TRANSPORTATION CAPITAL FUNDING MECHANISMS STUDY

EXECUTIVE SUMMARY

It has become a priority for The City of Calgary to secure new sources of capital funding for transportation infrastructure projects and programs. Limited funding is currently available from traditional sources. Amounts from traditional provincial and federal government grants have declined and program cash flows have fluctuated, negatively impacting the delivery of projects and programs. Recently announced programs like the federal Public Transit Fund may help but also create challenges (e.g. mandatory P3 screening of applications; requirements for matching funds). New sources of stable and reliable funding are required to deliver the future transition of the Green Line from BRT to LRT and the unfunded list in the Investing in Mobility (IIM) 10 year transportation infrastructure investment plan.

With the support of City Council, Administration continues to investigate opportunities for new capital funding. Administration and AECOM Canada Ltd. have completed an evaluation of a broad range of potential funding mechanisms using best practice criteria. The evaluation process included: interviews with key City stakeholders; development of 20 case studies covering a range of funding mechanisms utilized by other municipalities in Canada and abroad; a preliminary screening exercise addressing the revenue-generating effectiveness and implementation challenges associated with each mechanism; a final short-listing exercise addressing the suitability of each of the remaining mechanisms relative to the relevant budget and timeline requirements.

The resulting report identifies a short list of funding mechanisms best suited to fund future transportation infrastructure projects and programs. Four of these mechanisms can be implemented independently by The City; the remainder of the mechanisms will require regulatory and/or legislative changes by the Province of Alberta. Also identified in the report are funding mechanisms that are recommended for consideration in the long term (i.e. beyond 2024), and mechanisms that are not significant revenue generators but which may be desirable to The City for other positive economic reasons.

Recommended next steps consist of: conducting a public stakeholder engagement exercise to inform the public of The City's funding challenges; obtaining and incorporating feedback from public stakeholders and local special interest organizations (e.g. Van Horne Institute, Manning Foundation) on the short list of funding mechanisms; finalizing a recommended package of funding mechanisms best suited for implementation.

ADMINISTRATION RECOMMENDATIONS:

That the SPC on Transportation & Transit recommend that Council direct Administration to:

1. Conduct a public stakeholder engagement program to obtain and incorporate feedback on the short list of transportation funding mechanisms identified as best suited to fund the future projects and programs listed as "unfunded" in Investing in Mobility; and
2. Incorporating feedback from public stakeholders, finalize a recommended package of funding mechanisms, including implementation proposals for Action Plan consideration, and report back to the SPC on Transportation and Transit no later than 2016 February.

Approval(s): Logan, Malcolm concurs with this report. Author: Gaede, Travis
City Clerk's: D. Williams

RECOMMENDATION OF THE SPC ON TRANSPORTATION AND TRANSIT, DATED 2015 MAY 20:

That Council direct Administration to:

1. Conduct a public stakeholder engagement program, **including coordinating efforts with stakeholders interested in conducting complementary engagement**, to obtain and incorporate feedback on the short list of transportation funding mechanisms identified as best suited to fund the future projects and programs listed as "unfunded" in Investing in Mobility; and

2. **Incorporate** feedback from public stakeholders, finalize a recommended package of funding mechanisms, including implementation proposals for Action Plan consideration, and report back to the SPC on Transportation and Transit no later than 2016 February.

<u>Opposition to Recommendations:</u>

Opposed: S. Chu

PREVIOUS COUNCIL DIRECTION / POLICY

At the 2014 January 31 Special Strategic Planning Meeting of Council, the following Motion was Carried:

> ADOPT, Moved by Councillor Keating, Seconded by Councillor Carra, that the Administration Recommendation contained in Report C2014-0082, be adopted, after amendment, as follows:
>
> That Council direct Administration to evaluate the full range of 27 potential funding or revenue sharing mechanisms, or other methods, using best practice evaluation criteria, to identify which mechanisms are best suited to fund the future transition to the Green Line LRT, and the remainder of the unfunded list in Investing in Mobility, and report back to the SPC on Transportation and Transit no later than 2015 January.

At the 2015 February 09 Combined Meeting of Council, the following Motion was Carried:

> ADOPT, Moved by Councillor Stevenson, Seconded by Councillor Magliocca, that the Committee Recommendations contained in the following Reports, be adopted in an omnibus motion:
>
> TRANSPORTATION FUNDING MECHANISM STUDY - DEFERRAL, TT2015-0167
>
> CITY EMPLOYEE CODE OF CONDUCT - ANNUAL REPORT, AC2015-0093
>
> EXTERNAL AUDITOR 2013 MANAGEMENT LETTER UPDATE, AC2015-0161

CITY AUDITOR'S OFFICE 4TH QUARTER 2014 RECOMMENDATION FOLLOW-UP STATUS REPORT, AC2015-0148

BACKGROUND
Limited funding for infrastructure projects is currently available to The City from traditional sources. Funding amounts from provincial and federal government grants have declined and program cash flows have fluctuated, negatively impacting the delivery of projects and programs. Current energy sector volatility places The City once again at risk of having anticipated funding cash flows reduced, delayed, or both. New sources of stable and reliable funding will be required by The City in order to deliver the future transition of the Green Line from bus rapid transit (BRT) to light rail transit (LRT) and the remainder of the projects and programs on the unfunded list identified in the Investing in Mobility (IIM) 10 year infrastructure investment plan.

Transportation has identified the need for $5.6 billion in infrastructure investment over the next ten years. The amount of funding projected to be realized from established funding sources over the same period is approximately $4.2 billion, with a resulting gap of $1.4 billion. Announced federal funding programs like the New Building Canada Plan (2013) and the Public Transit Fund (2015) may help but also create challenges including protracted application approval processes, uncertain cash flows time lines, mandatory P3 screening of applications and requirements for matching funds.

It is critical for The City to secure new means by which to fund the maintenance and expansion of its transportation system. Without new sources of stable and reliable funding, Transportation anticipates that there will continue to be a substantial gap between traditional funding streams and transportation infrastructure needs within and beyond the ten year IIM time frame. Major projects like the Green Line LRT would therefore remain unfunded or only partially funded for decades.

INVESTIGATION: ALTERNATIVES AND ANALYSIS
Administration selected the consulting firm AECOM Canada Ltd. to complete a scope of work responding to Council direction and building upon previous work on this subject for The City (reference report C2014-0082).

Project team members from AECOM and Administration conducted interviews with members of City Council and representatives from the Office of the Mayor, and the Transportation Planning, Calgary Transit, and Finance & Supply business units. The primary purpose of these interviews was to identify funding mechanisms for inclusion in the study beyond those originally identified in report C2014-0082.

A preliminary analysis of 28 mechanisms was subsequently completed by AECOM, based on multiple criteria:

1. Revenue potential, sustainability and impacts on other funding sources;
2. Implementation challenges;
3. Equity impacts; and
4. Efficiency impacts, i.e. the costs to Calgary's economy per dollar of revenue obtained from implementation of the funding mechanism.

TRANSPORTATION CAPITAL FUNDING MECHANISMS STUDY

"Efficiency impacts" addresses the amount to which the local economy is improved with a particular revenue mechanism in place, recognizing that each mechanism comes with an implementation 'price tag' and will impact travel behaviour and transportation system performance.

A short list of 16 mechanisms was carried forward on the basis of the results of the preliminary analysis and deliberation by the project Steering Committee. The principal considerations that determined the selection of the short listed mechanisms were revenue generation potential, efficiency considerations, and avoidance of duplication of revenue sources.

The short-listed mechanisms were then subjected to a comprehensive evaluation by AECOM, the results of which are presented in Attachment 1.

The AECOM report (provided as Attachment 2) states, *"In order to facilitate the screening and decision-making process for the 16 short-listed tools, we drew on the following principles that have informed our study and that are likely to affect the ability of The City to fund Green Line LRT, and the remainder of the unfunded list in Investing in Mobility:*

- *Revenue generation potential*
- *Timing of new revenue streams*
- *Jurisdictional considerations and*
- *Efficiency considerations"*

The principles suggested the following categorization of the short-listed funding mechanisms.
<u>Recommended Funding Mechanisms that are within The City's Jurisdiction and Available for Implementation within a Year</u>

- Property Taxes
- Utility Levy

<u>Recommended Funding Mechanisms Requiring Provincial Government Approval</u>

- Development Charges (DCs) – while these are a current revenue source for The City (and are currently under review), the use of DCs to recover capital costs for transportation and transit infrastructure may require amendments to the enabling legislation (i.e., the Municipal Government Act)
- Fuel Tax – this is already a revenue source which the Province of Alberta shares with Calgary and Edmonton. A modest increase in this tax could generate efficiency gains (5 cents per additional revenue dollar collected) and could be viewed as a user charge for fully funding The City's roads budget (capital and operations)
- Parking Space Levy – a significant revenue source with some similarities to a property tax, except that it would incent parking lot owners to allocate some of their unused and unvalued parking spaces to other uses
- Sales Tax – a potentially important revenue source with some of the lowest efficiency costs of all conventional tax tools
- Vehicle Registration Fees – a current revenue source for the Province which has a direct relationship to vehicle ownership (if not usage)

The AECOM states that, "*The City of Calgary is currently engaged in negotiations with the Province regarding (a) City Charter… Provincial approval and any associated provincial legislative requirements for the above revenue tools can be addressed through this vehicle.*"

Recommended Funding Mechanisms for Consideration in the Longer-Term

- Road Tolls, which generate substantial efficiency gains even after factoring in capital and operating costs, provided the implementation includes other travel options.

Complementary Measures

These refer to funding mechanisms which are not necessarily important revenue generators, but which may be desirable for efficiency or other reasons. They include:

- High-Occupancy Toll (HOT) Lanes, which can provide important decongestion benefits
- Facility-specific tolls, which can be a significant revenue source, but can only be applied in relatively unique situations, where the tolls do not create major trip diversions and disruptions
- Land Value Capture, which can provide an additional revenue source with little or no inefficiency costs, although the timing of the revenue would be uncertain and location dependent

Funding Mechanisms that are Not Recommended

These revenue tools are not recommended because they can lead to important efficiency losses for Calgary or because they do not represent a new revenue source in a fundamental sense:

- Border Tolls
- Transit Fares
- Personal Income Taxes
- Car Rental Levy
- Monetization of City Assets

The AECOM report further states that, "*All of the revenue tools listed above that are already currently in use by the Province (of Alberta) could also be tapped for revenue sharing potential. However, such revenue sharing would come at the expense of funding other government services or transfers to individuals and/or communities.*"

Stakeholder Engagement, Research and Communication

Key internal City stakeholders were engaged through a round of one-on-one interviews conducted by project team members from AECOM and Administration. The stakeholders included members of City Council, members of Administration, and a representative from the Office of the Mayor. Additional public engagement is recommended to occur as a 'next step' item.

Strategic Alignment

Securing long-term capital funding is critical to delivery of the infrastructure needed to achieve the goals identified in the Calgary Transportation Plan (CTP). The upgrading of the Southeast Transitway to the Green Line LRT is identified as a medium-to-long term need in the RouteAhead 30-year strategic plan for Calgary Transit. Upgrading of the entire corridor to LRT (part of the Green Line along with the North-Central corridor) is also consistent with the Primary Transit Network shown in Map 2 of the CTP.

Social, Environmental, Economic (External)
Investment in LRT corridors provides multiple positive triple bottom line outcomes. Improvements to transit infrastructure and service will:

- Mitigate congestion by reducing automobile use, which will improve economic efficiency by reducing travel times for commuters and goods movement;
- Facilitate redevelopment of underutilized lands around LRT stations, increasing social and economic activity;
- Reduce the growth in greenhouse gas emissions by increasing use of public transit;
- Provide access to jobs and services for people who cannot or do not drive; and
- Create health benefits for Calgarians by reducing pollution from automobiles and facilitating walking and cycling around LRT stations.

Fully funding the remainder of the Investing in Mobility plan will:

- Improve capacity and travel reliability for the movement of goods and traffic;
- Mitigate deferred maintenance due to limited funds for asset management;
- Facilitate the timely provision of growth related transportation projects; and
- Enable the introduction of new technology.

Financial Capacity
Current and Future Operating Budget:
The recommendations contained in this report do not have operating budget implications. The proposed ‘next steps’ can be accommodated within existing operating budgets.

Current and Future Capital Budget:
The recommendations contained in this report do not have capital budget implications. Recommendations in subsequent reports may have capital budget impacts.

Risk Assessment
Without identifying and securing new stable and reliable sources of funding, The City will:

- Have a diminished ability to effectively maintain the transportation system; and
- Be unable to initiate construction on and/or complete high-priority transportation projects in a timely fashion.

Major projects such as upgrading the bus-based Southeast Transitway to become part of the Green Line LRT would therefore continue to be either unfunded or only partially funded.

REASONS FOR RECOMMENDATIONS:
Engaging public stakeholders and developing a recommended package of funding mechanisms best suited to fund Green Line LRT and the remainder of the projects on the unfunded list in IIM provides an opportunity for the public to have a say in how The City will fund necessary transportation infrastructure. Administration recommends that the final report also include details on the actions necessary to realize the best sources of funding.

ATTACHMENTS
1. Table: Comprehensive Evaluation Results
2. Comprehensive Analysis of Shortlisted Funding Mechanisms