December 2, 2005

Mayor Larry DiIanni
The City of Hamilton
71 Main Street West
Hamilton, ON L8P 4Y5

Dear Mayor DiIanni:

RE: New Deal for Cities and Communities

I write to you as Chair of the Transit Board members Committee and a member of the Board of Directors of the Canadian Urban Transit Association, Canada’s voice for urban transit. As Canada moves towards a new investment framework for municipal infrastructure with implementation of the “New Deal for Cities and Communities” through a transfer of part of the federal excise tax on gasoline, I am pleased to share with you our view of the importance of public transit as part of this commitment.

For years, long-term sustainable funding has been one of the key challenges facing public transit in Canada. Throughout the nation, public transit systems need funds for capital improvements and operational support, in order to replace aging fleets, upgrade facilities and expand capacity to better meet a wider range of customer needs. Recent opinion polls indicate that over three-quarters of Canadians recognize that public transit benefits them even if they do not use it. These benefits include mitigating traffic congestion, helping improve air quality, lowering greenhouse gas emissions as well as improving mobility and access for urban citizens.

Consistent with these needs, the underlying objectives of the New Deal are to improve air and water quality, and to reduce greenhouse gas emissions. For this reason, the federal focus is on “environmentally sustainable municipal infrastructure.” As such, public transit is a centrepiece of the transportation dimension of the New Deal, and this is reflected in the agreements currently being signed with each province and territory.

A Canada-wide opinion poll conducted earlier this year showed that over 80% of respondents feel that at least 2 out of the 5 cents from the federal gas tax should be invested in public transit. That would represent a minimum of 40% of the New Deal investment.

I have taken the liberty of attaching two recent documents outlining the importance of investing in transit and the contribution transit makes to quality of life for Canadians. As a key decision maker in the area of public transit, I hope this information will be useful to you in the coming months and years.

Sincerely,

Mayor Rob MacIsaac
Chair - Transit Board Members Committee - CUTA

Enclosures
CC: The City of Hamilton Council

Portion of 5-cent gasoline tax that should be spent on public transit

DK

1¢ 7% 3 18%
2¢ 9% 7% 4¢
3¢
Working together for a better quality of life

Public transit keeps Canadian cities on the move—getting people to work and school, reducing congestion and air pollution, supporting smart growth, and keeping our downtowns vibrant. Transit is clean, safe and efficient—it’s our ticket to a better quality of life.

The Canadian Urban Transit Association (CUTA) is the voice of Canadian transit systems, suppliers and related organizations. CUTA was founded in 1904 as the Canadian Street Railway Association, and celebrated its 100th anniversary in 2004.

CUTA provides training, communications, research and advocacy services on behalf of over 100 transit systems, 250 private companies, and 75 government agencies, institutions and individuals. Its mandate is to promote the role of transit in providing mobility to Canadians, and to help members achieve their objectives.

We’ve come a long way

Canadians have enjoyed urban transit service for over 140 years. Since the Toronto Street Railway Co. started a horse-drawn streetcar service in 1861, our country has seen electric trolleys, motorized buses, steel-wheeled and rubber-tired subways, automated people-movers, and even hydrogen-powered buses that emit nothing but water vapour.

Over the years, Canada has seen many leading-edge transit developments. Our North American milestones have included the continent’s first electric streetcarr (Windsor, Ont.), the first modern light rail line (Edmonton, Alta.), the first rubber-tired subway (Montreal, Que.), and the first line-haul automated people mover (Vancouver, B.C.). On a global scale, Canadians can claim one of the world’s first bus rapid transit systems (Ottawa, Ont.) and the first wind-powered light rail system (Calgary, Alta.).

Moving Canadians effectively and efficiently

More Canadians than ever are served by public transit—over 20 million people, or 80% of those living in urban areas. They make an average of 78 transit trips each year, for a national total of more than 1.5 billion trips (see Figure 1).

Many urban Canadians rely on transit to meet their daily transportation needs. In the country’s 27 largest metropolitan areas, about 15% of commuters (or 1.35 million people) take transit to work—outnumbering the combined number of walkers, cyclists and car passengers. In Canada’s several largest downtowns, an even higher proportion of commuters—over 50% in most cases—ride transit to avoid road congestion and costly parking fees.

Figure 1

Transit ridership in Canada

<table>
<thead>
<tr>
<th>Billions of trips</th>
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Note: This issue paper is a revised and updated version of Issue Paper 4 (published in April 2003), and presents information on the services provided by CUTA members. All figures exclude the relatively small number of Canadian transit systems and suppliers that are non-members. Unless otherwise noted, operating information on Canadian transit systems has been provided by members. CUTA’s annual Summary of Canadian Transit Statistics (available from www.cutaactu.ca) provides a summary of related information.
For transit systems, serving large passenger volumes efficiently is a complex and high-stakes objective. Every day, Canada's 12,200 buses and 2,600 rail vehicles travel millions of kilometres with a cost-effectiveness that outshines most other countries. Passenger fares generate 61% of the $3.4 billion invested by Canadian transit systems in their operations each year. This level of cost recovery is almost double the 34% rate reported by transit systems in the United States for 2003. This accomplishment has resulted from much hard work by Canadian transit systems over the last decade, as they have struggled to improve performance and make the most of limited financial resources.

The cost-effectiveness of Canadian transit systems was confirmed by a recent comparison of five large Canadian transit systems to numerous others in the United States, Europe, Australia and Asia. The Canadian systems' average operating cost per passenger-kilometre of service was lower than that of the Australian, European and American cities, and almost as low as that of Asian cities like Hong Kong and Tokyo.

Offering mobility to those who need it

Transit creates important opportunities for Canadians with disabilities. To serve them better, conventional transit systems are becoming more accessible. Almost 40% of buses have low floors that make it easy for people with disabilities to get on and off—and the number of low-floor buses grows significantly each year.

Many Canadians, however, have mobility needs that cannot be met by conventional transit. CUTA's membership includes 60 specialized transit providers that serve about 240,000 registered users in 130 communities. Over 40% of their customers rely on a wheelchair or scooter, while 55% can walk but still need travel assistance.

In total, specialized transit providers carry almost 12 million passengers each year. They employ 2,500 workers and a fleet of 1,900 vehicles, ranging from passenger cars to medium-sized, low-floor or lift-equipped buses. The annual investment in specialized operations and infrastructure is over $250 million. Municipalities provide 70% of specialized transit systems' operating funding, with 20% coming from provinces and the remainder from fares.

Helping the environment

On behalf of the entire transit industry, CUTA was awarded the GLOBE Foundation's Industry Association Award for Environmental Performance in 2004. This honour is given to "an association representing an industry sector that has shown leadership by going beyond regulatory compliance to develop a collective commitment to improved environmental performance through research, development and education in partnership with governments, with non-governmental organizations, communities and other stakeholders." The GLOBE award reflects the value that Canadian communities place on transit as they strive for greater social, environmental and economic sustainability. Of equal importance, it also reflects the industry's high degree of environmental commitment and industrial innovation. CUTA's members have moved aggressively to develop new vehicle and fuel technologies that can reduce the emission of greenhouse gases and smog-causing pollutants, and to reduce fuel consumption through driver training. Canada's transit suppliers and operators have become international leaders in the research, testing and implementation of clean diesel, bio-diesel, hybrid diesel-electric, natural gas and fuel cell technologies that are helping to preserve both our environment and public health.

Building a strong economy

Public transit in Canada is big business, with transit systems investing almost $5 billion each year in operations and infrastructure. Their payrolls include over 43,000 Canadians who live in the very communities they serve. This number alone is similar to the car and light truck assembly, broadcasting, advertising or petroleum extraction industries, while thousands more are employed by a host of private companies that supply essential products and services. The industry creates positive economic impacts through research, development and international sales, but also by reducing traffic congestion, enhancing personal mobility, revitalizing downtown areas, and improving public health and safety.

CUTA's 250 business members include many leaders in the international marketplace. They offer a complete range of specialized transit products and services:

- Buses and railcars
- Engines, brakes, glass, tires and other vehicle parts
- Heating and lighting systems
- Wheelchair restraints
- Vehicle washing systems
- Tickets and other printed items
- Benches and shelters
- Smart card systems
- Scheduling and dispatch software
- Rail signal engineering
- Planning and design services
- Marketing and advertising

Canada is home to three major bus manufacturers that employ about 2,000 workers and sell about 2,700 buses annually—more than half the volume of the six major bus builders in North America. Sales to the United States make up 80% of their business, and are a large part of Canada's $2-billion rail and bus export industry.

One of TransLink's low-floor New Flyer buses stops in Richmond Centre, a major boarding point for cyclists in Greater Vancouver

Michael Roschau, President & CEO of CUTA receives the 2004 GLOBE Award from Canada's former Minister of the Environment, David Anderson
Doing more with less

Over the 1990s, Canada’s provincial governments significantly reduced their level of investment in public transit. By 2001, they funded just 15% of transit capital costs and 5% of transit operating costs. Some progress had been made by 2003, when provincial funding amounted to 35% of transit capital costs but still less than 5% of operating costs. Several provinces also transfer fuel tax or vehicle licensing revenues to cities that they can use for transit purposes.

For years, Canada’s federal government invested little in transit, and it remains the only member of the G-7 without a dedicated program of direct transit investment. The situation has improved somewhat in recent years, through a series of federal investments in transit infrastructure projects. Indeed, federal announcements of new contributions grew to over $800 million in 2004, from none at all in 2001. A commitment to transfer a portion of the federal gas tax to Canadian communities for sustainable infrastructure was included in the 2005 federal budget, and holds great promise for the future.

While recent transit investments by provincial and federal governments are welcome, they do not fully rectify the operating investment declines of the previous decade. During that period, many municipalities were forced to balance their transit operating budgets by cutting service, raising property taxes or raising fares. In fact, between 1994 and 2003 the average Canadian transit fare increased by 40% while the cost of living rose only 20% (see Figure 2). Continuation of this trend will pose a serious threat to future increases in transit ridership and urban quality of life.

One of the most pronounced effects of inadequate investment has been the deterioration of Canada's transit infrastructure. The average Canadian transit vehicle is now 10 years old, compared to 7 years in the United States where state and federal governments have played a larger financial role. Buses are typically kept in service for 18 to 20 years, versus 12 to 15 years in the United States.

While maintaining and renewing today’s infrastructure is a real concern, it is equally important that the industry be positioned to serve increased future ridership. A survey of CUTA’s transit system members found that current financial plans could fund only 41% of the $14.1 billion they needed to expand their infrastructure and meet growing demands from 2004 to 2008. Figure 3 shows how the shortfall of planned investment in infrastructure expansion grew to $8.3 billion for that period, from $3.7 billion for the preceding five-year window.

Figure 3

Canadian transit infrastructure expansion needs

<table>
<thead>
<tr>
<th>Met by current plans</th>
<th>Shortfall</th>
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<td>Value ($ billions)</td>
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</table>

2000 - 2004

Surveyed time period

A low-floor bus in production at the Nova Bus facility in St. Eustache, Quebec

REFERENCES

c) J. Kenworthy and F. Laube, The Millennium Cities Database for Sustainable Transport, Union Internationale des transport publics (UITP), cited by the Centre for Sustainable Transportation (available from www.cutactu.ca)
d) Information from www.globc2004.com
e) Information from CUTA members
f) Information from CUTA members and www.apta.com
Transit Timeline
1752 - 2005

1752
Metro Transit's Halifax Harbour ferry, originally known as the "Dartmouth ferry", begins offering a vital link between the community of Dartmouth and the British Military Garrison in Halifax, on the other side of the harbour. It is now reputed to be the oldest continuous salt-water passenger ferry service in North America. The service was originally provided by a large rowboat with a sail, and at one time was operated using horses to power a wheel.

1886
Windsor, Ontario introduces the first electric streetcar in North America.

1905
Vancouver's streetcar service is launched on the Richmond line. When it closed in 1958, electric rail passenger disappeared from British Columbia until Skytrain opened in 1986.

1912
Streetcar service is introduced to Lethbridge, Alberta. The corner of 3rd Avenue and 5th Street South, near Galt Gardens was the location of all town functions and celebrations.

1892
The Port Arthur Electric Street Railway (now Thunder Bay Transit) begins operation as one of the first municipally owned railways in North America.

1945
Bombardier Mass Transit Division is created in Montreal.

1974
Bombardier Mass Transit Division is created in Montreal.

1974
The first Orion Bus production model was manufactured.

1998
The Société de transport de l'Outaouais (STO) introduces a transit pass to Gatineau residents in the form of a reusable smart card with an embedded microchip.

2001
BC Transit puts Canada's first modern double-decker buses into regular service in Victoria.

2004
CUTA celebrates 100 years as the voice of Canada's public transit industry.

2004
Calgary Transit's C-Train becomes the world's first wind-powered light rail system.

1983
Ottawa's Transitway opens as one of the world's first bus rapid transit systems.

2001
Saskatoon Transit Services launches its BioBus project, running two buses powered by canola biodiesel.
INVESTING IN TRANSIT:
PROMISE AND PROGRESS

Over the last decade, Canada’s transit industry has worked hard to attract municipalities to make decisions more aware of its nations fragile state of transit investment. In 2001, the first issue paper in this series documented historically low levels of transit investment by many Canadian municipalities and an almost negligible level of investment by the federal government.

The last four years have seen several important shifts in the approach to transit investment taken by Canada's federal and provincial governments. A substantial increase in public transit funding has been accompanied by widespread recognition of transit's role in helping Canada's cities healthy and competitive, and has contributed to an almost 12% surge in ridership between 2001 and 2004.

As the importance of transit increases along with citizen demands for service, so will the need to invest in infrastructure renewal and growth, and in expanded operations. Even as this issue paper celebrates recent advances and innovations in transit investment, it is intended to highlight the crucial role that public transit plays.

Who pays for transit?

Operating investment. As a nation, Canada’s transit systems invest $3.7 billion annually in operations — a total that includes staff salaries, fuel, parts and maintenance. The biggest portion of this investment, by far, is funded by the passengers whose fares pay for 61% of operating needs. This extraordinary level of cost recovery from customers exceeds that of the United States, Sweden, Italy, the Netherlands, France and many other countries in recent years (see Figure 1). 

In most provinces, the remaining operating costs have been covered almost entirely by municipal taxpayers (with exceptions including British Columbia and Manitoba). In 2003, Canadian provinces funded less than 5% of operating costs nation-wide, although there was significant variation among them. The federal government makes no operating investments at all.

Note: This issue paper is a revised and updated version of CUTA’s Issue Paper 1, Investing in Transit: Canada at the Crossroad (November 2001). Unless noted otherwise, data on transit operations and finances are taken from CUTA’s annual Summary of Canadian Transit Statistics (available from www.ca-cutactu.ca/techpub.html).

Figure 1

Proportion of operating cost covered by fare revenue

- 70%
- 60%
- 50%
- 40%
- 30%
- 20%
- 10%
- 0%

Canada, France, Sweden, USA, Italy, Netherlands
Capital investment: In recent years, municipalities have been the principal investors in Canada's national transit infrastructure (e.g., vehicle fleets, rapid transit facilities, passenger terminals, park-and-ride lots, garages and maintenance shops). The provincial share of direct capital investments has been growing, reaching almost 45% in 2003 from less than 35% in 2000 (it should also be noted that five provinces also transfer fuel tax or vehicle licensing revenues to cities to address infrastructure needs, including those related to transit).

For years, Canada's federal government invested little in transit and was the only G-7 nation without a dedicated program of direct transit support. This situation has improved somewhat in recent years, through a series of federal investments in transit infrastructure projects, and through two proposals in the 2005 federal budget that could help transform the national landscape for transit infrastructure investment:

* A plan to transfer $5 billion of federal gas tax revenues to Canadian communities by 2010, for environmentally sustainable infrastructure (including transit).
* An additional short-term investment of up to $800 million in public transit infrastructure by 2007.

These provisions could do much to improve Canada's record as a meaningful transit investor, compared to other countries. As recently as 2001, federal and provincial funding for transit in Canada amounted to only 4% of operating costs and 11% of capital costs. These low levels compare poorly to the situation in the United States, for example, where federal and state concerns over urban quality of life have led to long-term transit investment programs that covered 30% of operating costs and 53% of capital costs in 2003.

More investment is needed

Canadian transit systems face a substantial "infrastructure deficit" that CUTC actively monitors through a regular survey of local needs. The survey identifies the cost of infrastructure rehabilitation and replacement needs, as well as the cost of infrastructure needed to expand service or carry growing ridership. It also identifies which needs can be met by current financial plans, and which are contingent on finding new sources of funding.

The most recent survey reviewed infrastructure needs for 2004-2008. It found a shortfall of $8.3 billion within the $14.1 billion of infrastructure needed to serve growth. It also found a shortfall of almost $700 million within the $6.9 billion of infrastructure rehabilitation or replacement needs.

Figure 2 illustrates how infrastructure needs, and the related shortfalls, have grown in recent years. It is worth noting that infrastructure needs have grown by almost 130%, and that the investment shortfall has more than doubled to almost $9 billion over the same period.

The failure to overcome this shortfall in infrastructure investment would have two effects. First, transit systems will not be able to play the role that all governments agree they should play, by offering levels of service and capacity that can attract and carry a growing number of riders. Second, transit systems will face significant operating cost pressures from the need to keep aging, fuel-inefficient vehicles in service longer, and the need to repair facilities that in the long run would be cheaper to replace.

Even so, infrastructure investment levels are not the only concern. The need for new operating investment is also growing rapidly. In fact, because some types of infrastructure expansion can lead to higher operating costs downstream (e.g., larger fleets need more staff to operate and maintain them), the recent advances in federal and provincial infrastructure funding have only served to increase the urgency of enhancing current operating budgets.

Over the five years between 1998 and 2003, national transit operating costs rose by 35%. This upward trend is likely to continue, as cities boost the quantity and quality of their transit services as a key tactic in the battle against congestion and air pollution. While ridership and fare increases might help to address the need for more operating funding, they alone are unlikely to resolve the issue.

In the face of rising demands, Canada's cities continue to be hard-pressed to find new cash for transit operations because they have little ability to generate revenue other than through property taxes. In most provinces, municipalities are denied the power to raise new money through measures like road tolls or levies on parking spaces. Raising transit fares is frequently the only apparent alternative, but one that makes transit less competitive and threatens the momentum behind recent ridership increases.

Moving towards stronger transit

Federal perspective. In 2001, Issue Paper 1 reported on a number of indications that Canada's federal government saw a strong national interest in public transit. These included a commitment to improve transit infrastructure in the 2001 Speech from the Throne, a proposal for "unprecedented federal action and funding" for transit in the final report of the Canada Transportation Act Review Panel; a strong focus on transit adopted by the Prime Minister's Caucus Task Force on Urban Issues as it worked towards its final report, and Transport Canada's undertaking of three major research studies on public transit.
Since that time, the federal government has confirmed and expanded on its view that public transit is vital to our nation’s quality of life:

- Federal infrastructure programs announced contributions to transit projects worth over $800 million in 2004, compared to none in 2001.
- New programs including Transport Canada’s Urban Transportation Showcase Program have been launched, leading to millions of dollars of investment in innovative transit strategies.
- In 2005, the Urban Transportation Task Force of federal and provincial transportation ministries recommended that the federal government should provide "sustainable, predictable, long-term funding" to support investments in urban transportation, including transit.¹
- As discussed above, the 2005 federal budget included a longer-term transfer of federal gas tax revenue to Canadian communities for environmentally sustainable infrastructure investment (about $5 billion by 2010) as part of the New Deal for Cities and Communities, and an additional $800 million federal investment in urban transit over two years. By June 2005, the federal government had signed New Deal agreements with five provinces and territories (British Columbia, Alberta, Ontario, Quebec and Yukon), and the remaining agreements were under negotiation.

It is important to note that the degree to which transit systems will benefit from New Deal funds is still unclear, in contrast with the $800-million program of dedicated transit investment. There are reasons to be optimistic — such as the agreement to allocate 20% of Quebec’s New Deal funding to public transit infrastructure — but there are also significant risks. These include the temptation for provincial or local governments to respond to greater federal investments in transit by reducing their own, although the federal government has stated clearly that such “clawbacks” will not be allowed.

**Provincial perspective.** Provincial investment in transit has generally strengthened over the last few years, with programs that existed in 2001 being either preserved or enhanced. These include the transfer of provincial gasoline tax revenues to improve local transportation systems in metropolitan Vancouver (12 cents per litre for roads and transit), Victoria (2.5 cents per litre for transit), Calgary and Edmonton (5 cents per litre for roads and transit) and Montreal (1.5 cents per litre for transit), and the Quebec government’s annual $30 motor vehicle registration fee that is used to support transit investment in nine census metropolitan areas ($40 per vehicle in Montreal).

Dedicating a portion of gas tax revenues to transit and other municipal infrastructure is becoming a more common provincial strategy. In March 2005, Manitoba announced that it would become the fifth province (with Alberta, British Columbia, Ontario and Quebec) to transfer a portion of its fuel tax revenues to municipalities for transit, road and water infrastructure. Ontario started to transfer gas taxes to municipal transit systems in late 2004 (growing to two cents per litre in 2006-2007), with the objective of supporting ridership growth. In return, each recipient municipality must develop and submit a ridership growth strategy and asset management plan. (It should be noted that provincial transit funding levels in both Ontario and Quebec are lower than they were before those provinces eliminated their transit subsidy programs in the 1990s.)

**Public-private partnerships.** Partnerships between the public and private sectors are frequently cited as having the potential to create new sources of funding, reduce costs and accelerate project implementation. There have been some positive international experiences with such partnerships on major infrastructure projects. The use of public-private partnerships to deliver major infrastructure projects is generally supported by Canada’s federal and provincial governments. As an example, in 2004 the Quebec government created the Agence des partenariats public-privé du Québec to promote and help create partnerships for major infrastructure, equipment or public service projects that rely on public funding and are considered to be public-private partnership candidates.

Conceputal illustration of a RAV station at Vancouver International Airport

Map of RAV line from downtown Vancouver (at top) to Richmond (at bottom)
Several Canadian cities are using public-private partnerships to develop rapid transit facilities and services:

- The Richmond-Airport-Vancouver (RAV) Rapid Transit Project of the Greater Vancouver Transportation Authority is being developed through a multi-agency partnership with private-sector involvement. The project will involve a 35-year contract to design, build, partially finance, operate and maintain the RAV line. This is also one of several transit projects that have received federal-provincial infrastructure funding.

- The VIVA bus rapid transit system of York Region, Ontario, is being implemented through an agreement with a private consortium. York Region will retain control over service levels, fares, vehicles and terminals.

- A new “Blue 22” rail service linking Toronto’s Union Station to Pearson International Airport will be developed by 2010 through a design-build-finance-operate-maintain arrangement. The service will connect with Toronto Transit Commission and GO Transit routes, but its operation and fares will be managed separately.

- The City of Ottawa plans to enhance its current O-Train project by creating a public-private partnership to extend light rail from downtown to its southern suburbs. The private sector’s role would include design and construction, and may extend to operation and maintenance. Federal and provincial infrastructure funds are also supporting this project.

The road ahead

While transit investment in Canada is clearly enjoying some positive momentum, transit systems still lack long-term, predictable and sustainable funding. Without it, their ability to maintain and renew current infrastructure, and to add new infrastructure that will serve growth, is uncertain.

The adequacy and source of operating investments across Canada are also major issues. Almost all municipalities continue to rely excessively on property taxes and transit fare increases to fund expanded transit operations.

As Canadian governments continue to seek more effective and responsive solutions to the challenges of transit investment, their decisions will influence our cities’ livability and competitiveness for decades to come. Whether, when and how we invest in transit can make a real difference in our struggles against congestion, air pollution and climate change. Our leaders have effective, appropriate options to choose from, and Canada’s transit industry urges them to invest — meaningfully and sustainably — in public transit.

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a) J. Pucher & C. Loefers, The Urban Transport Crisis in Europe and North America, 1996
b) American Public Transportation Association, 2005 Public Transportation Fact Book, 2005
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c) Information provided by the Indian Public Transit Association (IPTA), 2005