

RCCAO report cites heightened need for road pricing

Don Wall December 6, 2019



FILE PHOTO — The 407 in Ontario was built as a P3 project by the province but was sold to private interests in 1999 for \$3.1 billion. In the third quarter of 2019, the toll highway earned \$426.4 million for its owner 407 International Inc. with a net income of \$180.2 million.

New analysis of projected provincial gas tax revenues in Ontario has revealed that that source of provincial funding will fall much more dramatically than predicted just five years ago due to increased use of electric vehicles and other factors.

And so, concludes Trent University professor emeritus Harry Kitchen in a new report titled Ontario's Downward Trend for Fuel Revenue: Will Road Pricing Fill the Gap?, the provincial government must look for other sources of revenues to build transportation infrastructure. Kitchen recommends road pricing, such as tolls and HOT lanes, with funds raised earmarked for future transportation improvements, and dynamic parking levies as the two best options.

It's Kitchen third report on fuel tax revenues written for the Residential and Civil Construction Alliance of Ontario (RCCAO) and he explained he was not expecting the surprisingly sharp drop in projected revenues as he gathered information from the National Energy Board while researching the topic.

“I did the same kind of analysis I did five years ago and I thought, oh my goodness, look at how much it’s changed,” Kitchen said. “It was about 10 o’clock at night and I said, my God, I can’t believe the difference over this length of time.”

The data showed that the estimated annual provincial gas tax revenue per capita (at the current fuel tax rate) peaked in 2005 at \$177; by 2040, that revenue tool will be cut in half to \$88. Diesel fuel tax revenues peaked in 2005 and 2011 at \$67 per capita and are projected to drop to \$35 by 2040.

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— **Andy Manahan**

Residential and Civil Construction Alliance of Ontario

The reasons include technological improvements that have resulted in greater fuel efficiency, the emergence of electric and other non-fuel vehicles, and trends such as millennials and retiring baby boomers driving less. While the number of vehicles on the road will remain the same, Kitchen calculates there will be a per-capita drop in motor fuel demand from 1,054 litres in 2018 to 599 litres in 2040.

“How the heck are we going to pay for roads?” he asked. “Are we going to pay higher income taxes or sales taxes, or are we going to ask the people who use the roads to pay to use the roads?”

Both Kitchen and RCCAO executive director Andy Manahan acknowledged that as recently as 2016, Ontario politicians said they did not have an appetite for flat-fee tolls after Toronto Mayor John Tory proposed a flat charge for trips on Toronto’s Gardiner Expressway and the Don Valley Parkway — the idea was rejected by all three major Ontario political parties.

“The government does have a deficit issue and they do need to look at other sources of revenue to pay for the \$28.5 billion for the four (Toronto subway) lines and GO RER, another \$10 billion to be spent on those projects,” said Manahan, noting the Ford government has indicated it is not likely to put tolls on roadways that have already been paid for.

“But HOT (high occupancy toll) lanes is an incremental way to advocate for road pricing because drivers still have a choice. If you don’t like tolls, you stay in the general-purpose lanes.”

Kitchen noted that in 2007 he was on a call-in show where callers almost unanimously rejected road pricing. On a similar radio show six years later, the ratio of negative callers was reversed. With reports from international sources such as Singapore and Stockholm pointing to major successes with dynamic road pricing and significant revenues raised, and examples of progressive regimes such as in Oregon where the state constitution requires that State Highway Fund revenues must only be spent on roads, including bikeways and walkways, within the highway right of way, there is momentum for change, Kitchen said.

“I think there is a change in attitude,” he said. “Right now, all fuel tax revenues go into general revenues. If you earmark it for specific purposes and explain it to people, I think there is a general acceptance of it.

“The younger generation is more receptive.”

In the U.S., policy changes were introduced through public awareness campaigns, Kitchen said. In August, the Oregon Department of Transportation launched its Keep Oregon Connected campaign to educate the public on transportation funding needs including new ways to finance road and bridge projects.

“They did a pretty effective selling job,” he said.

Kitchen added, “The problem is, to go along with it, you also have to have a very good public transit system. Right at the moment, I don’t think it’s good enough. You have to expand it, you have to make it faster, all the policy planners recognize that.”