

MASS TRANSIT SYSTEM - SUSTAINABLE FUNDING AND GROWTH PLAN

Interim Update

RECOMMENDATION

That the April 13, 2022, City Operations report CO00607, be received for information.

Report Purpose

Information only.

Committee is being informed of the alternative funding sources for further qualitative analysis which could support future transit growth for long-term City Plan alignment (Transformative Changes). Council direction is required to move forward with one or more of the options outlined in this report.

Previous Council/Committee Action

At the April 19, 2021, City Council meeting, the following motion was passed:

That Administration provide a report to Committee with recommendations outlining a predictable, sustainable funding formula that sees incremental but impactful increases to the transit system going forward and an outline of current capacity for service growth.

Executive Summary

- Several levers need to be engaged to meet The City Plan's target of 50 per cent mode share for transit and active transportation. Application of some of these levers can also support generating predictable, sustainable funding for public transit.
- While implementing the City Plan may increase funding for transit through traditional funding sources, primarily property tax and transit fares, other strategies may be needed in the near term to provide more consistent and sustainable funding for transit.
- Transit agencies across North America are using several different tools to provide consistent and sustainable funding for transit. The report provides details on 10 funding tools used in other jurisdictions and provides a preliminary analysis of some of the implementation steps and advocacy required if they were implemented.

- While this report includes tools that can support both operating and capital budget needs, the primary focus has been on operating funding. This is in recognition that operating revenue sources currently available to ETS, which largely consists of property tax and transit fares, are strained, and may not support ETS' growth needs going forward.
- Creating a sustainable funding formula will likely require implementing a suite of tools. Before developing this formula, Administration requires Council's input on which tools to pursue further to fully understand their revenue potential and impact. Any new tool will have to balance the tradeoffs between creating more sustainable funding and the complexity/regulatory changes necessary to implement them.
- City Operations report CO00803, Bus Network Expansion Opportunities, presented to Executive Committee on March 23, 2022, discusses capabilities to expand the transit network and grow transit service in Edmonton.

REPORT

With clear targets in The City Plan to have 50 per cent transit and active transportation mode share, strategies for funding transit growth should be considered. As experienced during the COVID-19 pandemic, traditional funding tools of transit fare revenue and property tax have been strained to support current transit service levels, so it may be challenging to invest in transit service growth through these tools alone. Data from the Canadian Urban Transit Association shows that the current funding arrangements have not been enough to maintain service levels in recent years, not to mention provide for growth. ETS's revenue cost ratio and revenue hours per capita both exhibit a downward trend that predates the pandemic.

Achieving this mode shift target can be attained by realizing The City Plan's land use concept, implementing The City Plan policies related to enhancing the mobility system and applying the four levers of change - Policy, Investment, Pricing and Partnerships. Activating the market transformation underpinning The City Plan is the most effective tool to achieve mode shift and increase transit ridership. Ultimately this approach will increase funding capacity for transit two-fold: increasing transit fare revenue through higher transit ridership and increasing the property tax base through higher density development in the developed area.

As discussed at the February 2, 2021, Urban Planning Committee meeting in report CR_7810 Transit Mode Share - Increase and Impacts, in the immediate term other effective levers to reach this target involve investment to improve transit service and active transportation as well as policy and pricing tools that apply the actual cost associated with private vehicle use.

Research

The research report (Attachment 1) acknowledges a large suite of alternative funding tools being used across North America. Ten tools, which have been categorized as real estate, transportation and other tools, are more applicable in a Canadian context and were researched further. These tools have established precedent of being used in a comparable context and have the potential to be implemented given the current regulatory structures. However, while the regulatory structure may exist, significant changes would be required for implementation.

Because funding tools also involve more than just revenue impact, these 10 tools were also evaluated against additional objectives to ensure they align with other City priorities:

- Travel Choices: the ability to encourage growth in transit ridership and active transportation mode share;
- Implementation: ensuring funding tools do not require unrealistic changes to enabling legislation or cannot be efficiently introduced or managed over the long term;
- Equity: analysis of horizontal equity (impacts those in the same socioeconomic circumstances differently) and vertical equity (impacts those with different incomes differently);
- Alignment to support the goals and vision of the City's plans and strategies; and
- Revenue Potential: the ability to generate adequate levels of revenue.

Analysis and Findings

This report shows how each tool scores against the above objectives, the jurisdictional precedence and what it would take to implement the tool. The analysis also groups the tools that would have the strongest impact on travel choices, ease of implementation, equity, alignment with City objectives and revenue potential.

No one tool meets all the objectives and each tool has associated risks and concerns, the most significant being advocacy and policy changes from the provincial government which may not be receptive to new levies, surcharges and/or regulations. Many tools would be recovered primarily from residents of Edmonton, putting pressure on the public's tax and fee tolerance levels. In addition, several tools impact regional residents and relationships.

One tool, government transfers, is acknowledged in the report but was not analyzed further due to the lack of predictability in this form of funding. That being said, securing capital and operating support for transit through continued communication and collaboration with the federal and provincial governments remains a vital component of a diversified funding strategy.

Real Estate Based Funding Tools

- Benefit Area Tax: A common form of a Benefit Area Tax is commonly referred to as a Residential Subclass. Properties are taxed according to their proximity to transit infrastructure. Conventional, wealth-based property taxes remain, with the subclass tax representing a small portion of the total.
 - Legislative changes at the provincial level are required to introduce a Benefit Area Tax as they are typically structured.
 - Council does have the ability to introduce residential subclassing.
 - Administration does not recommend the use of subclassing for a number of reasons; it would fundamentally change the current tax structure, it uses a taxation tool to reflect a service level which could conflict with the principles in Council Policy C624 - Fiscal Policy for Revenue Generation, and it may contradict the use of subclassing to meet density targets.
- Community Revitalization Levies (CRL): A defined area where the lift in property tax revenue is earmarked for transit, and private investment is coordinated with public investment. CRL revenues are typically diverted toward capital improvements, not

operating expenses and need to be outlined in the CRL Plan with the improvements in the CRL area.

- The City currently has three CRLs for the Belvedere, the Quarters and the Arena District. CRLs can only be pursued with provincial approval and the province has not approved a new CRL since 2014.
- **Dedicated Transit Funding:** Funds are drawn from a protected portion of general property tax revenue, similar to neighborhood renewal, alley renewal and LRT reserve.
- **Real Estate Opportunities:** The practice of direct municipal involvement in the land market through development, public land leasing, partnerships, and the strategic acquisition and disposition of land, particularly on mass transit corridors.
 - The City has participated in some of these initiatives in the past, such as Station Pointe which has not yet realized its objectives. Real estate opportunities come with a fair degree of risk, need to be market driven opportunities, and depending on the method of disposition, can have irregular cash flows.

Transportation Based Funding Tools

- **Motor Fuel Tax:** A local surtax levied on the sale of motor fuel, often at wholesale, and passed on to individual drivers at the pump.
 - This would require provincial legislative changes.
- **Parking Fees:** A parking fee levied on any paid parking space in Edmonton, to be paid by the consumer and remitted to the City by private parking vendors or directly collected through municipally operated parking. Funds would need to be directly allocated to Transit.
 - Current provincial legislation does not permit the City to implement parking fees on privately owned parking facilities.
 - Redirection of city generated parking revenue from on-street parking and city owned parkades where revenues currently offset the tax levy, would result in an increase in the tax levy.
- **Road Usage Charging:** Drivers are charged a fee that varies according to the distance they travel. This is a relatively new tool that differs from traditional road or bridge tolls, as it leverages vehicle location data to charge drivers to the actual amount of distance traveled regardless of what piece of infrastructure is being used.
 - Current legislation does not permit the use of road use charges and would require legislative amendments and would likely face significant political hurdles.
 - This tool did not meet the project objectives.
- **Transportation Network Company (TNC) fee:** A flat or variable fee charged to TNCs, that would be charged to the passenger on a per ride basis, and dedicated for transit.
 - As per Canadian case law, revenues raised from licence fees could only be applied toward the cost of implementing the regulatory system and not collected for another purpose
- **Vehicle Registration Fee:** An additional vehicle registration fee determined at the municipal level and collected by the province on behalf of the municipality as part of the vehicle registration process.
 - This would require amendments to the *Traffic Safety Act* and a local bylaw would need to be passed providing the details of the fee, exemptions, schedules, etc.

Other Tools

- Tourism Levy: A surcharge levied on temporary accommodations, such as hotels and online vacation rental companies, and remitted to the City.
 - Current legislation does not permit the use of a tourism levy. There is currently a Destination Market Fee voluntarily collected by some hotels in Edmonton, with the funds directed at marketing initiatives focusing on general destination awareness for the region.
 - Should a tourism levy be introduced in Edmonton, the funds collected would likely be earmarked to directly support tourism activities and may be directed towards partner organizations such as Explore Edmonton.
 - This tool did not meet the project objectives and has the least potential for revenue in the long term.

Next steps

The preliminary analysis indicated that four tools: benefit area tax (residential subclass), road usage charging, TNC fee and the tourism levy, did not meet the project objectives.

The remaining tools: community revitalization levy, dedicated transit funding, real estate opportunities, motor fuel tax, parking fees and vehicle registration fees, show promise, however, require Council direction on which, if any, to pursue.

As a result of this analysis, Administration recommends pursuing a mix of tools to offer stronger performance and resiliency, since no single tool will provide for all of transit's future needs. Upon Council's direction on which tools to research further, Administration recommends modeling a suite of tools to determine their potential to contribute to predictable, sustainable funding for transit, which could further inform a transit funding formula as requested in the motion. Administration would identify the risks, trade offs and potential unintended consequences. This would also include what collaboration with other orders of government would be required and what legislative changes would be required or supported. Administration also recommends exploring interest for shared advocacy on tools with other Alberta transit agencies and the Edmonton Metropolitan Regional Transit Services Commission.

Budget/Financial

Most new funding sources would not be ready for implementation in the 2023-2026 budget cycle. The next stage of work will include detailed financial projections to determine the funding potential of the proposed tools. These projections could inform establishment of a funding formula.

COMMUNITY INSIGHT

Edmontonians value safe, reliable and convenient transit service. As Edmonton grows in both geography and population, the demand for increased transit service continues to grow. At the same time, Edmontonians' tolerance for increased taxes and user fees is diminishing. As this report is a preliminary evaluation of funding tools, public engagement, including engagement with our municipal neighbours and businesses, can be completed with a more detailed qualitative analysis.

GBA+

Equity was one of the five criteria against which each potential funding tool was evaluated. Tools were evaluated to determine if it would treat those in the same socioeconomic circumstances equally. This analysis considered the impacts of each tool on horizontal equity (impacts those in the same socioeconomic circumstances differently) and vertical equity (those with different socioeconomic circumstances are taxed differently). The equity evaluation was embedded in the tool evaluation and results are shown in Attachment 1: Sustainable Funding Tools for Edmonton Transit Service on page 15.

Further GBA+ will be embedded in the future evaluation and implementation of the selected funding alternatives. Additional work will require further consultation with equity-seeking groups and explore the intersectionality of socioeconomic status with identity factors such as race, gender, accessibility, immigration status, language and education.

ATTACHMENT

1. Sustainable Funding Tools for Edmonton Transit Service