PUBLIC TRANSIT:
AN ECONOMIC STRENGTH FOR CANADA

Opinion submitted to the House of Commons Standing Committee on Finance as part of the Government of Canada's Pre-Budget Consultations

August 2014

SOCIETY IN MOTION

stm

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Société de transport de Montréal

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Summary of recommendations

The STM recommends the following to the federal government:

1— fully index transfers from the Gas Tax Fund

2— pay all of the federal gasoline excise tax into the Gas Tax Fund

3— financially support research and development in the area of public transit in order to develop higher-performance vehicles

The STM

The Société de transport de Montréal (STM) is the second largest public transporter in Canada and the 14th largest company in Quebec, with over 9,400 employees.

The transit corporation makes approximately 1.3 million trips per day, for a total of 416.5 million trips in 2013. Its 2014 budget is $1.3 billion and the replacement value of its assets is estimated at over $14.5 billion.

The STM provides 76% of the public transit trips in the Montréal area and 68% of all trips in Quebec as a whole.

The corporation represents an economic strength for Quebec and for Canada, doing business with over 1,800 suppliers in 14 regions province-wide. In 2012, it had current expenses totalling $1.36 billion. In all, more than 16,500 jobs are supported by the STM's operations, resulting in an annual economic impact of $1.4 billion. These operations also generate $123 million in tax revenue for the Government of Canada.[1]

Public transit, an economic strength for Canada

Investing in infrastructure helps boost economic growth. The public transit infrastructure is worth the investment because, in addition to creating jobs, it enhances productivity, reduces traffic congestion and helps households save money.

1- Supporting economic growth and creating jobs

- In Canada, public transit produces an estimated $11.5 billion a year in economic spinoffs, according to the Canadian Urban Transit Association (CUTA).
- Every dollar invested in the sector generates three dollars in economic spinoffs.
- The Canadian public transit industry employs approximately 75,000 people nationwide.
- Canada's public transit suppliers exported $751 million in goods and made investments totalling $92 million in 2012.

2- Stimulating productivity

An effective public transit system reduces travel time, which is beneficial both to companies and to individuals. It also contributes to better functioning of the labour market by expanding the recruitment pools available to businesses and thus promoting a better match between labour supply and demand.

[1] Analyses of the economic impact of the STM's ongoing operations were conducted by the firm E&B Data.

In addition, public transit helps support the "agglomeration effect," i.e. the geographic concentration of jobs and businesses significantly increases the economy's productivity. One of the main ways in which public transit boosts economic productivity is by promoting urban density. The high concentration of jobs in downtown Montréal would be impossible without the Métro. Without public transit, the effects of urban density are reversed: traffic congestion results in increased distances and reduced concentrations.

3- Mitigating the impact of traffic congestion

Vancouver, Toronto, Montréal and Ottawa are among the 10 most congested cities in North America (2nd, 5th, 9th and 10th respectively), according to the latest Traffic Index produced by the firm TomTom.

The scale of the congestion problem is not in doubt. It affects quality of life, the environment and the health of Canadians. Further, traffic congestion results in enormous costs to society and the public purse. It affects the competitiveness of our cities, hinders the productivity of businesses and reduces the competitiveness of the Canadian economy. Every year, traffic congestion costs us billions of dollars in direct losses.

Fortunately, experience has shown that improving the supply of public transit results in a substantial increase in demand for public transit. It thus becomes possible for larger numbers of people to leave their cars at home, if travel conditions allow.

4- Helping households save money

In 2012, Canadians spent an average of $11,216 on transportation. After housing (28%), it is the largest expense category for households (19%).[2]

Cars cost their owners $8,800 to $11,800 on average per year.[3] Conversely, STM public transit costs Montréalers less than $1,000 a year. According to a study conducted by the Metropolitan Montreal Board of Trade, public transit saved Montréal households over $800 million in 2010.[4]

Providing more support for public transit means allowing more households to reduce the burden of their transportation expenses. The money freed up can be spent in support of other sectors or enable households to enrich their lives by purchasing higher-value property.

Maintaining the STM's assets

The STM owns a vast stock of assets. Nearly half of the Métro system has been in service for about 50 years. The other half is made up of three extensions, the first in service for nearly 40 years, the second for over 20 years and the third (to Laval) since 2007. Like its rolling stock and its built heritage, most of the Métro's fixed equipment has reached the end of or exceeded its useful life.

The same is true of the bus system's surface infrastructure. The Complexe Crémazie was built in 1948 and expanded in 1956, while the Mont-Royal transit centre was built in 1928 and the one in Saint-Denis in 1958. These centres, to name just a few, are ageing and significant sums of money have been spent to prolong their useful life.

[2] Statistics Canada, "Survey of Household Spending, 2012," *The Daily*, January 29, 2014.
[3] Canadian Automobile Association (CAA), Driving Costs, 2012 Edition.
[4] *Public Transit. At the heart of Montréal's economic development*, Board of Trade of Metropolitan Montreal, 2010.

The STM's investment deficit

Despite major investments over the past several years to renovate the Métro's fixed equipment and infrastructure and to maintain and repair the transit centres, it has not been enough to keep assets in sufficient condition to deliver a high level of service, thus resulting in an investment deficit.

Under its 2014-2016 Three-Year Capital Program, the STM plans to invest nearly $2.2 billion over the next three years. A significant proportion of the investment, 71%, is earmarked for asset maintenance.

Despite these efforts, the corporation has fallen behind in the past few years in replacing assets that have reached the end of their useful life, and the investment deficit of $3.9 billion at December 31, 2013 cannot be made up.[5]

The STM's recommendations

Recommendation #1: Fully index transfers from the Gas Tax Fund

Since its establishment in 2007, the Gas Tax Fund (GTF) has provided critical support for the renewal of municipal and public transit infrastructure. At the STM, it has been used notably to purchase buses in order to improve its service offering. The upcoming roll-out of the Ibus system, a real-time information system that will substantially improve the customer experience on the STM bus network, will also become reality thanks to a GTF contribution.

The GTF currently has an annual budget of $2 billion. The 2014-2023 Building Canada Plan provides for a 2% increase in $100-million instalments. In concrete terms, this means that the 2% increase must reach $100 million in order to take effect (which it will do every two to three years). We therefore will not see increases until 2016, 2018, 2021 and 2023. The Building Canada Plan thus anticipates allocating $21.8 billion to the GTF for the 2014-2023 period.

Genuine indexing (i.e. a 2% increase effective each year) would involve allocating increases each year ($40 million in 2014, $40.8 million in 2015, $41.16 million in 2016, etc.). For the full 2014-2023 period, a total of $22.3 billion would therefore go into the GTF, i.e. $537 million more over 10 years (1% of the total value of the Building Canada Plan).

This would better meet the needs of municipalities across Canada. By guaranteeing more stable growth in the transfers to municipalities, full indexing would foster better and more responsible planning for municipal infrastructure spending.

Recommendation #2: Pay all of the federal excise tax into the Gas Tax Fund

The federal gasoline excise tax of 10 cents per litre generated over $4.2 billion in revenue in 2012. Slightly less than half of the money went to the Gas Tax Fund ($2 billion). By gradually transferring all gasoline excise tax revenue to the Gas Tax Fund, we could provide greater support for Canadian municipalities' infrastructure spending, particularly on public transit.

To do this gradually, the STM proposes that the government increase the excise tax contribution to the Gas Tax Fund over 10 years. This would mean an increase of $210 million per year (the revenue equivalent of 5 cents of the tax) over 10 years until the end, when all gas excise tax revenue (10 cents) would go into the Fund.

This initiative would enable Canadian municipalities to invest more in maintaining and developing strategic infrastructure, particularly in the area of public transit.

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[5] "Investment deficit" is the amount of investment necessary to repair or replace an asset put off because the resources required to do so are not available.

Recommendation #3: Fund research and development into public transit in order to develop higher-performance vehicles

A flexible testing and demonstration program would allow transportation companies to try out different technologies. The program could take its inspiration from the Urban Transportation Showcase Program, a Transport Canada initiative that ran from 2004 to 2008. The program was designed to support development and integration of technological initiatives, transportation planning tools and best industry practices. It was part of the Government of Canada's Climate Change Action Plan. A new program could be part of the government's current greenhouse gas reduction approach.

The Urban Transportation Showcase Program enabled the STM to test hybrid drive buses, among other things. In retrospect, it played a major role in the STM's decision to buy only hybrid buses starting in 2013, as the corporation realized during its testing that hybrid buses reduced fuel consumption in urban areas by 37%.

A new program could have the same level of funding as the former program, i.e. $40 million over five years (indexed). This would allow transportation businesses and corporations to establish testing and demonstration projects for new public transit technologies.