Corporate Report

Clerk's Files

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DATE: June 4, 2008

TO: Chair and Members of Budget Committee
Meeting Date: June 11, 2008

FROM: Brenda R. Breault, CMA MBA
Commissioner of Corporate Services and Treasurer

SUBJECT: **Review of Transit Spending Related to Federal and Provincial Grants**

RECOMMENDATION: That the report entitled "Review of Transit Spending Related to Federal and Provincial Grants" dated June 3, 2008 from the Commissioner of Corporate Services and Treasurer be received for information.

OVERVIEW: A request was made during the May 13, 2008 Budget Committee meeting to examine how Federal and Provincial transit related grants have been utilized in the capital and operating budget, explain the restrictions on this funding and the impact it has had on property tax requirements.

As a result of the Federal and Provincial transit funding announcements, which began in 2005, the City of Mississauga has been able to:

1. Significantly increase transit capital investments and transit projects that would otherwise not have been completed.

2. Implement the City's large bus replacement program on a regular/timely basis without raising property taxes.

3. Increase Transit on-street services, without impacting property taxes.

However, there are important issues associated with the new Federal and Provincial transit funding programs such as:

- there are many conditions associated with each grant program;
- Gas Tax sharing is capped at a fixed amount and will not increase over time even if operating service improvements are still required and capital costs continue to rise;
- Contributions to the BRT are also capped and the City is required to fund any cost escalation on this very large scale project; and
- The City's transit capital financing and budget has become heavily dependant on subsidies and there is always a risk that funding could be terminated at any time.

BACKGROUND:

Historically, the Province provided a 75% subsidy rate for transit capital expenditures as well as subsidy assistance for operational costs. Provincial subsidies for transit were largely eliminated by 1997 and it was not until 2003 that the Province reinstituted support for municipalities with some partial funding for bus replacement costs.

During this period (1997-2003) the City did not add any new transit services nor was it able to expand its fleet of buses. With limited funds and a growing infrastructure gap, the City could not afford to expand transit facilities nor improve on-street services while still trying to manage property tax increases.

The chart below provides a summary of Federal and Provincial funding from both one-time and on-going grant programs to assist the City in upgrading and expanding transit services in Mississauga. This chart provides a historical review of funding received or committed from 2004 to the present including the Federal BRT funding commitment.

Federal & Provincial Transit Funding

($ millions)	2004	2005	2006	2007	2008	Total
Ongoing Funding						
Provincial Gas Tax*	$1.8	$5.5	$14.7	$15.3	$15.4	$52.7
Ontario Bus Replacement		$3.2	$9.3	$5.9	$5.2	$23.6
Federal Gas Tax		$5.9	$17.9	$14.8	$15.6	$54.2
Subtotal	$1.8	$14.6	$41.9	$36.0	$36.2	$130.5
One Time Funding						
Federal BRT Commitment					$58.0	$58.0
Federal Public Transit			$5.9	$14.0		$19.9
Metrolinx BikeLinx					$0.7	$0.7
Provincial BRT Funding			$65.0			$65.0
Move-Ontario 2020 Higher Order					$26.5	$26.5
Provincial Transit Grant					$10.2	$10.2
Subtotal	$0.0	$0.0	$70.9	$14.0	$95.4	$180.3
Total	**$1.8**	**$14.6**	**$112.8**	**$50.0**	**$131.6**	**$310.8**

* Majority of Provincial Gas Tax is committed to the Operating Budget

The new Federal and Provincial funding programs come with a variety of conditions and restrictions. Some programs differ from others – for example, Federal Gas Taxes can only be used for capital spending while Provincial Gas Taxes can be used to fund capital and operating costs. Despite these differences, all the new transit grants have these common restrictions:

- the monies are conditional and must be used for the specific purpose(s) set out in the individual program;
- existing municipal spending can not be decreased (i.e., the City can not use Federal and Provincial funding to replace the City's existing funding support for programs; and
- grant money can not be used to reduce City taxes from pre-existing levels.

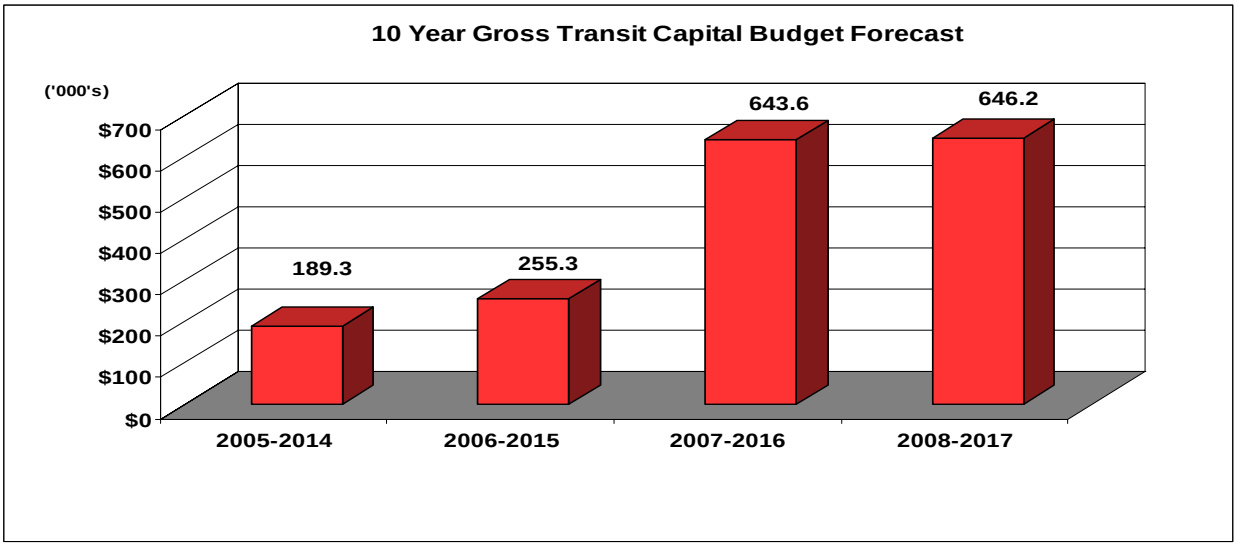
COMMENTS:

Capital Budget Implications

A review of the transit capital budget has been conducted comparing

the City's transit capital investment plans before and after the new Federal and Provincial grant programs.

The chart below demonstrates that spending on Transit has continued to increase considerably with the on-going assistance from Federal and Provincial funding and Council's commitment to expand and improve transit services. This higher level of investment would not have been feasible if the Provincial and Federal Governments had not both provided the associated subsidy support.



Since the Federal and Provincial Governments have begun re-investing in transit, several major projects have been approved by Council and incorporated into our ten year capital plan. These projects include the following:

- design and construction of Mississauga's portion of the Bus Rapid Transit (BRT) - $211 million which includes $65 million from the Province and $58 million from the Federal government
- renovation of the Central Parkway Transit facility - $76.8 million;
- renovation and upgrading of the Malton Satellite Facility -$3.9 million;
- Highway 10/Dundas Street Corridor studies - $5 million
- Kipling Subway Station Renovations -$5 million
- $26.5 million for the design and construction of Higher Order Transit along the Dundas St. and Hurontario St. corridors as well

as the purchase of 22 hybrid articulated buses; and

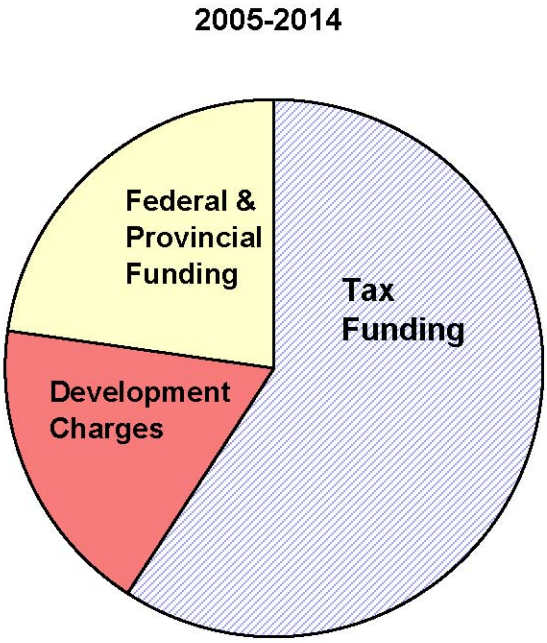
- $733,470 for the Metrolinx BikeLinx program that will be used for the purchase of bicycle racks on buses and storage facilities for the bikes.

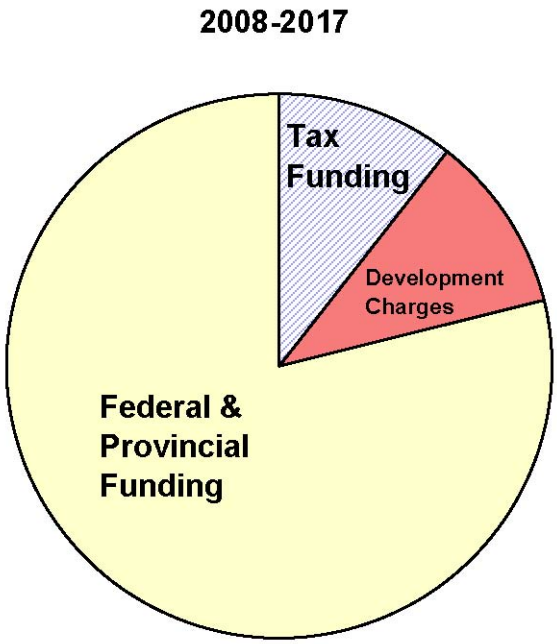
Previous to 2006, Mississauga Transit was expanding by 6 to 8 new buses a year which was funded through development charges. Starting in 2007, the City was able to expand its bus fleet by 15 buses per year (the extra buses being funded through Federal Gas Taxes). Expanding our fleet of buses has contributed to our ability to grow annual transit service by 34,000, 45,000, 72,000, and 88,000 service hours from 2005/06 through 2008/09 respectively.

Clearly, the recent appearance of Federal and Provincial Gas Tax and other transit funding provided the opportunity to replace and expand services/facilities that the City would not have been able to afford without this assistance.

It should be noted however that some of these projects come with significant risk. In particular, the Federal and Provincial governments have both put a dollar cap on their contributions to the BRT. Given the significant scale and scope of the BRT and current economic conditions, where construction prices continue to escalate significantly, any cost overruns above the current estimate of $211 million (prepared in 2006) is the sole responsibility of the City.

The following pie charts compares gross capital budget & forecast transit funding sources for the 2005-2014 budget versus the 2008-2017 transit capital budget. This pie graph illustrates how investments from the Federal and Provincial Governments have completely reversed the funding structure seen in 2005-2014 and emphasizes the City's heavy reliance on funding from senior governments. If this funding were ever to stop, it would have a dramatic impact on the City's financing, taxes and/or the number of capital projects/programs that could be completed.





Impact on City's Bus Replacement Program

An important component of the City's transit investment plans is the timely and regular replacement of its existing fleet of buses. Between 1997 and 2003, the Province was providing only a 33% subsidy for bus replacements as compared to 75% subsidy prior to this. At the 33% subsidy level, there would have been substantial tax increases in the upcoming years in order to fund our bus replacement program. As a result, the City transit budget and forecast (2003-2012) revealed several years of required bus replacements that were not funded due to financial constraints. The City only had funding in place for about 50% of its required bus replacements or $6 million a year. With the Federal Gas Tax revenues, the City is now able to fund $13.1 million annually in bus replacements on average over the ten year period (2008-2017). This reflects a significant investment in bus replacements of approximately 28 transit buses per year. Without Federal Gas Tax funding and the Provincial subsidy, some bus replacements would remain unfunded or property taxes would have had to be increased to finance the shortfall. This has had a major benefit to the City by allowing bus replacements to occur as planned at the end of their useful life without requiring tax increases.

Operating Budget Implications

Transit service impacts on the current budget are reflected through increases in drivers, mechanics, maintenance workers, supervisors etc. and operating costs (e.g., diesel fuel, bus parts, etc.) to support the operation of buses added due to growth and service improvements. Costs associated with the expansion of transit routes and service frequency, have been entirely funded through the use of provincial gas taxes.

In 2008, the City's Provincial Gas Tax allocation tops out at $15.4 million. The 2008 operating budget has $8.7 million to support service improvements and expansions implemented between since 2005. If this was not funded by gas taxes then the tax impact would have been approximately 3.2% for 2008. It is important to note the risk if the Provincial Gas Tax program was ever terminated, it would cause an immediate 3.2% tax increase.

By 2009, the entire annual Provincial Gas Tax allocation of $15.4 million will be required within the operating budget to offset the cost of service improvements. Since this funding source has been capped and will not grow over time, after 2010 and beyond any further transit service improvements/expansion will begin to impact property taxes.

In the absence of Provincial Gas Taxes and other grants, the City would not have been able to expand and improve transit services without raising property taxes. However, our transit growth strategies are dependent on this continued funding. There is a risk to municipalities that our ability to continue to expand transit facilities, improve service and relieve traffic congestion would be negatively affected if this funding was ever stopped or if it does not increase in the future.

CONCLUSION:

As a result of the inflow of Provincial and Federal Gas Taxes and other transit grants the City has been able to:

- increase transit capital investments;
- fully fund the bus replacement program; and
- expand Transit on-street service hours

without impacting taxes.

While new Provincial and Federal transit grant programs are welcomed, the restrictions placed by senior levels of government on how the grant funding must be spent do not permit municipalities to use this money to lower its own spending or cut taxes. These grant programs must be used to increase spending on and investment in primarily transit capital infrastructure and services which may result in added pressures on the tax based portion of the City's budget in future years.

Finally there are significant risks associated with these new transit funding programs such as grant levels have been capped and will not increase over time, cost over runs on the BRT are the sole responsibility of the City, it creates a financial dependency within our capital and operating budgets, and subsidies could be terminated at any time.

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Commissioner of Corporate Services and Treasurer

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