

# FINANCIAL POST

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## How road tolls could help ease Canada's big city housing crunch

**Haider-Moranis Bulletin: A carefully designed road toll regime has the potential to generate revenue that can then be used to help develop new communities**



**A toll road in the U.K. Chris Ratcliffe/Bloomberg files**

Builders follow roads and pipes, says the adage. Once roads, water mains, and sewer pipes are extended to hitherto undeveloped land, developers and builders follow. Without publicly funded roads, remote undeveloped land may remain undeveloped, and population growth will put additional pressures on prices and rents in the built-up areas.

For decades, provincial governments in Canada have relied on fuel taxes to build and maintain the provincial road infrastructure, a revenue base that has grown over time.

This may not be the case for very long. Improvements in average fuel economy suggest that for the same amount of fuel consumed, vehicle mileage has increased substantially. And with the

expected large-scale adoption of electric vehicles in the future, the amount of gasoline and diesel required should decline even further.

A recent report for the [Residential and Civil Construction of Alliance of Ontario](#) by Harry Kitchen, professor emeritus at Trent University, forecasts per capita future fuel-tax revenue to decline at an increasing rate in Ontario. This is likely to compel governments to look for alternative ways to fund future road construction.

Some economists view the decline in fuel taxes as an opportunity to solve two problems with one solution. They recommend congestion pricing (demand dependent, time-varying road tolls) on some freeway lanes to meet (at least partially) the shortfall in fuel-tax revenue. One suggestion is to convert existing high-occupancy vehicle (HOV) lanes to high-occupancy toll (HOT) lanes, permitting HOVs access without additional charge, but charging non-HOVs a road toll.

The added benefit of road tolls, the economists believe, is less congestion because dynamic tolling could result in a behavioural change in drivers who may drive less, look for alternative modes or destinations, or drive at less-congested times.

Implementing new road tolls is not without challenges, however. Road users accustomed to driving for free often resist such moves. As a result, it is often considered easier to implement tolls on newly built roads.

A recently built 42-km toll-road project in North Carolina, the I-77 Express Lanes, ran into public opposition. Despite the claim by the consortium operating the HOT lanes that average speeds increased by 15 per cent, public acceptance remained low. And there are political costs to pay. The Republican senator who supported the project lost his next race to a Democrat who opposed the lanes.

Toll roads need to be designed with care. The financial impact of road tolls may be disproportionately high on low-income cohorts, especially when efficient and viable public transit systems are lacking. Furthermore, those motorists avoiding the tolls may end up on local roads, thus shifting some congestion from tolled to un-tolled roads.

The proponents of road pricing often refer to the estimated gross revenue from road tolls. Though the technology has improved significantly over the years, the implementation and operating costs of tolling infrastructure remain high, such that the net income produced may not be as great as hoped.

There are jurisdictional issues as well. The provincial mandate in Canada extends to provincially managed roads, which usually comprise highways. Most roads, however, are the purview of local governments. Whereas the provincial government might be inclined to implement congestion pricing, local governments are often not as interested.

In Toronto, however, the reverse was true: the city wanted to toll parts of an urban freeway, but the Ontario government reneged at the last minute.

Though often unwilling, there are ways to convince local governments to jump on board. Fuel taxes are collected primarily by federal and provincial governments, which can then share a portion with their local counterparts. Municipal governments can also be promised a share of the net revenue produced by congestion pricing and use it to fund road and transit systems.

The debate over toll roads comes as Canadian cities and their suburbs continue to grow. The Ontario government, for instance, projects the Greater Toronto Area (GTA) “to be the fastest growing region of the province, with its population increasing by 3.4 million, or 49.6 per cent, from 6.8 million in 2018 to over 10.2 million by 2046.”

Such massive growth may not be accommodated in already urbanized areas alone. New undeveloped land will be needed to accommodate the surging population, requiring additional roads and other infrastructure.

A carefully designed road toll regime has the potential to generate revenue that can then be used to help develop new communities.