

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF MAY 14, 2013

Item 2, Report No. 7, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on May 14, 2013.

2 METROLINX `THE BIG MOVE` - REVIEW OF SHORT LISTED INVESTMENT TOOLS

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Acting City Manager and the Acting Commissioner of Finance & City Treasurer, dated May 6, 2013:

Recommendation

The Acting City Manager and the Acting Commissioner of Finance & City Treasurer recommend:

1. That this information be received.

Contribution to Sustainability

Traffic congestion and transit are top of mind issues for the City of Vaughan, which were reaffirmed in the latest Ipsos Reid community survey. This issue extends well beyond the City of Vaughan boundaries and affects the Greater Toronto and Hamilton Area (GTHA). Metrolinx, an agency of the Government of Ontario, was created to improve transportation in the GTHA in an effort to support a strong economy, a healthy environment and a vibrant quality of life. To accomplish this task, Metrolinx has embarked on an initiative termed "The Big Move" which will transform the way the people move around in the GTHA. Funding resources are vital to help this transformation and as such Metrolinx is in the process of determining a responsible and sustainable investment strategy and supporting funding tools.

Economic Impact

There is no economic impact resulting from the recommendations of this report. However, Metrolinx is in the process of determining appropriate future investment tools to support the "The Big Move" initiative. These choices will impact the community and depending on the tools selected there could be significant implications for the City (e.g., encroaching on municipal property tax revenue sources, increased payroll costs, administration requirements, etc.).

Communications Plan

There is no communication plan associated with this report. However, a key next step in the Metrolinx engagement plan is to reach out and consult with municipal partners regarding the shorter list of 11 potential dedicated investment tools. As briefly illustrated below, their timeframe to obtain feedback is considerably compressed:

- March 31st - AECOM/KPMG report released
- April 2nd - Short listing of investment tools released
- April 9th - Metrolinx briefed CAOs around the region
- April 23rd - Metrolinx meeting with Mayors from York and Durham Region
- May 1st - Informal discretionary feedback soft submission deadline
- May 27th - Metrolinx Board Meeting (Final Report)

Further to the above, Metrolinx is also encouraging the general public to comment on the shortlisted funding tools through the following methods:

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- Web Survey: WWW.BIGMOVE.CA
- Email: Mathew.bertin@metrolinx.com
- Mail: Community & Stakeholder Relations Specialist
20 Bay Street, Suite 600, Toronto, Ontario M5J 2W3

Purpose

The Metrolinx “The Big Move” initiative will require significant investment to support the next wave of projects. The purpose of this report is to provide Committee/Council with an awareness of the initiative and a brief review of the shortlisted investment tools being considered.

Background- Analysis and Options

“The Big Move” is a provincial initiative that outlines the vision for transportation in the Greater Toronto and Hamilton Area (GTHA), which is spearheaded by Metrolinx, the Province’s regional transportation agency for the GTHA. Launched in 2008, this initiative spans 25-years, requiring over \$50-billion for coordinated, integrated transportation and transit in the GTHA. More than \$16 billion in investment was committed to visible improvements seen throughout the GTHA, including the Vaughan Subway expansion, York Region VivaNext Bus Rapid Transit Project, etc.

The next wave of Metrolinx projects will require an investment estimated at \$34 billion, approximately \$2 billion annually. These funds will be directed at increasing capacity and improving regional connectivity. Examples of these projects are the Yonge North Subway extension, GO rail expansion, a host of local transit, highway, and active transportation improvements necessary to ensure a strong, prosperous economy and improved quality of life. More information regarding specific projects can be found on the Metrolinx website.

Funding the next wave of “The Big Move” projects will require a funding strategy supported by responsible and sustainable funding sources. Initially Metrolinx identified 25 investment tools and engaged AECOM/KPMG to prepare a report outlining each identified tool profile, revenue estimates and an evaluation of specific criteria to assist in developing an investment strategy. It should be noted; the report, available on the Metrolinx website, serves as an information document and does not provide a prioritization or recommendation of investment tools. Recently, Metrolinx released a revised list of proposed investment tools, which narrowed down the initial list of 25 funding tools to 11. This information was first illustrated in the April 2nd, 2013 presentation titled “Investing in our Future”, with subsequent similar versions issued on April 18th and 23rd, the most current is provided as Attachment #1. The presentation also indicates Metrolinx is planning to release a final report and recommendations at the Metrolinx Board meeting on May 27th, 2013, which is supported by their mandate:

“Metrolinx is mandated that on or before June 1, 2013, to provide the Minister and the heads of the councils of the municipalities in the regional transportation area with a copy of the Corporation’s investment strategy, including proposals for revenue generating tools that may be used by the province or the municipalities to support the implementation of the transportation plan for the regional transportation area”

Metrolinx Investment Tools under Consideration

The following section will briefly describe each of the proposed funding tools being considered. Commentary is largely based on the March 31st, 2013 AECOM/KMPG report – “Big Move Implementation Economics: Revenue Tool Profiles”

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1) Parking Space Levy

Potential Annual GTHA Revenues – \$1 per space per day = \$1.4 billion/year

A parking space levy is a per-day charge on all non-residential, off-street parking spaces within the GTHA. Owners of the parking spaces are charged directly and this cost is typically passed through to users in the form of increased parking prices. The revenue estimate is based on a daily fixed fee charged per parking space.

Positive Attributes

- Ability to generate a significant amount of revenue
- Potential for a single provincial authority (e.g. Metrolinx) to monitor and collect revenues
- Reasonable way to directly charge users of the transportation network (user/cost burden connection)
- Additional costs of driving may influence transportation behaviour e.g. shift toward public transit
- Non-priced parking spaces might be converted to other uses to avoid cost increases, which may have positive impacts on land-use

General Concerns

- Ability to pass-through costs to drivers depends on the strength of local demand for priced parking
- Increased cost could raise the costs associated with accessing transit hubs
- Very likely that large retailers will push back on this tool to avoid any impact on their business
- Administrative costs required for collection, though some parking collection mechanisms exist

City of Vaughan Implications

- If the charge is based on area rather than per stall, the charge will be similar to property taxation and as such, could likely be lumped in with current municipal property tax collection
- The City of Vaughan has many off street parking sites and could be subject to charges

2) Payroll Tax:

Potential Annual GTHA Revenues – 0.5% = \$700 million/year

A payroll tax is a tax withheld by employers and remitted to the government. The Aecom KMPG report assumes a payroll tax would be implemented as a percentage of gross pay and applied uniformly to employers in the GTHA, similar to other Federal and Provincial payroll deductions (e.g., Employment Insurance, etc.). The payroll tax would apply to all employment income within the GTHA and follow a typical payroll deduction methodology in that one portion is paid by the employer and another is paid by employees.

Positive Attributes

- Potential to generate a moderate amount of revenue
- Incremental costs associated with the payroll tax would be minimal as the system currently exists
- Payees would have a fairly good understanding of what the deduction is for

General Concerns

- Increased costs may reduce the attractiveness and competitiveness of businesses in the GTHA
- Revenues will fluctuate with the economy
- No incentive to alter commuter habits or travel behaviour
- Taxing employees on business location will present issues e.g. employee works in Ottawa for an employer based in Toronto

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City of Vaughan Implications

- Increasing payroll taxes will increase Vaughan labour costs (employer portion)
- Implementation costs associated with collection and remittance could impact the City
- Higher costs will reduce employment attractiveness; lower net-of-tax wages

3) Property Tax:

Potential Annual GTHA Revenues – 5% increase in revenues = \$670 million/year

Property taxes are a percentage based tax levied on the assessed value of real property owned. Property taxes are a common revenue tool for municipalities to pay for a variety of programs and services. Using property taxes to generate revenue to fund the Metrolinx new wave of transportation projects would require an incremental increase to all municipal property tax rate categories in the GTHA. Revenues generated would be earmarked for transportation projects and remitted to Metrolinx. An upper bound on the increase in property tax revenues in the region being dedicated to transportation funding has been identified at 10%.

Positive Attributes

- Sustainable source of revenue over the long-term as revenues are linked to the value of land
- Ability to generate a moderate amount of revenue
- Payment and collection mechanisms already exist within the municipalities

General Concerns

- High property taxes could lead to reduced real estate development or relocation outside of the GTHA
- An increase in property taxes may also discourage intensification
- Link between property taxation and Metrolinx projects is not as obvious as other tools
- No incentive to alter commuter habits or travel behaviour
- Public opposition is likely to be high.
- Coordinating across municipalities within the GTHA will likely have associated incremental costs

City of Vaughan Implications

- Property taxes are a principle source of revenue for municipalities and there is concern that using this funding source for Metrolinx transportation projects will be in direct competition with Vaughan affecting the City's ability to fund other municipal services and capital projects.
- Increased property taxes will impact resident and business retention
- Increased resident confusion regarding how property tax proceeds are utilized. Currently members of the community have difficulty understanding the Local, Regional, and SchoolBoard tax relationship.
- There will be some incremental administrative costs and challenges associated with processing the collection of the new tax and remitting to Metrolinx.

4) High Occupancy Tolls (HOT lanes):

Potential Annual GTHA Revenues – \$0.30/km = \$25million/year

This funding source is based on charging single occupant vehicles for the use of otherwise restricted High Occupancy Vehicle (HOV) lanes on highways and express ways. Moving forward, existing or planned HOV lanes would be converted to HOT lanes with a toll charge mechanism developed to charge low occupancy vehicles using these dedicated lanes. High occupancy vehicles (a minimum number of passengers) would continue to use these dedicated lanes for free.

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Positive Attributes

- Maximizes the efficiency of HOV lanes and potential to improve general travel conditions
- Improves the choices available to road users i.e. the charge is optional.
- Long term revenue potential in the range of \$160-\$250m range
- Purpose of the charge is relatively transparent
- Potential for a single provincial authority (e.g. Metrolinx) to monitor and collect the toll revenues

General Concerns

- Capital investment would be required for vehicle monitoring and transaction systems
- Inherent complexity and challenges associated with implementing
- No incentive to alter commuter habits or travel behaviour
- Compared to other options the initial revenue estimate is comparatively low resulting from few HOV lanes. Plans to implement more HOV lane will generate potential for additional future revenue
- HOV lane capacity may be limited to support additional usage or attractiveness
- Can be criticized for providing benefits to higher income earners (known as the "Lexus Lanes" issue).

City of Vaughan Implications

- There is very limited exposure to the City of Vaughan

5) Vehicle Kilometres Travelled (VKT) Fee:

Potential Annual GTHA Revenues – \$0.03/km = \$1.6 billion/year

In a VKT system, drivers pay a fixed fee charge for every kilometre they travel within a designated area, through odometer readings or GPS tracking. VKT charges would be applied to all drivers (trucks and passenger vehicles) in the GTHA on all highways and arterial / local roads within the area.

Positive Attributes

- Ability to generate a significant amount of revenue
- Reasonable way to directly charge users of the road network (user/cost burden connection)
- The added costs of driving would likely influence transportation behaviour
- Potential for a single provincial authority (e.g. Metrolinx) to monitor and collect the toll revenues

General Concerns

- Significant infrastructure investment is required to track vehicle movement/revenue collection
- There is an inherent complexity and numerous significant challenges associated with implementing VKT, resulting in very few large scale examples to draw on.
- Time is required to fully implement across the region making this a medium/long-term option
- Costs make it less attractive for people to pursue jobs across the GTHA or reside in the suburbs

City of Vaughan Implications

- Uncertainty on how this method will be implemented. Assistance could be required to charge/collect revenues, provide authority to toll local roadways, etc.
- The City of Vaughan has many vehicles and could be subject to charges

6) Highway Tolls:

Potential Annual GTHA Revenues – \$0.10/km \$1.4 billion/year

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Drivers pay a toll per kilometre travelled on a designated road or for the use of a particular asset such as a bridge or tunnel to help fund improvements to transportation networks. Toll rates can either be fixed throughout the day or vary based on the time of day to help reduce congestion. Highway tolls are used in many jurisdictions, including the GTHA e.g. the 407 an electronically tolled highway operated privately. This funding source considers charging tolls on all 400-series highways and major expressways in the GTHA, excluding the 407 highway, over 450 km of centreline highway.

Positive Attributes

- Ability to generate a significant amount of revenue
- Burden extends to commuters residing outside the GTHA area
- Potential for a single provincial authority (e.g. Metrolinx) to monitor and collect the toll revenues
- Toll rates could be used to influence transportation behaviour e.g. off peak use or transit motivation
- Reasonable way to directly charge users of the road network (user/cost burden connection)

General Concerns

- Increase the cost of moving goods within the GTHA - Will impact a broader consumer base as the increased cost of freight deliveries
- Significant infrastructure investment is required to track vehicle movement/revenue collection
- Time is required to fully implement across the region making this a medium/long-term option
- Costs make it less attractive for people to pursue jobs across the GTHA or reside in the suburbs

City of Vaughan Implications

- The City of Vaughan is in close proximity to many 400-series highways and major expressways, implementing tolls may unintentionally divert traffic from the tolled highways to local and arterial roads, resulting in increased local congestion and associated municipal costs.

7) Sales Tax:

Potential Annual GTHA Revenues - 1% = \$1.4billion/year

A percentage increase uniformly applied to all goods and services sold in a GTHA. The Province or Federal government will collect the sales tax revenues and distribute the transportation portion to Metrolinx for transportation projects.

Positive Attributes

- Ability to generate a significant amount of revenue
- Sales tax has a broad base, potential is significant for a relatively small rate increase
- Administrative structure for charging and collecting is already in place
- Recognizes the broader social value of transportation projects across the community
- Funding mechanism is controlled by the same provincial body responsible for projects
- Most widely used source of dedicated funding in the Metrolinx Peer Comparison

General Concerns

- Small negative impacts on the productivity and competitiveness of the GTHA
- No incentive to alter commuter habits or travel behaviour
- Difficult to draw the connection between funding and transportation improvements

City of Vaughan Implications

- City of Vaughan will experience price pressures through sales tax increases, but also broader price increases resulting from new costs imbedded in product/contract pricing

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8) Development Charges:

Potential Annual GTHA Revenues - 15% increase on existing = \$100 million/year

Development charges are a municipal tool used to pay for growth-related public service infrastructure associated with new developments. It is implied that leveraging this tool will be implemented on a project-by-project basis, meaning that development charges incurred on the construction of all new residential developments within the municipality of the identified Metrolinx projects will be increased to cover a portion of the associated capital costs.

Positive Attributes

- There is a linkage between those living in closer proximity to new transportation projects receiving the greatest benefit
- Payment and collection mechanisms already exist within the municipalities

General Concerns

- General impact on costs which could impact economic and real-estate development
- Tool does not encourage development near Metrolinx transportation project areas
- Funding source is supported by growth and does not consider the benefits received by existing residents or transportation users.
- Legislation is very specific and will require additional review and potentially special Provincial consideration
- No incentive to alter commuter habits or travel behaviour

City of Vaughan Implications

- Adding to the existing development charges will generate construction price pressures
- Potential impact on Vaughan specific economic and real-estate development
- There may be some incremental administrative costs associated with tracking the portion of development charges attributable to Metrolinx projects

9) Transit Fare Increases:

Potential Annual GTHA Revenues – \$0.15 per ride = \$50 million/year

A surcharge on all transit fares implemented as either a percentage or a fixed value dedicated to the Metrolinx initiative. This would require coordination amongst all of the transit authorities in the GTHA.

Positive Attributes

- Direct relationship to those who utilize the service

General Concerns

- Negative impact as increases in transit fares typically drive down ridership
- Structure for charging and collecting is in place, but transit authority coordination is required
- Transit fares are set by the region and a dedicated surcharge will compete with funding for ongoing transit operations and maintenance
- There is no certainty funds will be applied within the specific area collected
- No cost sharing from the rest of the community benefiting

City of Vaughan Implications

- Not applicable – Service provided at the regional level

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10) Fuel Tax:

Potential Annual GTHA Revenues – \$0.05/L = \$330 million/year

A flat rate per litre of fuel is imposed on the sale of all gasoline and diesel fuels in the GTHA for the purposes of funding transportation initiatives. The tax is to be collected by fuel retailers and remitted to the provincial government along with other sales taxes.

Positive Attributes

- Reasonable way to directly charge users of the road network
- Administrative structure for charging and collecting is already in place
- Provides an incentive to alter commuter habits or travel behaviour - likely to reduce auto use, GHG emissions, local air pollution

General Concerns

- Increased cost of moving goods within the GTHA will impact a broader consumer base through increased freight delivery charges
- Potential relocation of some economic activity outside the GTHA (Refuelling/Business)

City of Vaughan Implications

- City of Vaughan will experience price pressures through direct fuel price increases, but also broader price increases resulting from high fuel and freight costs imbedded in product/contract pricing.

11) Land Value Capture (LVC):

Potential Annual GTHA Revenues - specific terms = \$20 million/year

Land value capture (LVC) is designed to capture a one-time gain in property values associated with a decision to locate a transit station in the vicinity. Developments around transit stations benefit from greater accessibility and often lead to increased property values. An LVC attempts to capture some of the land value uplift from a new transit investment and can take the form of developer contributions.

Positive Attributes

- There is a linkage between those living in closer proximity who benefit greatest from new transportation projects
- Potential for Metrolinx to administer and collect revenues

General Concerns

- Extremely difficult to calculate the benefit associated with the gain in property values
- Funding transit becomes the burden of growth within designated transit areas – cost is spread over very small area
- No cost sharing with the rest of those benefiting
- No incentive to alter commuter habits or travel behaviour
- Could work against incenting development and growth
- Revenues are not sustainable over the long-term as there is a limit to the amount of developable land
- Implementation will be difficult as each property will have unique characteristics that need to be addressed

City of Vaughan Implications

- Zoning changes may be required to ensure that the property can realize its full value
- Municipal involvement is unclear
- Potential to impact real-estate and economic development in designated Vaughan areas

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Regional Transportation Authority (RTA) Comparisons

As part of the review, Metrolinx compared the use of tools in other regional transportation authority jurisdictions e.g. New York, Chicago, Hong Kong, Montreal, Vancouver, etc. Interestingly, of those surveyed 78% leveraged 3 funding tools or less, while approximately 50% of these jurisdictions leveraged a single tool. The most common tools utilized by the sampled areas are:

- Fuel Tax (46%)
- Tolls/HOT lanes (46%)
- Sales Tax (36%)

It should be noted, the Vehicle Kilometres Travelled (VKT) is only used by one Regional Transportation Authority in a pilot project.

Relationship to Vaughan Vision 2020/Strategic Plan

The next wave of Metrolinx projects will be directed at increasing transit capacity and improving regional connectivity, which is consistent with a number of the City's strategic themes and initiatives. The foundation of this report discusses the various funding mechanisms under consideration to support "The Big Move" Initiative, which relates to the City's financial sustainability strategic theme.

Regional Implications

There are no regional implications as a result of this report.

Conclusion

Traffic congestion and transit are top of mind issues for the City of Vaughan and the Greater Toronto and Hamilton Area (GTHA). Metrolinx, an agency of the Government of Ontario, was created to improve transportation in the GTHA in an effort to support a strong economy, a healthy environment and a vibrant quality of life. To accomplish this task, Metrolinx has embarked on an initiative termed "The Big Move".

The next wave of Metrolinx projects require an investment estimated at \$34 billion, approximately \$2 billion annually. Metrolinx is currently in the process of determining appropriate future investment tools to support the "The Big Move" initiative. These choices will impact the City's residents to varying degrees depending on the tools selected. Metrolinx is currently reaching out to consult with municipal partners regarding the shorter list of 11 potential dedicated investment tools. A brief review of each tool is provided in the report. The Metrolinx timeframe to obtain feedback is considerably compressed with a target of developing a final report for the Metrolinx board scheduled for May 27th, 2013. A brief summary highlighting funding tool characteristics is provided below:

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Funding Tool	Low Cost	Quick to Implement	Collection Transparency	Travel Influence	Prov. Jurisdiction	RTA Common Use	High \$ Potential	Low Vaughan Affect	Total
1 Fuel Tax	Y	Y	Y	Y	Y	Y			6
2 Sales Tax	Y	Y			Y	Y	Y		5
3 Highway Tolls			Y	Y	Y	Y	Y		5
4 HOT			Y	Y	Y	Y		Y	5
5 Parking Space Levy	Y	Y	Y				Y	Y	5
6 Transit Fare Increases	Y	Y	Y					Y	4
7 VKT Fee			Y	Y	Y		Y		4
8 Payroll Tax	Y	Y			Y				3
9 Property Tax	Y	Y							2
10 Development Charges	Y								1
11 Land Value Capture	Y								1

Attachments:

Attachment # 1 – Metrolinx Presentation “Investing in our Future”

Report prepared by:

John Henry,
Acting Commissioner of Finance & City Treasurer
Ext. 8348

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)