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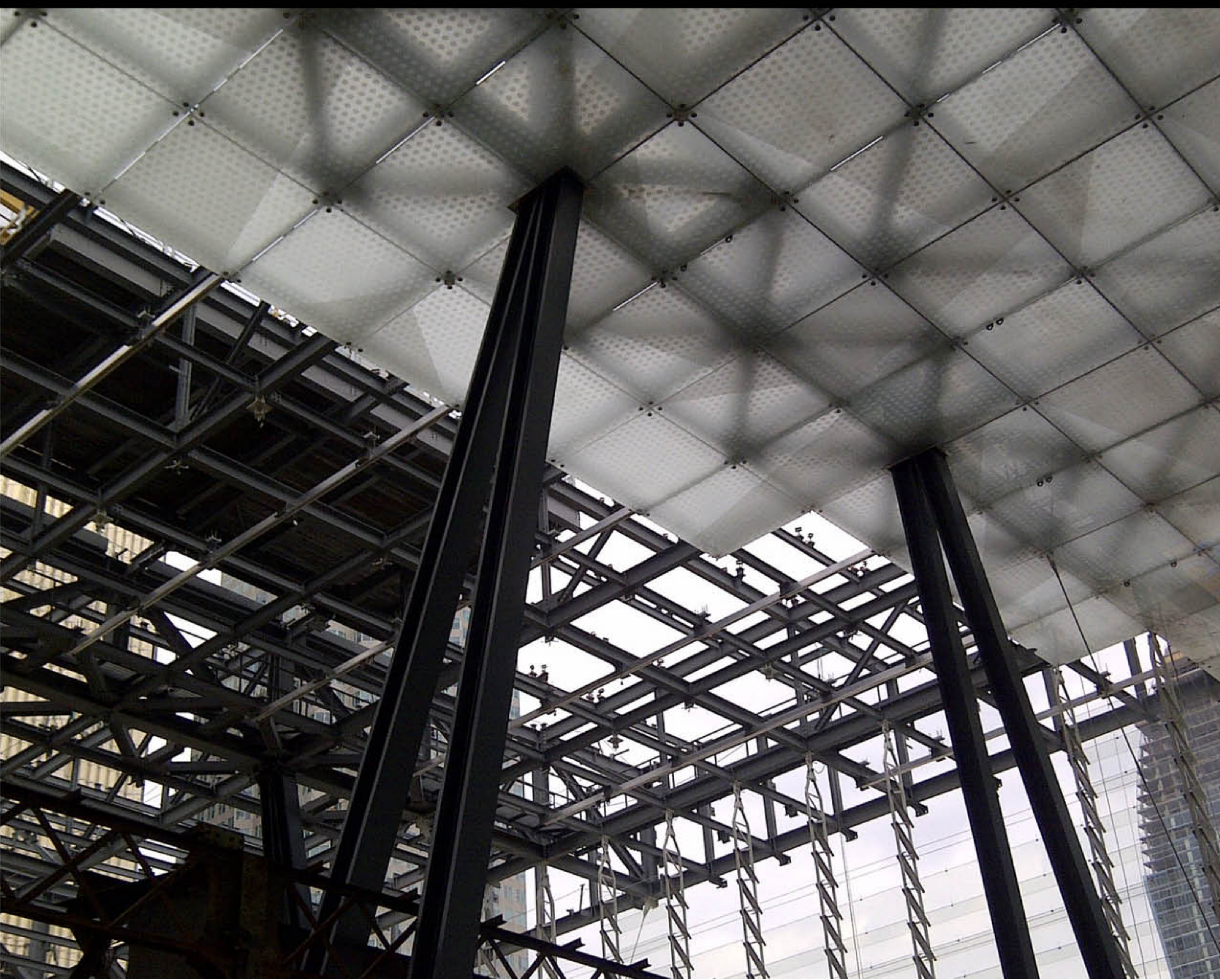
Other Investment Tools Considered

METROLINX



OTHER INVESTMENT TOOLS CONSIDERED

On April 2, 2013, Metrolinx released a shortlist of 11 investment tools for further consideration. There were strong arguments for considering the use of these investment tools, based on the lessons learned from other jurisdictions that were reviewed, the analysis that was completed of the longer list of about 25 investment tools, and input received from the public, stakeholders and municipalities. The shortlisted 11 tools included:

- Business Parking Levy
- Business Payroll Tax
- Development Charges
- Fuel and Gasoline Tax
- Land Value Capture
- Property Tax
- High Occupancy Tolls
- Highway Tolls
- Sales Tax
- Transit Fare Increase
- Vehicle Kilometres Travelled Fee.

To arrive at our recommended investment tools, Metrolinx continued to apply the four principles built into the foundation of the Investment Strategy: Dedication of revenue to specific transit and transportation outcomes, fairness in the distribution of costs and benefits across the population, equity in the distribution of investments across the Greater Toronto and Hamilton Area, and accountability and transparency in managing the program and reporting on progress. Metrolinx also took into consideration further consultation feedback and input received from the public and stakeholders, as well as five key evaluation criteria applied to each tool:

- Strong, predictable and durable revenues
- Reasonable cost and ease of implementation
- Price signals to encourage efficient travel choices
- Promotes economic competitiveness
- Promotes social fairness and equality

Through this comprehensive evaluation and selection process, Metrolinx has recommended the following dedicated investment tools:

- Sales Tax
- Fuel and Gasoline Tax
- Business Parking Levy
- Development Charges.

In addition to these four investment tools, Metrolinx is also recommending that three additional tools be included in the Investment Strategy, in order to achieve specific policy outcomes. These three tools do not, in of themselves, generate large amounts of revenue. But they offer benefits in terms of optimizing the use of existing and future High Occupancy Vehicle lanes, managing the inventory of parking at transit stations and pursuing land value capture around transit stations. The three additional tools are:

- High Occupancy Tolls
- Land Value Capture
- Pay for Parking at Transit Stations.

As a result of this process, the following shortlisted investment tools were not recommended at this time:

- Business Payroll Tax

- Highway Tolls
- Property Tax
- Transit Fare Increases
- Vehicle Kilometres Travelled Fee.

The following material explains the rationale for not recommending these investment tools.

Business Payroll Tax:

A Business Payroll Tax was given consideration, but was not selected given the potential detrimental economic consequences of such a tax on business competitiveness, and job creation and retention, in the Greater Toronto and Hamilton Area. While this tool is currently used in places like Paris and New York City, it is not a predominant international tool to fund transit and transportation infrastructure.

Payroll tax is considered to be more of a general revenue tool for governments to fund broad social and economic expenditures, with examples in Canada like the Employer Health Tax in Ontario, Employment Insurance programs and the Canada Pension Plan. Metrolinx came to the conclusion that the potential costs of imposing a charge on employment income paid by employers would be greater than the potential benefits. Economists are in general agreement that a payroll tax could generate negative impacts on the economic growth and productivity.

Highway Tolls:

While highway tolls would have benefits in reducing congestion, they would be complex to implement and a significant amount of the revenue generated would be lost to initial capital costs and ongoing operating and maintenance costs. For example, in the congestion pricing program in London, U.K., the cost of administering the congestion charge can amount to about 40 percent of the revenue generated. The cost of installing the infrastructure and managing toll revenue from electronic toll highways can amount to 20 to 25 percent of the gross revenue. There are, of course, important benefits of congestion reduction that can be substantial, so while the overhead may be expensive, the London congestion charge system remains widely understood to be good value. It is also uncertain what the traffic spillover impacts of a comprehensive tolling system would be on parallel, un-tolled roads and residential streets. These impacts would need to be carefully considered. In addition, it may be premature to implement a comprehensive road pricing program in the Greater Toronto and Hamilton Area, pending the development of a more robust regional transit system, so that people across the region have more travel choices to avoid paying highway tolls.

A comprehensive regime of tolling the area's controlled access highways could be re-considered when the Investment Strategy is reviewed in the future, to determine if lower-cost, reliable technology alternatives to implement such a system are available, and if the expansion of the regional transit system has grown sufficiently to give people, particularly in suburban locations in Toronto and across the surrounding communities, reasonable and viable travel alternatives to driving.

Comprehensive road pricing programs will be made more viable and affordable to implement through the development of satellite and other GPS-based communication and information technologies. Germany and other central European countries already toll truck movements via satellite, with future capability to toll cars. Germany's position as a trucking throughway between eastern and western Europe is not unlike southern Ontario's position in a North American context. Many trucks on Highway 401, a strategic continental trade corridor, are travelling between Atlantic Canada, Quebec and the northeastern US, and the US Midwest. In the United States and more recently, starting in Ontario, the car insurance industry is moving to GPS-based pricing as consumers choose the precision and fairness of pay-as-you-drive insurance. With instant, real-time monitoring, GPS-based user charging systems can deliver the benefits of lower-cost insurance premiums to motorists who choose to drive less aggressively and put less mileage on their vehicles. Ongoing enhancements in GPS tolling technology and integration with value-added customer services such as real-time traffic, turn-by-turn navigation, voice-enabled texting and other "mobile concierge" conveniences will become increasingly available in North America.

In the future, a comprehensive highway tolling regime could represent an alternative to tools like the Business Parking Levy, and Fuel and Gasoline Tax.

In the short to medium term, the tolling of new and proposed highways is a viable implementation strategy, and should be considered for projects like the planned extension of Highway 407 East, and future projects like a potential GTA West transportation corridor that is currently in the planning stages.

Property Tax:

A general increase in property taxes was not selected, as property taxpayers already contribute to the capital and operating costs of local public transit and transportation, and a further levy on property would have significant cost impacts on property owners and the ability of municipalities to fund local infrastructure and services. Property taxes are appropriately levied to pay for a wide range of local services, and transferring the regional transportation system investment burden to the local property tax was a tax that already supports and delivers a comprehensive set of basic and essential municipal responsibilities was not considered to be appropriate.

Transit Fare Increase:

A transit fare surcharge was not recommended, notwithstanding its common usage around the world as a generator of revenue for transit, as it could discourage transit use, increase road congestion and impose a disproportionate burden on members of lower-income groups, without raising significant revenue. Transit fares are already dedicated to offset transit system operating costs.

Vehicle Kilometre Traveled (VKT) Fee:

A VKT fee was not selected at this time as well given the potentially high implementation costs and the lack of viable transit alternatives for most GTHA residents. As GPS-based vehicle tracking technology improves and becomes more widely accepted by consumers, and as the Next Wave priorities are implemented, the VKT approach could be reconsidered during the 10-year Investment Strategy review. A VKT fee system could be considered as the ultimate alternative or replacement to a Business Parking Levy, and Fuel and Gasoline Tax. A VKT fee could ultimately evolve into an expanded toll system covering all roads, not just major expressways.

VKT systems are being tested in places like Oregon and Germany as an alternative to fuel and gasoline taxes, which are declining over time as vehicles become more fuel efficient, alternatively powered vehicles become more popular, and as people switch to other transportation alternatives and drive less.

Other Investment Tools:

In terms of other potential investment tools that were not included on the shortlist released on April 2, 2013, these investment tools did not pass the preliminary screening for some or a combination of the following reasons.

Many of the investment tools that were not on the shortlist are ones paid by auto-owners: Namely, auto insurance tax, driver's license tax, new vehicle sales tax, parking sales tax and vehicle registration fee. Guided by the principle of fairness, the number of auto-user tools on the shortlist was kept to a reasonable level. After reviewing the various alternatives, it was believed that auto-user tools such as fuel and gasoline tax, highway tolls, high occupancy toll lanes and vehicle kilometres travelled fee, were the most appropriate to include on the shortlist. The auto-owner tools not included on the shortlist, including vehicle registration fees, levy a charge that is not related to actual transportation system use.   The driver-related investment tools that were included on the shortlist, including fuel and gasoline tax, highway tolls and VKT fee, use an approach that is reflective of and sensitive to actual system use.

Corporate income taxes were not included on the shortlist as the AECOM-KPMG report found that implementing such a tax would be difficult to implement on a regional basis. There is no experience in Canada on implementing such a tax in a region like the GTHA. The administrative structures do not exist, and it may be difficult to avoid companies reporting income or profits in other regions or jurisdictions to avoid paying such a tax. In addition, a corporate income tax could have a significant distortive impact on the productivity and competitiveness on the GTHA region