



PUBLIC TRANSPORTATION : A DRIVING FORCE FOR CANADA'S ECONOMY

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Société de transport de Montréal

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SUMMARY

Canada is facing major economic challenges. The global economic situation is marked by uncertainty, budget austerity and weak economic growth. While aiming to achieve a balanced budget, the Government of Canada also wants to support job creation, economic growth and long-term prosperity. Against this background, government spending must generate positive economic results in the long term, create quality jobs, increase business productivity, and thus the competitiveness of the Canadian economy.

The Government of Canada already spends about \$ 1 billion annually to boost the investments in public transit infrastructure made by its municipal and provincial partners. However, those needs are massive and ever-increasing, while financial resources are inadequate.

By increasing available funds to finance public transit infrastructure, the federal government can:

- Support an industry that generates \$11.5 billion annually in economic benefits.
- Make an investment, the economic benefits of which will be triple the value of the initial contribution.
- Support job creation and economic productivity by improving the functioning of the labour market and the movement of goods.
- Put money back into the hands of Canadians through household savings.
- Address the problem of traffic congestion so as to reduce the billions of dollars in losses to the Canadian economy each year through waste and lost productivity.
- Make the country's major cities more globally attractive and competitive.
- Support adjustment to demographic changes by helping with the care, integration and mobility needs of seniors and immigrants as their numbers continue to grow in all Canadian cities.

THE STM RECOMMENDS THAT THE FEDERAL GOVERNMENT:

- MAINTAIN PUBLIC TRANSIT AS AN ELIGIBLE CATEGORY IN THE GENERAL INFRASTRUCTURE PROGRAM THAT WILL REPLACE THE *BUILDING CANADA FUND* AND ENSURE FUNDS ARE SUFFICIENT TO MEET THE NEEDS.
- TRANSFER ALL FEDERAL EXCISE TAXES ON GASOLINE (10 ¢/LITRE) TO THE GAS TAX FUND.
- INITIATE THE NEXT LONG-TERM INFRASTRUCTURE PLAN WITHOUT FURTHER DELAY.

TABLE OF CONTENTS

SOCIÉTÉ DE TRANSPORT DE MONTRÉAL	2
AMBITIOUS OBJECTIVES AND A CLEAR DIRECTION	2
CANADA'S ECONOMIC SITUATION	3
FEDERAL GOVERNMENT CONTRIBUTION TO PUBLIC TRANSPORTATION	4
PUBLIC TRANSPORTATION, A DRIVING FORCE FOR OUR CITIES	4
PUTTING MONEY BACK INTO THE HANDS OF CANADIANS	5
CREATING JOBS AND RAISING PRODUCTIVITY	6
FIGHTING WASTE AND CUTTING THE COSTS OF TRAFFIC CONGESTION	7
MOBILITY, ONE OF THE KEYS TO LONG-TERM PROSPERITY	9

SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

AMBITIOUS OBJECTIVES AND A CLEAR DIRECTION

In 2011, thanks largely to the support of its government partners, the STM reached a historic ridership level with 405 million passenger rides, an 11.4% increase in five years. Overall customer satisfaction with the STM also hit a high mark, at 89%, compared with 84% in 2006.

The STM is aiming for 540 million passenger rides annually in 2020¹, a 40% increase in ridership relative to 2010. Reaching that target will require considerable means.

Maintaining infrastructure is a particularly important challenge, one that the STM is seeking to address first. The STM's priority vehicle maintenance and replacement projects (\$6.2 billion) and service expansion projects (\$5.3 billion) represent investments of some \$11.5 billion by 2020, of which nearly \$4 billion have already been approved. The STM was well prepared: these projects are ranked by priority with regards to their implementation².

STM PROFILE

2ND LARGEST PUBLIC TRANSIT OPERATOR IN CANADA

14ND LARGEST CORPORATION IN QUÉB

AMONG THE TOP 70 EMPLOYERS IN CANADA

A \$1.23 billion budget for 2012 and assets valued at over \$14.5 billion.

4 MÉTRO LINES

71 km and 68 stations.
759 métro cars.

213 BUS LINES

160 lines accessible to the mobility-impaired (74.6%), 1680 buses, 202 articulated buses, 16 city minibuses and 86 minibuses adapted for paratransit service.

OVER 9500 EMPLOYEES

OVER 60% SERVE CUSTOMERS DIRECTLY.

405 MILLION PASSENGER RIDES IN 2011

A LEADING ECONOMIC PLAYER

- The STM sustains more than 12,000 direct and indirect jobs.
- It generates more than \$1.2 billion in economic spin-offs annually.
- It plans on investing more than \$11 billion by 2020, leading to the creation of 4300 direct and indirect jobs per year, in addition to nearly 1900 jobs among suppliers.
- In 2012, the STM plans on investing some \$303 million in goods and services.

¹ STM, *Plan stratégique 2020*.

² The STM's list of priorities can be viewed in its *2011 Activity Report*.

CANADA'S ECONOMIC SITUATION

*While the Canadian economy has achieved the best performance on jobs and growth among G-7 countries [...], the global economy remains frustratingly fragile. Any potential offshore setbacks could generate serious adverse impacts on Canada. It is for this reason that our government continues to be vigilant and to take prudent action through our Economic Action Plan. [...] **While Canada may have its challenges, we will overcome them if all partners in the economy, in both the private and public sectors, take the actions needed to create jobs, growth and long-term prosperity [...].** By staying on track to return to balanced budgets, keeping taxes low and encouraging a more globally competitive economy, our government is continuing to do its part to build a stronger Canada.*

Jim Flaherty Finance Minister, September 11, 2012³.

Canada has been facing tough economic times since 2009. The global economy still faces a number of risks, including the European sovereign debt and Euro crises, the uncertain economic and fiscal situation in the United States, the slowdown in China, etc.

Forecasts for growth are hardly encouraging. The Bank of Canada expects the Canadian economy will grow at a rate of 2.1% in 2012, 2.3% in 2013 and 2.5% in 2014⁴ – forecasts the CIBC considers overly optimistic⁵. At 7.3%, the unemployment rate is still high in Canada⁶. The Conference Board of Canada believes it could even climb to 8.0% sometime in 2013⁷.

As stated by Finance Minister Flaherty, the major challenges confronting the Canadian economy are to ensure economic growth, job creation and long-term prosperity in a context of weak global economic growth and budget austerity. In the long-term economic forecasts it recently made public, TD Bank pointed out that one of the main hurdles to economic growth in Canada would be less public and household spending, two areas of expenditure that have been the main source of economic growth in the last few years⁸.

Although it would be highly recommended that households and governments reduce their level of debt, the consequences of such phenomena on economic growth must remain a concern as, in the end, the best strategy to lighten the burden of debt still rests with the resumption of economic growth.

Regrettably, investment spending and exports that should replace governments and households as sources for demand will not be available in 2013 due to global uncertainty. According to Craig Alexander, Chief Economist for TD Bank, having growth based on investment spending and exports has now become “critical”⁹.

³ Bold format added by STM. Finance Minister's declaration, Harper Government Continuing to Take Steps to Keep Economy Strong, September 11, 2012.

⁴ Bank of Canada, Bank of Canada maintains overnight rate target at 1 per cent, July 17, 2012.

⁵ CIBC, Canada's Fiscal Pinch: What's Ahead for 2013, *Economic Insights*, August 28, 2012.

⁶ Statistics Canada, Labour Force Survey, August 2012.

⁷ Rudy Le Cours, « Le Québec à la traîne », *La Presse*, September 19, 2012.

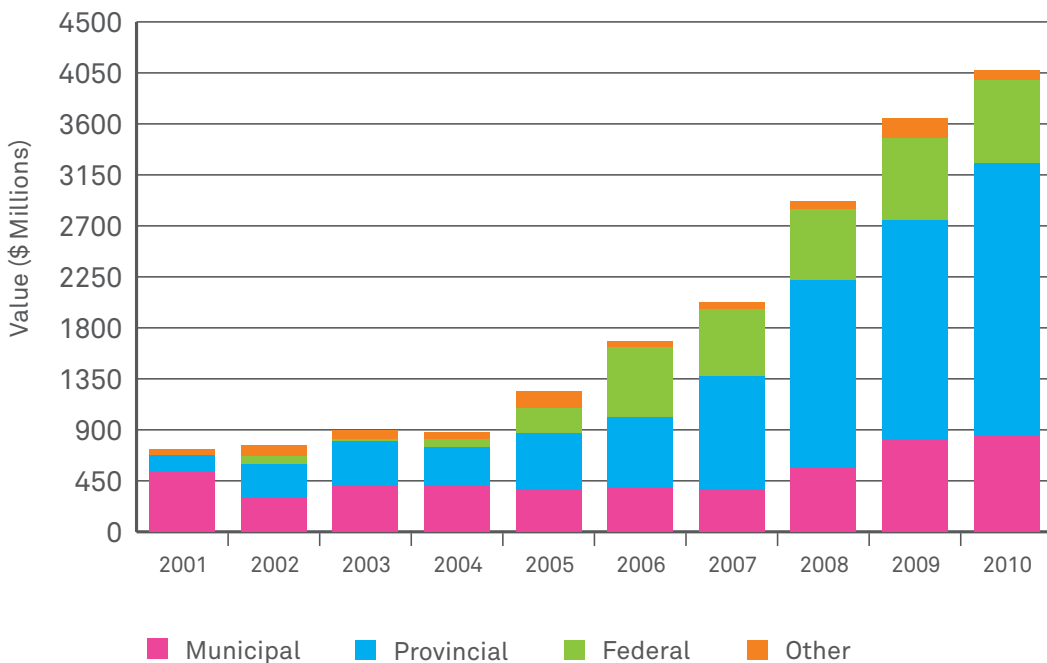
⁸ TD Economics, Long-Term Economic Forecast, September 18, 2012.

⁹ TD Economics, TD expect Canadian growth will be stimulated by exports and investments as early as 2013, September 18, 2012.

In a context of restoring fiscal balance and of weak growth, the government must ensure that its spending has the most favourable economic spin-offs, that it promotes a productive Canadian economy and that it generates quality jobs.

With this paper, the STM will show that public transportation fully meets these requirements. Already acknowledged for its positive impact on the environment, public transportation is also driving long-term economic growth and job creation. Its numerous economic contributions are already benefiting the majority of Canadians, making it a responsible and worthwhile investment for all Canadians.

FEDERAL GOVERNMENT CONTRIBUTION TO PUBLIC TRANSPORTATION



Source: Canadian Urban Transit Association.

Barely ten years ago, the federal government was not even contributing to public transportation. Today, its contribution reaches almost \$1 billion a year through various infrastructure programs¹⁰. Public transit needs are still enormous – even pressing.

The same debate is taking place in metropolitan centres across the country, with Montréal, Toronto and Vancouver at the forefront: where can the needed funding be found for public transit projects that are deemed a priority? In the Montréal metropolitan area, local officials and citizens are ready to do their share. But they cannot do it alone.

PUBLIC TRANSPORTATION, A DRIVING FORCE FOR OUR CITIES

The future economic expansion of Canadian cities is expected to face major challenges. Population, employment and economic growth will be accompanied by a considerable increase in the movement of people and goods. Canadians will be on the move more often, over longer distances and for longer periods. Traffic congestion, already a major concern and paralyzing urban centres across Canada, is bound to increase and further impact our economy.

¹⁰ Canadian Urban Transit Association.

Added to that are major demographic changes. With an aging population, the number of older persons living in cities will rise. Accessible public transit services adapted to the needs of seniors is the best solution to their mobility needs. In addition, immigration clearly is and will continue to be the main source of demographic growth across the country. Yet, for the most part, recently arrived immigrants settle in Canada's major cities. Efficient public transit systems will serve to increase their mobility and help their integration into the workforce.

Business is also impacted by transportation issues. Large cities the world over are competing with each other to attract talent and investments. "In an increasingly globalized world, businesses have many options on where to locate. A well-planned regional transportation network will encourage both business investments in Toronto and Toronto's ability to attract the best and brightest global talent"¹¹. A city's attractiveness is shaped by its ability to handle mobility. For this reason, the deployment and expansion of efficient public transit modes, as the principal solution to the increased saturation of existing transportation systems, must be included in the Government of Canada's economic strategy.

PUTTING MONEY BACK INTO THE HANDS OF CANADIANS

Weak consumer spending by households is weighing on economic activity, making long-term sustained growth more difficult to achieve. Many Canadians must lower their spending on goods and services in order to lower their debt load. Indeed, the level of debt carried by Canadian households is very high and a source of concern. The most recent data on the subject show the Canadian household debt ratio reached 166% of disposable income in the second quarter of 2012¹². Last September, TD Bank judged a ratio of 152%¹³ as "excessive".

Last April, the Governor of the Bank of Canada, Mark Carney, deemed household debt "the biggest domestic risk" weighing on the Canadian economy¹⁴. In an interview, he also added he worried that any increase in interest rates to cool borrowing might affect a recovery¹⁵. Finance Minister Flaherty took action last July, by cutting back the maximum term for mortgages from 30 to 25 years, thereby lowering the debt capacity of Canadians without increasing the weight of their existing debt. By supporting public transit, the government can put money back into the hands of Canadians by helping them reduce their spending.

¹¹ Dr. Gordon Chong, *Toronto transit – Back on Track, Sheppard Subway Development and Financing Study*, Toronto Transit Infrastructure Limited, January 2012.

¹² Statistics Canada, *Household Sector Indicators*, *Le Quotidien*, October 15, 2012.

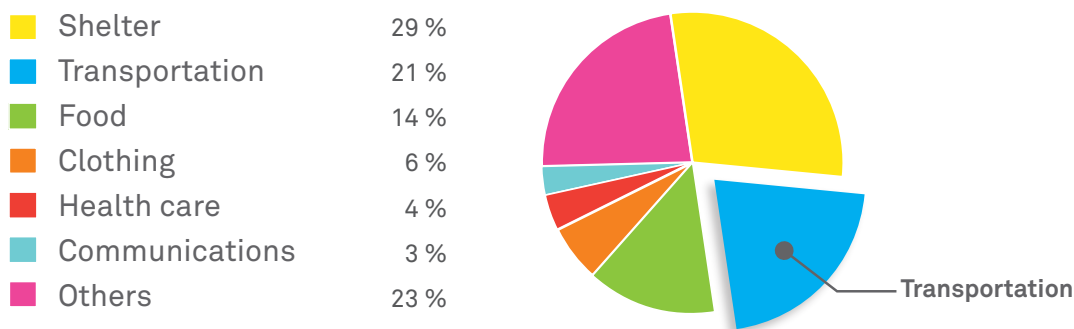
¹³ Statistics Canada data quoted in preceding note has been revised. TD was commenting on earlier data. *TD Economics*, *Long-Term Economic Forecast*, September 18, 2012.

¹⁴ Bank of Canada, *Monetary Policy Report*, April 2012.

¹⁵ Julian Beltrame, « Carney promet d'intervenir si l'endettement des ménages menace l'économie », *La Presse*, April 6, 2012.

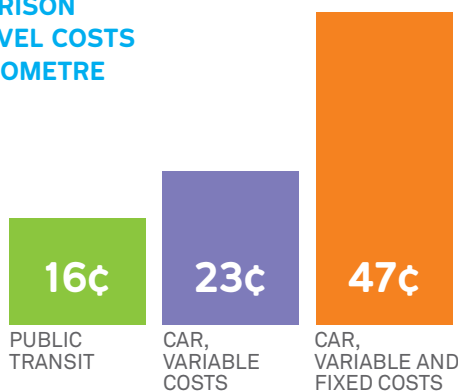
In 2010, Canadians spent \$11,000 on average for transportation¹⁶, making it the second biggest household expenditure (21%)¹⁷ after shelter (28%).

CANADIAN HOUSEHOLD EXPENDITURES ON GOODS AND SERVICES



Source: Statistics Canada, "Survey of Household Spending, 2010", Le Quotidien, April 25, 2012.

COMPARISON OF TRAVEL COSTS PER KILOMETRE



An automobile costs its owner between \$8,800 and \$11,800 on average¹⁸. Public transportation would cost slightly more than \$900 in Montréal or \$1500 in Toronto for an entire year.

The unit cost per passenger-kilometre for a public transit trip is three times lower than the cost of car transportation¹⁹. For owners, leaving the car at home is even less expensive, as the variable costs for using it (wear and fuel) are 40% higher than the cost of public transit. In short, even occasional public transit use leads to savings.

Source : Board of Trade of Metropolitan Montréal.

For 2009 alone, the Board of Trade of Metropolitan Montreal estimates that public transportation has allowed Montréal households to save \$826 million, an amount that has been growing quickly, from \$570 million in 2004²⁰.

The level of public transit services currently offered is still inadequate to meet the demand of citizens who could and would make such a choice. By supporting the efforts of local and provincial governments, the federal government is helping a growing number of Canadians choose public transportation to substantially lower their expenses. By allowing households to save, the federal government is giving them the means to reduce their debt or earmark that money for other expenditures that in turn will support economic growth.

¹⁶ Statistics Canada, *Survey of Household Spending, 2010, Le Quotidien*, April 25, 2012.

¹⁷ Amounts shown have been rounded up. Statistics Canada, *Survey of Household Spending, 2010, Le Quotidien*, April 25, 2012.

¹⁸ Canadian Automobile Association, « *Coûts d'utilisation d'une automobile* », 2012.

¹⁹ Board of Trade of Metropolitan Montreal, *Public transit: At the heart of Montréal's economic development*, November 2010.

²⁰ *Ibid.*

CREATING JOBS AND RAISING PRODUCTIVITY

Investing in infrastructure supports economic growth. The Building Canada plan in fact contributed to the country's strong economic performance during the last recession. Investing in public transportation infrastructure should be a priority as, in addition to creating jobs, it leads to improved productivity.

1— Job creation

In Canada, the economic benefits of public transportation are estimated at \$11.5 billion a year²¹. Investments in this sector have produced impressive results; the cost-benefit ratio of investing in public transit is almost 3 to 1: each dollar invested generates economic benefits with almost triple the value²².

As Canada is a major producer and exporter of public transit equipment, a large share of investments in the sector stays in Canada, creating jobs for the manufacturing sector and for related industries. According to CUTA, the Canadian public transport industry provides some 80,000 direct and indirect jobs across the country.

Canadian bus and train manufacturers are export-based, innovative companies that help increase our collective prosperity. Public transit operators also create quality jobs in the areas of construction, professional services, research and development, and in many other sectors that generate strong added value for the economy. As for Québec, it boasts a hundred or so manufacturers in that branch of industry (buses, motorcoaches, and railway cars) that generate earnings of more than \$2 billion.

2— Productivity

In a report published in June 2012, the Organisation for Economic Co-operation and Development (OECD) notes that weak productivity is the biggest long-term challenge for the Canadian economy²³.

Investing in public transit makes it possible to increase economic productivity in a number of different ways :

- **Improving how the labour market functions:** an efficient public transit network reduces travel times – including those of trucks and cars. It expands the labour pool in which companies recruit workers. Increased mobility and greater access to transportation make it possible for more workers to be available for a wider range of jobs while promoting a better match between the job market's offer and demand. Thus, greater mobility for workers promotes employment as much as it does productivity²⁴.
- **Facilitating the movement of goods:** an efficient public transit network reduces travel times – including those of trucks and cars. It expands the labour pool in which companies recruit workers. Increased mobility and greater access to transportation make it possible for more workers to be available for a wider range of jobs while promoting a better match between the job market's offer and demand. Thus, greater mobility for workers promotes employment as much as it does productivity.

²¹ Canadian Urban Transit Association (CUTA), *Transit Driving Economic Growth*, 2011 Pre-Budget Submission.

²² *Ibid.*

²³ OECD, *Economic Surveys: Canada 2012*, June 13, 2012.

²⁴ Conference Board of Canada, *Connecting Jobs and People: Exploring the Wider Benefits of Urban Transportation Investments*, August 2011.

FIGHTING WASTE AND CUTTING THE COSTS OF TRAFFIC CONGESTION

Congestion reduces Canadians' quality of life and also has environmental costs. The waste of energy in gridlocked traffic and the production of greenhouse gases and other pollutants are harmful to the Canadian environment. Perhaps most importantly, congestion has substantial economic costs. Decisions on investments and jobs hinge on the quality of transportation infrastructure and the free flow of goods and people in and through our cities. Congestion increases current costs and discourages future investments.

Urban Transportation Task Force,
Council of Ministers Responsible for
Transportation and Highway Safety²⁵.

Vancouver, Montréal and Toronto are among the five most congested cities in North America, according to the latest issue of the Congestion Index compiled by TomTom. Ottawa does not fare much better (in 12th position); during afternoon rush hour, the nation's capital registers the highest score for congestion across the continent (93%).

NORTH AMERICA'S MOST CONGESTED CITIES

City	Congestion* %
Los Angeles	34 %
Vancouver	33 %
San Francisco	29 %
Montréal	28 %
Toronto	27 %

* Percentages indicate the increase in commuting time caused by traffic congestion.
Source: *TomTom North American Congestion Index*, 2012.

The extent of the problem is no longer in doubt. It impacts on the quality of life, the environment and the health of Canadians. Furthermore, congestion imposes huge costs on society and public finances. It weighs on our cities' ability to compete, has an adverse effect on business productivity and decreases the competitiveness of the Canadian economy. Each year, traffic congestion costs us billions in direct losses.

In Montréal, losses in time, wages, and fuel caused by recurring congestion are estimated at \$1.42 billion. To that must be added an equal amount to take into account the cost of delays caused by accidents and roadwork. Traffic congestion therefore costs three billion dollars annually in Montréal alone. It is worth noting that these numbers are taken from 2003 (the last year data was available) and that these costs are "expanding almost exponentially", having increased 62% between 1998 and 2003²⁶.

²⁵ Urban Transportation Task Force, *The High Cost of Congestion in Canadian Cities*, Council of Ministers Responsible for Transportation and Highway Safety, April 2012.

²⁶ Those words are by Pierre Tremblay, head of Transport Québec's modelling and transport systems. Jean-Louis Fortin, « *La congestion routière coûte 3 milliards \$* », *Canoe.ca*, July 13, 2011. ADEC, *Évaluation des coûts de la congestion routière dans la région de Montréal pour les conditions de référence de 2003*, Transport Québec (MTQ), March 2009.

For the Greater Toronto and Hamilton Area, Metrolinx estimated the social and financial costs of congestion at \$3.3 billion – for 2006. To that must be added the cost of the congestion's impact on the economy, pegged at \$2.7 billion²⁷. In Toronto, traffic congestion costs reach at least \$6 billion annually.

Lastly, in Vancouver, the costs of congestion were assessed at \$930 million for 2002, an estimate that excludes a number of related costs²⁸.

It is worth noting that with \$10 billion in direct losses annually, the data is far from being exhaustive. They pertain to only three metropolitan areas and were compiled from data from 6 to 10 years ago. Of course, the problem has only intensified since, growing at an even faster rate.

Economists from the University of Toronto have shown from their study of American data that building more urban roads and highways did little to solve the problem of congestion, thereby confirming what the authors call the “fundamental law of road congestion”: building new road infrastructure leads to an equivalent increase in the number of vehicle-kilometres traveled²⁹.

Fortunately, the experiment has shown that improvements in the offer of public transit services lead to a subsequent increase in demand. “Increased investment in transit by all levels of government has been accompanied by growth in transit ridership,” well in excess of population growth³⁰. It is therefore possible to entice a growing number of people out of their cars – when transit conditions are favourable to them.

By helping Canadian cities tackle the problem of traffic congestion and the massive economic losses to households, businesses and public finances, the Canadian government can improve the economic vitality and competitiveness of Canada and its major cities.

²⁷ In addition to costs that affect commuters, this estimate included costs related to lost time, wasted fuel, GHG emissions and road accidents. The costs imposed on the economy include the adverse impact on the movement of goods, on the labour market and on the sub-optimal allocation of resources. Metrolinx and HDR Corp., *Costs of Road Congestion on the Greater Toronto and Hamilton Area: Impact and Cost Benefit Analysis of the Metrolinx Draft Regional Transportation Plan*, 2008.

²⁸ Transport Canada's estimate does not take into account the impact of traffic congestion on the transport of goods, off-peak congestion, costs related to accidents, noise, harmful emissions, damaged road infrastructure. Robin Lindsey, “*Road Pricing 101 and Public Acceptance Issues*”, Presentation at Transport Futures 2009: Road Pricing & Public Acceptance, November 12-13, 2009.

²⁹ Gilles Duranton and Matthew A. Turner “*The fundamental law of road congestion: evidence from US cities*”, *National Bureau of Economic Research Working Paper Series*, September 2009.

³⁰ Urban Transportation Task Force, *The High Cost of Congestion in Canadian Cities*, Council of Ministers Responsible for Transportation and Highway Safety, April 2012.
Urban Transportation Task Force, *Recent Developments in Transit in Canadian Cities*, Council of Ministers Responsible for Transportation and Highway Safety, November 2010.

MOBILITY, ONE OF THE KEYS TO LONG-TERM PROSPERITY

Mobility is central to society's economic development. Prosperity largely depends on our ability to organize and efficiently manage the movement of people and goods, particularly in urban centres. Improving transit efficiency has the same impact as stimulating productivity, promoting consumer demand and, ultimately, raising productivity and competitiveness.

Whether at the local, regional or national level, mobility must be a central factor. In a recent study on public transit, the Board of Trade of Metropolitan Montreal pointed out that transportation is 'at the centre of a virtuous circle, fed by greater demand and competitiveness'³¹. Rich societies are those for whom mobility means the most. There is a direct correlation between mobility and per capita income³².

The link between a city's dynamic economy and its capacity to offer attractive public transit services is a direct one. Public transportation policies can therefore potentially be a powerful factor in promoting economic growth.

THE STM RECOMMENDS THAT THE FEDERAL GOVERNMENT:

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- INITIATE THE NEXT LONG-TERM INFRASTRUCTURE PLAN WITHOUT FURTHER DELAY.

³¹ Board of Trade of Metropolitan Montreal, *Public transit: At the heart of Montréal's economic development*, November 2010.

³² Wendell Cox, *Urban Transport & Economic Growth*, Seminario de Transporte Urbano, October 2007.

