions**

Research shows that the most effective way of encouraging more people to use public transit and grow ridership is to ensure that service is convenient, frequent and reliable.[1] Public transit systems actually measure indicators of service frequency and reliability - these can be boiled down to the total number of scheduled hours that all transit vehicles collectively run in a year. This can be referred to as *public transit service levels*, which entirely depend on operating funding. **Public transit service levels are extremely important: cities that have buses and trains running**

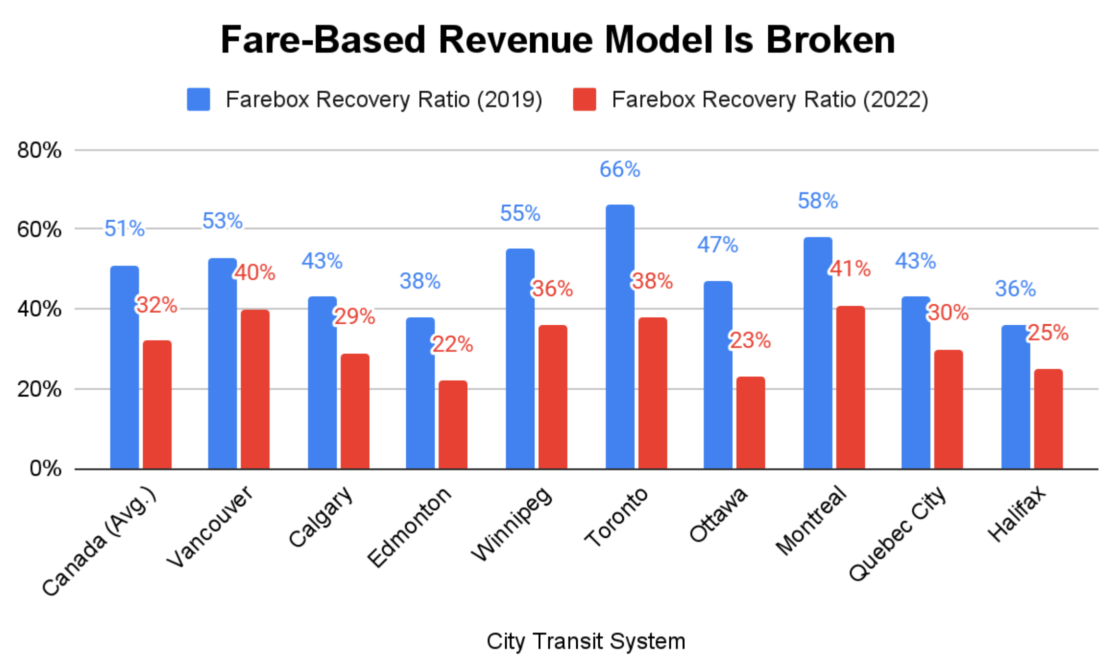
for more total scheduled hours have much higher ridership than those that don't. However, because cities aren't allowed to use federal transit funding to operate increased service levels, this hurts efforts to increase ridership and displace car travel, which is public transit's most powerful method of reducing carbon emissions.

2. Underutilization of Infrastructure

While investing in capital projects like building new public transit lines or purchasing electric buses can contribute to reducing GHG emissions, the effectiveness of these investments depends on the availability and quality of transit services actually provided with this infrastructure. Without adequate operational funding, transit agencies will struggle to fully utilize the capacity of newly built or expanded transit infrastructure. This is because they just don't have enough drivers and mechanics to operate those vehicles frequently and seamlessly enough for them to be a viable alternative to driving. Underutilized infrastructure not only represents a missed opportunity to reduce GHG emissions but also results in an inefficient use of taxpayer money.

The federal government's current capital-only approach has simply not worked to increase public transit service levels. Public transit service levels for the average Canadian are now 7 per cent less than they were in 2016, despite making more than $23.5 billion in federal investments since that time.[2] This has occurred because cities are only allowed to use federal money to buy new public transit vehicles but **not** operate them. This has enabled municipalities to grow their bus fleets, but because municipalities can't actually afford to put them on the roads, there are an estimated 1,700 buses that could be in service across the country but instead are sitting idle because of a lack of operating funding.[3]

3. Perpetuating a Broken Funding Model



Note: *The Farebox Recovery Ratio is the percentage of operating costs that are paid for by fare revenues.*
Source: *Canadian Urban Transit Association 2019 and 2022 Factbooks*

Currently, municipalities pay for more than 75% of public transit operating costs while collecting less than 10% of overall tax revenues.[4] Municipalities in Canada do not have access to revenue tools like those available in other countries such as sales, income or payroll taxes to pay for public transit services. They are reliant on user fees (like transit fares) and property taxes. Before the pandemic, cities relied on fare revenues to pay for 51% of transit operating costs (known as the *farebox recovery ratio*), and this has now declined to 32%.

This decline in the *farebox recovery ratio* means three things; first - it creates a structural deficit. When riders pay less it requires a higher public subsidy to keep transit systems running at the same service levels. Second, this structural deficit will continue until ridership recovers or transit systems find permanent new sources of operating revenue. Third, responding to structural deficits with service cuts and fare hikes doesn't work because it only reduces ridership, depressing revenues further. **This policy choice creates a vicious cycle known as the 'downward spiral' that results in permanently shrunk transit systems, more traffic congestion and higher carbon emissions, while hurting low-income people the most.**

A public transit funding program which neglects the most effective method of growing ridership exacerbates and prolongs ongoing transit operating budget deficits that have been caused by a decline in ridership. Today, ridership has recovered to 81.5% of its pre-pandemic benchmark.[5] **Without funding stability for operating budgets, public transit systems cannot grow service levels at the pace required by climate objectives.** For example, in Montreal, service growth has been put off for five years because operating budget deficits have forced the Société de transport de Montréal (STM) to maintain a cap on spending increases at no more than 3% each year.[6]

The Public Transit Operating Funding Gap

City/Region	Transit Operating Deficit (To Pay For Existing Services)	Unfunded Service Expansion Plans (Operating Costs)
Vancouver	$4,740 million (2026-2033)	$1,200 million (2023-2033)
Calgary	$33 million (2023)	$184.7 million (2023-2033)
Edmonton	$21 million (2023-2026)	$174 million (2026-2033)
Winnipeg	$13.4 million (2023)	$28.6 million (annual)
Toronto	$155 million (2024-2025)	TTC Service Plan not aligned with *TransformTO* climate plan (uncosted)
Ottawa	$39 million (2023)	$90.3 million (annual)
Greater Montreal	$2,534 million (2025-2028)	On hold because of operating deficits for current services

Leading Mobility (2023) This is the End of the Line: Reconstructing Transit Operating Funding in Canada[7]

The Solution

The good news is that there is a path to recovery. Public transit systems that have recovered ridership the fastest refrained from making service cuts and instead have adapted to the fact that people are commuting to work less (due to increased working from home) by offering service hours, routes and frequencies that are convenient for non-work trips like picking up groceries, shopping and social activities.[8]

Environmental Defence recently partnered with Equiterre to release a report: *Putting Wheels on the Bus: Unlocking the Potential of Public Transit to Cut Carbon Emissions in Canada.* This report, supported by modelling from Dunsky Energy + Climate Advisors, found that with the right policy interventions, Canada can double public transit ridership by 2035 and reduce carbon emissions by 65 million tonnes, if investments begin now. In addition to allowing more housing to be built near public transit, achieving these outcomes requires expanding federal and provincial funding for public transit operations, implementing more dedicated bus and streetcar lanes, and establishing zero-emission bus procurement requirements.

To achieve these outcomes, public transit systems across the country must collectively increase their service levels by 109% by 2035. Our report estimates that to achieve this, the federal government must provide an additional $3 billion per year on average for transit operations and bus fleet electrification, doubling the existing ($3 billion per year) planned spending in the *Permanent Public Transit Fund*. This would constitute the federal government's traditional 40% cost-share to achieving these objectives, with the remainder requiring provinces to also step up funding contributions.

What about Provinces?

Prime Minister Justin Trudeau recently explained his position on public transit operating funding at the Federation of Canadian Municipalities' conference.[9] In his view, the federal government has a hard time stepping up to fund transit operations because cities are 'creatures of the provinces' and new federal funding can enable provincial governments to shirk their own responsibilities to properly fund city services.

However, policy tools exist to ensure federal investments boost existing provincial spending rather than replace it: cost share requirements. Cost-share requirements were included in federal-provincial agreements under the *Investing in Canada Infrastructure Program* (ICIP).

Despite municipalities being 'creatures of the provinces' as a whole, the dividing line between capital and operations funding for municipal infrastructure does not exist in the constitution. It is a self-imposed constraint on federal transit programs aimed at limiting how much the federal government spends. An equivalent scenario would be as if the federal government only allowed health transfers to be spent on building hospitals but made it illegal to use the money to pay doctors and nurses, as a way of shrinking long-term fiscal commitments.

The exclusion of municipalities as a recognized order of government in the Canadian constitution and the social changes that have occured since have created a severe imbalance between spending expectations for local services and municipal powers to raise needed revenues.[10] The constitutional *division of powers* was written in 1867, before the extensive urbanization of Canadian society, a time when the population of Toronto was less than 45,000 people.[11] Federal governments in the past have attempted to address this long standing problem through fiscal transfer programs for local infrastructure like the *Canada Community-Building Fund* (formerly known as the *Gas Tax Fund*), which operates through the constitutional convention known as "the spending power."[12] This has meant that over time, municipal infrastructure funding has increasingly become a joint federal-provincial responsibility.

The federal government's concern about the constitutional responsibility of municipalities is being selectively applied to transit operations funding. This double standard is highlighted by the fact that provincial cost-share requirements are rapidly disappearing from Infrastructure Canada programs for municipal infrastructure. The *Zero Emission Transit Fund*, *Active Transportation Fund*, *Rural Transit Solutions Fund,* and *Housing Accelerator Fund* are all known as 'direct-delivery' programs. They all directly fund public transit capital or municipal housing projects considered to be provincial jurisdiction and do not require a provincial cost-share. The only exception applies to Quebec, where agreements are only directly made with the province to comply with the provincial law M-30.[13]

Background: Federal Involvement in Public Transit Funding

- **Pre-2016:** Canada is the only G7 country with no national public transit strategy, funding program, or policy framework. Federal contributions to transit projects are small, infrequent, and ad-hoc.
- **2016:** The *Investing in Canada Infrastructure Program (ICIP)* creates a new long term role for the federal gov't in expanding public transit infrastructure. It invests $23.5B in public transit through cost-sharing agreements with provinces & territories, with the federal gov't paying 40% of project expansion cost.
- **2020:** During the pandemic, the federal government works with provinces to provide emergency operating support to public transit systems through the *2020 Safe Restart Agreement* ($2.4 billion).[14]
- **2021:** The federal government announces $14.9 billion in additional investments in public transit over the coming decade.[15] This includes a plan to make core transit funding from ICIP permanent beginning in 2026 (at $3 billion per year) with a new program called the *Permanent Public Transit Fund*, given that ICIP was set to stop taking funding applications in that year and begin to wind down. Near term programs (2021-2025) are created with this package of funding, including the *Zero Emission Transit Fund, Active Transportation Fund* and the *Rural Transit Solutions Fund*.
- **2022:** The federal government renews the *Safe Restart Agreement's* emergency operating funding for public transit systems ($750 million).[16] The deadline for allocating ICIP funding to projects is accelerated to March 2023.[17] This creates a significant gap between core funding programs, meaning no new major capital projects (like subway, light rail lines) can be funded between fiscal 2023/2024 and fiscal 2026/27.
- **2023:** The federal government releases a 'what we heard' report from stakeholder consultations about the design of the forthcoming *Permanent Public Transit Fund*.[18]
- **2024:** The Prime Minister announces that the forthcoming permanent transit funding program will require cities to increase housing density near transit,[19] one of Environmental Defence's key recommendations for the success of the program. The 2024 budget cuts $450 million from the Zero Emissions Transit Fund and Rural Transit Solutions program.[20]

Conclusion

Public transit ridership will not grow at the pace we need to achieve our climate objectives if Canada continues to exclude transit operating funding from federal funding programs. Canada can only effectively reduce GHG emissions with its public transit investments if the buses, trains and streetcars that the federal government is buying are actually put into service and used to their full potential. Despite this, it is expected that the federal government will not provide transit operations funding in the *Permanent Public Transit Fund.*

References

1. Environmental Defence and Équiterre. (2024). Putting Wheels on the Bus: Unlocking the Potential of Public Transit to Cut Carbon Emissions in Canada. https://environmentaldefence.ca/report/putting-wheels-on-the-bus-public-transit-policy-to-meet-canada-climate-goals/
2. Ibid.
3. Ibid.
4. Ibid.
5. Statcan Table: 23-10-0251-01. March 2019 relative to March 2024.
6. Stéphane Bordeleau (2024) La STM s'impose un plafond de dépenses pour cinq ans. RadioCanada. https://ici.radio-canada.ca/nouvelle/2075929/transport-collectif-plafonds-depenses-stm
7. Leading Mobility (2023) This is the End of the Line: Reconstructing Transit Operating Funding in Canada. https://www.leadingmobility.com/endoftheline
8. DW Rowlands and Tracy Hadden Loh (2023) Ensuring the intertwined post-pandemic recoveries of downtowns and transit systems. Brookings. https://www.brookings.edu/articles/ensuring-the-intertwined-post-pandemic-recoveries-of-downtowns-and-transit-systems/
9. A recording of Prime Minister Trudeau's remarks can be seen here: https://www.youtube.com/live/7nm3-Nw5sZc?si=95jveL3PKisiaApe
10. FCM (2024) Making Canada's Growth a Success: The case for a Municipal Growth Framework. https://fcm.ca/en/resources/making-canadas-growth-a-success
11. Statistics Canada. Population of British American Cities, 1861 Census. The Canada Year Book, 1867. https://www65.statcan.gc.ca/acyb02/1867/acyb02_1867001901-eng.htm
12. Mollie Dunismir (1991) THE SPENDING POWER: SCOPE AND LIMITATIONS. Government of Canada Law and Government Division. https://publications.gc.ca/Collection-R/LoPBdP/BP/bp272-e.htm#CONCLUSION
13. M-30 - Act respecting the Ministère du Conseil exécutif. https://www.legisquebec.gouv.qc.ca/en/document/cs/M-30
14. Safe Restart Agreement (2020) https://www.canada.ca/en/intergovernmental-affairs/services/safe-restart-agreement.html
15. PMO Press Release (2021) New public transit investments to build strong communities, fight climate change, and create new jobs across Canada. https://www.pm.gc.ca/en/news/news-releases/2021/02/10/new-public-transit-investments-build-strong-communities-fight-climate
16. Dept. of Finance (2022) Federal government announces an investment in public transit systems across Canada. https://www.canada.ca/en/department-finance/news/2022/02/federal-government-announces-an-investment-in-public-transit-systems-across-canada.html
17. Finance Canada (2022). Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable. p.70 https://www.budget.canada.ca/2022/pdf/budget-2022-en.pdf
18. Infrastructure Canada (2023) Public engagement on permanent public transit funding in Canada. https://www.infrastructure.gc.ca/transit-transport/consultation-eng.html
19. PMO (2024) Growing communities and building more homes, faster. https://www.pm.gc.ca/en/news/news-releases/2024/04/02/growing-communities-and-building-more-homesfaster
20. Finance Canada (2024) Budget 2024: Fairness for Every Generation. p.252. https://budget.canada.ca/2024/report-rapport/budget-2024.pdf

environmental defence

ABOUT ENVIRONMENTAL DEFENCE: Environmental Defence is a leading Canadian environmental advocacy organization that works with government, industry and individuals to defend clean water, a safe climate and healthy communities. For more information or to request an interview, please contact: **media@environmentaldefence.ca** or visit **environmentaldefence.ca**