



Residential & Civil Construction Alliance of Ontario

Constructing Ontario's Future

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New RCCAO Study: Taxing Motor Gas and Diesel Fuel in the GTHA. Will This Generate Sufficient Revenue?

A groundbreaking study released today by the Residential and Civil Construction Alliance of Ontario shows that Fuel taxes to pay for transportation infrastructure is a "second best" option when compared to road and parking pricing.

The breakthrough report, prepared by Professor Harry Kitchen of the Department of Economics at Trent University in Peterborough, ON, was commissioned by the RCCAO to explore how much revenue might be generated from a GTHA-wide fuel tax over the next 20 years. Kitchen concludes "that gas and diesel fuel tax revenues are unlikely to generate enough revenue to fund future road and transit expansions and that it is a blunt instrument to address congestion."

Instead, he recommends that innovative parking technologies and levies as well as road pricing will prove to be much more effective at reducing traffic congestion while at the same time generating revenue to fund transportation/transit projects.

Among Kitchen's findings:

- Fuel taxes to pay for transportation infrastructure is a "second best" option when compared to road and parking pricing.
- Dedicated fuel taxes will result in additional revenue, but these monies will not shift driving behaviour during peak travel times.
- Fuel tax revenues have helped municipalities fund some infrastructure needs, but these revenues have not increased in 20-years and are likely to decline due to an increase in more fuel efficient vehicles, an increasing reliance on electric and hybrid vehicles and people simply driving less. Hence, other revenue sources must be implemented to offset these losses.
- As an alternative to fuel taxes, provincial politicians must stand up and take a good look at parking levies and road tolls as better ways to fund road and transit in the future.

- Parking is currently inefficiently priced and tends to promote cruising for on-street parking in high-demand areas. Consequently, drivers spend a lot of time looking for a vacant spot which adds to traffic congestion, pollution, and results in lost productivity.
- Efficiently implemented parking levies, including progressive pricing (where prices increase for longer stays), will result in better turnover of vehicles and will increase municipal revenue. Deployment of cell-pay parking will result in lower policing and traffic enforcement costs.
- Road pricing applied at a regional scale is widely recognized as an effective travel demand management tool to internalize congestion, pollution, and other external costs of driving. More so than parking fees, they can influence all dimensions of travel choice: trip frequency, destination, travel mode, time of day or week and route.
- Tolls can generate significant sums of revenue. In 2011, Highway 407 International earned gross revenues of \$675 million (net income \$128.3 million). The Province of Ontario plans to implement tolls on the new 407 East which will be built over the next few years.
- In comparison, it is estimated that a one-cent fuel tax increase will yield about \$90-million per year. Fuel tax revenues are not expected to increase by any notable amount over the next two decades. It's debatable if a fuel-tax increase will generate an adequate and sustainable source of revenue.
- Road pricing and parking levies/taxes are a "first-best" policy. These instruments target those who use the roads, and are effective in tackling congestion and the problems that it creates.

Professor Kitchen's findings provide a cautionary tale. While this revenue stream will continue to be an important source of revenue to fund transportation infrastructure in the coming years, it should not be relied upon indefinitely," said Andy Manahan, Executive Director of the RCCAO.

A full copy of the report can be viewed at: <http://www.rccao.com>

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