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THE \$2 BILLION QUESTION

GTHA Business Opinion on Funding The Big Move

THE \$2 BILLION QUESTION: GTHA BUSINESS OPINION ON FUNDING THE BIG MOVE

Contents

| | |
|--|---|
| It's Time to Get the GTHA Moving | i |
| Reality Check..... | 1 |
| The Plan..... | 2 |
| What We Did..... | 3 |
| The Primary Principles..... | 4 |
| The Secondary Principles..... | 5 |
| The Caveats..... | 6 |
| The Verdict..... | 6 |



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IT'S TIME TO GET THE GTHA MOVING

In spring 2013, the Ontario Chamber of Commerce (OCC) and chambers of commerce and boards of trade across the GTHA consulted businesses in the region on how to fund The Big Move, the province's transportation plan to relieve congestion in the region.

We have aggregated what we heard at these consultations in the paper, which is intended to inform Metrolinx as it prepares to release its investment strategy to the provincial government in May 2013.

We found that businesses understand the need for new investment in transportation infrastructure. The question is no longer 'if', but 'how' to fund The Big Move.

We know the infrastructure deficit is not a GTHA specific problem, but we do believe that a reliable and efficient GTHA transportation network benefits the region, the province, and beyond.

The following is our collective ranking of the short list of 11 tools proposed by Metrolinx:

Non-starters:

Property Tax
Employer Payroll Tax
Vehicle Kilometres Travelled (VKT)

Medium potential:

Commercial Parking Levy
High Occupancy Toll (HOT) Lanes
Land Value Capture
Development Charges
Regional Sales Tax
Transit Fare Increase

High potential:

Highway Tolls
Fuel Tax

Note, while we did not get 100 percent agreement across the entire GTHA business community, the support for new infrastructure investment was overwhelming.

To our political leaders, business is saying it's time to get the GTHA moving.



Allan O'Dette
President & CEO
Ontario Chamber of Commerce

“WE HAVE A CHOICE OF DOING NOTHING
AND LETTING THE GRIDLOCK GROW EVERY
DAY, OR TO DO SOMETHING AND HELP PICK
UP THE TAB FOR IT.”

Hazel McCallion, Mayor of Mississauga, Toronto Star

REALITY CHECK

The business case for investing in our transportation infrastructure is compelling.

The quality of local infrastructure is key to attracting international investment and talent. Effective transit and transportation grows the potential pool of workers which businesses can draw from and the customers that businesses can sell to. Efficient transit reduces the number of cars on the roads, which enables goods to flow faster and more reliably.

Building infrastructure also creates jobs. **For every \$100 million invested in public infrastructure, 1,670 jobs are created** (Antunes and Palladini 2013).

For decades, governments of all stripes have under-invested in the GTHA's transportation infrastructure. The resulting congestion in the region costs \$6 billion in lost productivity annually. By 2031, the population of the GTHA will reach 8.6 million from 6 million today and congestion will cost \$15 billion annually (Metrolinx 2008).

From a business perspective, the status quo is simply not an option.

Infrastructure is not only a necessary condition for growth but, together with human capital and innovation, a determinant for growth in regions across the OECD. The state of the Toronto Region's infrastructure could therefore significantly strain its capacity to compete with other OECD metropolitan regions.

OECD, 2009

THE PLAN

The Big Move is a 25-year, \$50-billion plan for coordinated, integrated transportation and transit in the GTHA. The plan's goal is to get people and goods moving in this city again, connecting suburb-to-suburb and suburbs to the downtown.

While some participants voiced concerns about the specifics (or absence) of local projects, there was overall support for the broad strokes of the plan and its objective to deliver a “seamless, integrated transportation grid” from Hamilton to Newmarket to Oshawa and Clarington and across the core of Toronto (Metrolinx 2013).

In April 2013, Metrolinx released a short list of potential revenue tools (from a longer list of 25) with which to fund The Big Move, including seven high revenue generating tools and four smaller revenue generating tools.



bigmove.ca

Image courtesy of Metrolinx

The Big Move by the Numbers:

- **80 percent of people** in the GTHA will live within 2 km of rapid transit by 2031
- **800,000–900,000 jobs** will be created between 2012–2031
- **\$110–130 billion** will be contributed to regional GDP by 2031

\$16 billion of the \$50 billion plan has been funded by all three levels of government, including \$14 billion from the Government of Ontario. The remaining \$34 billion in projects **requires \$2 billion dollars in new revenue on an annual basis**. How do we fund it?

Most large city-regions in the world have some form of dedicated, sustainable revenues to fund transportation infrastructure. The GTHA does not.

WHAT WE DID

The OCC, in partnership with 13 GTHA chambers/boards, engaged in 10 face-to-face consultations with over 250 small, medium, and large businesses across the region. Business leaders from all sectors came together to answer a tough question: **How are we going to pay for The Big Move?**

We looked at how other regions of the world fund their transportation infrastructure.

We surveyed our members. *The Ontario Chamber of Commerce Membership Survey* of 2,059 businesses across the province found that **two thirds** (66 percent) of GTHA businesses and 56 percent of Ontario businesses believe that additional and dedicated revenue tools are needed to help address the region's transit infrastructure gap.

What follows is a snapshot of the feedback the OCC received at its consultations on the 11 tools.

GTHA Chambers/Boards:

- *Ajax-Pickering Board of Trade
- *Aurora Chamber of Commerce
- Beaverton Chamber of Commerce
- *Brampton Board of Trade
- *Burlington Chamber of Commerce
- Caledon Chamber of Commerce
- Clarington Board of Trade
- *East Gwillimbury Chamber of Commerce
- Flamborough Chamber of Commerce
- Georgina Chamber of Commerce
- *Greater Oshawa Chamber of Commerce
- Halton Hills Chamber of Commerce
- *Hamilton Chamber of Commerce
- King Chamber of Commerce
- *Markham Board of Trade
- Milton Chamber of Commerce
- *Mississauga Board of Trade
- *Newmarket Chamber of Commerce
- *Oakville Chamber of Commerce
- *Richmond Hill Chamber of Commerce
- Scugog Chamber of Commerce
- Toronto Region Board of Trade
- Vaughan Chamber of Commerce
- *Whitby Chamber of Commerce

*chambers/boards that hosted 'Funding The Big Move' engagement sessions

THE PRIMARY PRINCIPLES

The participants at each of the 10 consultations agreed that any additional revenue tools had to conform to the following principles:

1. All new revenues must be dedicated.

Any and all revenue generated from the revenue sources implemented as a means of paying for new transportation infrastructure must be specifically dedicated to The Big Move plan and/or local infrastructure projects and not be absorbed into the 'black box' of general revenue.

2. The collection of revenue and distribution of funding must be transparent.

Revenue generated must be transparently allocated, administered and reported on. There must be a clear line between the revenue generation and project implementation.

3. The cost must be distributed and the funding allocated fairly.

As we think about how to pay for new infrastructure, we need to reconcile a few tensions and ensure both costs and benefits are distributed in a fair manner among the following four key groups, without disproportionately affecting any one of them:

- 416 and 905: What is raised in the various parts of the region and what is spent in each region should be roughly equivalent
- Users and non users of the transit/transportation system
- Businesses and individuals
- Low income (including students and seniors) and high income individuals

4. Revenue tools should not impact economic competitiveness.

While the benefits of enhanced transportation infrastructure are apparent, the revenue tools by which we pay for it should not unduly impact economic competitiveness (e.g. an employer payroll tax could discourage firms from hiring new employees).

THE SECONDARY PRINCIPLES

A number of secondary principles or considerations were highlighted as important in moving forward with support for new revenue tools.

First, there was overarching concern for **efficiency**. Some proposed tools, such as Highway Tolls, Vehicle Kilometres Travelled, and HOT lanes are more administratively burdensome than others, with between 20-30 percent of the revenue swallowed up by overhead. Administrative costs should be kept low. We do not need more bureaucracy.

Second, the capacity for a tool to **influence travel behaviour** through pricing was an important consideration for participants. Revenue tools should encourage efficient travel choices.

Third, the tools should **minimize distortions in behaviour** (e.g. a fuel tax should not be so great as to incent people to drive outside the region for gas).

Fourth, the principle of **user pay** was frequently cited as a key basis for choosing revenue tools. Businesses generally felt that the direct beneficiaries of the system should be asked to contribute.

THE CAVEATS

The GTHA's business community voiced four important caveats if government is going to impose new taxes to pay for transportation.

1. **Government must find efficiencies.** Our members are concerned about waste in government. There should be a relentless drive to find efficiencies and cost savings in every government department and agency. That said, our members understand that efficiencies alone will not fund necessary investments.
2. The provincial **government must be accountable**, particularly for cost overruns. Project costs cannot be allowed to spiral and citizens and businesses asked to foot a greater burden as a result.
3. The Big Move is one piece of the transportation infrastructure puzzle. **GTHA transportation improvements must be part of a larger provincial and federal transit and transportation strategy.**
4. The Big Move investment strategy must include an assessment of **public/private funding and delivery options.** The private sector should be engaged where a compelling business case can be made for savings and efficiencies. Also, there should be a review of options for private sector delivery of transit and maintenance services across the GTHA.

THE VERDICT

As a result of the consultations, the OCC has narrowed down the 11 proposed revenue tools into 3 categories: *non-starters*, *medium potential*, and *high potential*. The non-starter tools received little or no support. The medium potential tools are those which experienced both support and opposition among participants. The high potential tools reflect consensus support.

Of the 11 tools, those that specifically targeted business—employer payroll tax and a commercial parking levy—were regarded as job killing and imposing hidden fees on consumers.

On the following pages, we provide a summary of the most common comments on each tool and the rationale for where they sit in our matrix. Our members also suggested design parameters that will enhance the palatability of the revenue tools.

Non-Starters

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|---|------------------------------------|---|----------|
| Vehicle Kilometres Travelled (VKT) | \$1.6 billion (based on \$0.03/km) | Drivers pay a charge for every kilometre that they travel within a designated area or in all areas. | Drivers |

What business said:

There were many questions from participants about this tool. How would it be implemented and monitored? How would out of town visitors pay?

The high administrative costs to implement and collect revenues were the number one concern.

Privacy was another major concern.

Issues of fairness also featured prominently. People who drive further to work would be disproportionately affected. Those living in the 905 and those who have no choice but to drive would pay significantly more. For this same reason, the regressive nature of the tool was of concern to participants.

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|-----------------------------|-------------------------------|--|------------|
| Employer Payroll Tax | \$710 million (based on 0.5%) | A tax is paid by employers, either as a flat tax based on the number of employees they have or as a percentage of gross pay in a given period. | Businesses |

What business said:

The Employer Payroll Tax would disproportionately affect small and medium-sized enterprises who are already struggling in the current economic climate.

The tool would be a drag on competitiveness and job creation at a time when unemployment is high and economic recovery fragile. Businesses would hire fewer employees. And, the tax would be a disincentive to invest in the GTHA.

While some participants noted that transit infrastructure helps employers tap a wider labour pool and move their goods across the region, they were concerned that there is no direct connection between the input (revenue) and the output (improved transportation).

Non-Starters cont'd

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|---------------------|--|--|-----------------|
| Property Tax | \$480 million (based on 5% increase in property tax) | A percentage-based tax is applied on the value of property owned by individuals and organizations. | Property owners |

What business said:

Property tax is used as a municipal lever to fund a variety of essential services. There was consensus among participants that the tool should be left to municipalities to fund these services, given the fiscal challenges municipalities face.

As well, many were concerned about fairness and the inequities between 416 and 905 residential property tax rates. A blanket property tax hike would disproportionately burden residents in the 905.

Medium Potential

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|--------------------------------|---|--|---|
| Commercial parking levy | \$1.36 billion (based on \$1/day per space) | A daily levy is charged to property owners based on the amount of non-residential off-street parking spaces owned. | Non-residential property owners who provide parking |

What business said:

Fairness between the 905 and 416 was a primary concern for participants. The 905 has more and larger shopping plazas and parking lots for employees. These businesses would have to bear a disproportionate share of the burden.

Commercial shopping parking lots are intended to hold the maximum number of people. Participants were concerned about the economic impacts if a business has to pay for spots that sit empty during off peak hours.

There was also concern that higher parking rates will encourage businesses to locate outside the GTHA.

Some participants were concerned that this was a hidden tax on consumers since business was likely pass on the costs through increased prices.

Others noted that this tool would encourage better and more efficient land-use planning.

Reducing the rate from \$1/day to \$0.50/day and offering an exemption for small businesses were the proposed design parameters.

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|---------------------------|--|---|-----------|
| Regional Sales Tax | \$1.3 billion (based on 1% regional sales tax) | A sales tax is a percentage rate applied on all goods and services. | Consumers |

What business said:

Some participants did not like that there was no direct link between the tool and transportation improvements.

Most participants agreed that this tax would be easy to administer and therefore highly efficient. It would also generate significant revenue.

Others noted that everyone benefits from improved transportation infrastructure, therefore everyone should contribute to funding it.

There was consensus that this tool would need to be implemented province-wide. Every community across the province has an infrastructure deficit. The funds generated in each community would stay in each community for local infrastructure needs. In other words, what is raised in North Bay should stay in North Bay. A province-wide tax would prevent a sales leakage from the GTHA to its surrounding areas.

A rebate for low-income individuals was a proposed design parameter.

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|----------------------------|--|--|--------------------------|
| Development charges | \$90 million (based on 15% increase of fees) | One-time levies imposed on new developments and eligible redevelopments. | Land/property developers |

What business said:

Some participants were concerned that development charges would not influence travel behaviour.

Some communities felt that development charges are already quite high and increasing them further would only drive developers out of the region.

Other participants felt that developers benefit from the proximity to transit infrastructure and therefore they should contribute to building it. A number of participants proposed that rates could be adjusted according to proximity to transit infrastructure.

Medium Potential cont'd

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|------------------------------|-------------------------------------|---|----------------|
| Transit Fare Increase | \$50 million (based on \$0.15/ride) | A fare surcharge dedicated to capital projects is applied to all transit trips in the GTHA. | Transit riders |

What business said:

Many participants felt that asking transit users to pay a portion of the cost was fair.

However, there was concern that this type of increase would be regressive and an unfair burden to people that depend heavily on the transit system for their transportation needs (e.g. low income individuals, students, and seniors).

Another key concern was that raising fares would discourage ridership and thus defeat the purpose of enhanced transit investment.

Most participants agreed that if a fare increase is implemented, it should occur once service improvements and new infrastructure are in place.

The recommended design parameters included: implementing distance-based fares, introducing time of day pricing to reduce congestion at peak periods, and providing some form of a rebate for low-income individuals, students, and seniors.

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|--|-----------------------------------|--|----------|
| High Occupancy Toll (HOT) Lanes | \$25 million (based on \$0.30/km) | A charge on vehicles with one person who use High Occupancy Vehicle (HOV) lanes. | Drivers |

What business said:

There was a general lack of clarity on how HOT lanes would work. Concerns about the administrative burden associated with either implementing the system or monitoring drivers using the lanes were raised repeatedly.

There were concerns about congestion on HOV lanes and the negative impact on programs, such as *Smart Commute*.

In addition, the low revenue generation potential was a key concern for participants.

There were questions about whether there would be toll duplication in the event that highways were tolled and HOT lanes were in place.

Some participants supported the user pay nature of the tool.

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|---------------------------|--|---|-----------------|
| Land Value Capture | \$20 million (based on variable rates) | Land value capture aims to collect a share of the increased value in property development that results from transportation investment. Revenues can be generated through agreements with developers for up-front contributions or periodic contributions paid over the duration of a project. | Property owners |

What business said:

There was a general lack of information on how land value capture would be implemented. This led to concerns that the tool is too complex administratively. This, plus its low revenue potential, makes land value capture a difficult sell.

Like development charges, some participants felt that this tool sends a good policy signal to property owners who benefit from proximity to transit infrastructure.

Others disagreed and felt that increasing fees to property owners/developers would discourage new development.

There were concerns about the fairness of the tool for those in the 416 or large urban centres, such as Mississauga.

High Potential

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|----------------------|---|--|----------|
| Highway Tolls | \$1.4 billion (based on \$0.10/km on 400 Series highways, and major municipal expressways, which is approximately half of 407 tolling charges). | Motorists pay a toll per kilometre travelled on designated highways. | Drivers |

What business said:

Highway tolls are a familiar model. Participants noted that the elements of the Highway 407 tolling system must not be replicated. Namely, the revenue should be dedicated to transportation improvements and there should be guarantees around price stability.

Participants noted that people are far more willing to pay when there is a direct connection between the revenue collected and infrastructure improvements.

Participants expressed concern about traffic and congestion moving onto the arterial roadways.

Highway tolls are seen as a long-term revenue source. Some participants noted that tolls should be introduced incrementally, either on a few lanes, or only once transit service improvements have been made.

Participants were concerned about administrative efficiency and the high administrative costs and implementation of tolls.

Design parameters might include off-peak pricing which could encourage off-peak travel and increase carpooling during peak hours.

| Revenue Tool | Potential Revenue/Year | How it Works | Who Pays |
|-----------------|---------------------------------------|---|----------|
| Fuel Tax | \$730 million (based on \$0.10/litre) | An additional tax is applied to the sale of transportation fuels, as a flat rate per litre of fuel purchased. | Drivers |

What business said:

A fuel tax is a familiar tool that is administratively efficient.

There was some concern that while fuel taxes are currently collected for use by municipal and provincial governments, they are not dedicated to transportation. Therefore participants were worried any additional revenues from a fuel tax would also fall into the ‘black box’ of government coffers.

Participants found this tool adheres to the user pay model and has the potential to influence travel behaviour.

There was also broad consensus that the revenue is not very sustainable and will diminish as fuel efficiency increases.

There were concerns about the price per litre, and one design parameter suggested was to set the fee at a maximum of \$0.05/litre.

CONCLUSION

The OCC consulted with businesses of every size and from every sector. We heard loud and clear: **business understands the need to invest in new transportation infrastructure.**

We also heard that there is no one slam dunk revenue tool.

However, general consensus emerged around *non-starter* tools. Non-starters from the business perspective included: payroll tax, property tax, and vehicle kilometres travelled.

Consensus also emerged around principles fundamental to an effective, efficient, and equitable funding model for The Big Move.

Business wants dedicated revenue, transparency, and accountability. They are also concerned about fairness between Toronto and the rest of the GTHA, between low income individuals, students, and seniors and higher income individuals, between direct users of the system and others, and between corporations and individuals.

Finally, revenue tools must promote competitiveness and job creation.

The OCC thanks Metrolinx for making their staff and analysis available throughout the consultation process.

Investing in transit and transportation infrastructure is essential if we are to emerge stronger.

ACKNOWLEDGMENTS

The OCC would like to thank all the GTHA chambers/boards for their contribution to this report. In particular, we would like to acknowledge the following chambers/boards for demonstrating leadership, collaboration and commitment to the project.



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ABOUT THE ONTARIO CHAMBER OF COMMERCE

The OCC is the most diverse and representational business group in the province. The OCC works closely with governments, labour, academia, and other business associations to create a stronger and more vibrant Ontario economy.

The OCC represents 60,000 businesses across the province through our network of local chambers of commerce and boards of trade. Our members employ about two million people and produce roughly 17 percent of Ontario's Gross Domestic Product.

Get Involved

If you would like to get involved in the OCC's taskforces, please contact Josh Hjartarson, Vice President, Policy & Government Relations at joshhjartarson@occ.on.ca



“INFRASTRUCTURE IS NOT ONLY
A NECESSARY CONDITION
FOR GROWTH BUT, TOGETHER
WITH HUMAN CAPITAL AND
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ACROSS THE OECD.”

OECD, 2009



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