



Ontario Dedicated Gas Tax Funds for Public Transportation Program Review and the Ontario Community Infrastructure Fund

Information to help AMO Members Regarding
The Evolution of the Ontario Gas Tax for Transit and OCIF

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Introduction

Municipal governments offer critical, front line services that improve the lives of our residents every day. Services such as water and wastewater systems, roads, bridges and transit help to increase environmental quality, economic productivity and social connectedness for Ontarians. [Federal and provincial infrastructure programs](#) help keep these services affordable and aligned with national and provincial goals and objectives.

Two important provincial infrastructure programs for municipal governments are the Ontario Gas Tax for Transit Program and the Ontario Community Infrastructure Fund (OCIF). In 2019, these two programs are providing over half a billion dollars in formula-based funding to support municipal infrastructure priorities. The Ontario Budget 2019 announced that the Ontario Gas Tax for Transit program would be reviewed and the Ministry of Infrastructure (MOI) announced earlier in 2019 in a letter to municipal Clerks, Treasurers and CAOs that the OCIF would be reviewed and redesigned to ensure it was targeted where most needed and continued to meet intended objectives. These two programs provide important and complementary support to municipal transportation infrastructure systems in communities across Ontario and need to be considered together carefully to ensure that investment needs for municipal transportation continue to be served. The information contained in this document is intended to provide a briefing for AMO members on the evolution of these programs and the functions each plays in supporting discrete but related municipal needs.

AMO understands that the Ministry of Transportation has launched a survey of municipal governments regarding the Ontario Gas Tax for Transit Program. Specifically, the Ministry is asking about:

- The municipal own source funding cap
- The allocation formula
- Baseline funding requirements
- Local/Regional Gas Tax funding allocations

AMO understands that the Ontario Gas Tax for Transit review will be launched first with subsequent details on the OCIF program coming at a later date. AMO is providing this document for your information as well as to outline important considerations for municipalities as they prepare to provide feedback in the MTO Ontario Gas Tax for Transit Program survey. Ultimately, it can be used to support responses to both reviews. Beyond the Ontario Gas Tax for Transit Program and the OCIF are a suite of federal and provincial infrastructure programs and funds that help municipal governments to provide for the needs of residents and communities. These programs have network effects and work together to support municipal needs and members should understand how these programs work together to support the spectrum of municipal needs and consider how changes in one program may affect others.

Ontario Gas Tax for Transit Program

Historically, until the mid-1990s, the Ontario government provided funding for municipal transportation systems often on a yearly basis. MTO's regional roads divisions worked with municipal officials to understand municipal needs for roads maintenance and improvements and ministry staff prioritized provincial capital investments in municipal road systems across the

province. Similarly, provincial and federal funding for public transit systems supported municipal capital and operating expenses to keep these systems affordable. The need to eliminate the federal and provincial deficits, however, led to a number of changes that saw some infrastructure transferred and the removal of supporting funds amongst them.

The transfer of infrastructure assets such as roads and bridges as well as responsibility for funding social services and public health and the withdrawal of specific infrastructure supports in the mid-1990s made it difficult for municipal governments to invest in capital.

By 2008, the provincial government was [estimating](#) that municipal governments had an infrastructure gap – the difference between what they spent on infrastructure and what they needed to spend to account for maintenance, growth and expansion – of \$6 billion a year. Of that amount, roads and bridges (\$2.8 billion), water and wastewater (\$1.2 billion) and transit (\$1.01 billion) accounted for most of the need. ¹ The subsequent upload of provincial social services costs (\$2.1 billion annually); targeted provincial programs such as the Ontario Gas Tax for Transit Program and OCIF; and federal investments through the Federal Gas Tax Fund, Building Canada Fund (BCF) and the Investing in Canada Infrastructure Program (ICIP) have led to significant municipal infrastructure [investment increases](#) totalling up to \$10 billion per year in municipal capital expenditure.

The Ontario Dedicated Gas Tax Funds for Public Transportation Program (the Ontario Gas Tax for Transit Program) was created in 2004 to provide dedicated funding to municipal transit operators to support the expansion and improvement of transit services in Ontario. The purpose of the Ontario Gas Tax for Transit Program is to increase municipal transit ridership by expanding public transportation capital infrastructure and service levels. It responded to municipal needs for the reintroduction of supports for transit services that were eliminated in the previous decade.

In 2004-05, the Ontario Gas Tax for Transit Program provided 1 cent per litre totalling \$156 million to fund municipal transit. In 2005-06 it increased to 1.5 cents per litre and \$232 million. Since 2006-07 the Ontario Gas Tax for Transit Program has provided 2 cents per litre of gasoline sold. As the amount of fuel sold in the province has increased, the fund has increased also (see Appendix 2).

Ontario charges a gas tax at the pumps which provides the provincial government with 14.7 cents/litre of unleaded gasoline. Different rates apply to leaded gas, propane and aviation fuels. In 2017-18 Ontario's public accounts note that the province collected \$3.4 billion in fuels and aviation taxes. To put that amount and the Ontario Gas Tax for Transit Program in perspective, Ontario municipalities received \$364 million in 2019 from the Ontario Gas Tax Program for municipal transit, almost 11 per cent of the total². For further comparison, the federal Canada Gas Tax Fund, provides Ontario municipalities with over \$800 million/year and that amount was doubled for 2019.

In addition, while the funding provided to municipal governments through the Gas Tax program has grown, so has the number of municipal governments receiving the funding. In 2013, when the legislation dedicating 2 cents of Ontario's gas tax per litre to municipal transit was set in place, an additional 13 municipalities have received funding, bringing the total to 109 municipalities that

¹ Note: the Infrastructure Gap was based on historical information and age of assets. Asset management planning, better condition data and service level establishment should lead to significant revision.

² This rises to 16.6 per cent if OCIF is included.

serve over 146 communities. AMO understands that these systems together serve as much as 92 per cent of Ontario's population³.

The Dedicated Ontario Gas Tax Funds for Public Transit Program is unusual amongst infrastructure funding programs in that it supports capital and operating expenses. Most infrastructure programs support only capital works. This flexibility is a reflection of municipal government needs and recognizes that transit operating expense support helps to keep fares affordable to riders. In turn, this is a recognition of the economic, environmental and social importance of transit systems. AMO understands that many municipalities use a significant amount of the Ontario Gas Tax for Transit Program funding to support operations⁴. At its discretion, a municipal government can put Ontario Gas Tax for Transit Program funding in a reserve account for future use.

Beyond transit operating requirements, the Ontario Gas Tax Program for Transit funding can be used for:

- Capital expenditures that promote increased transit ridership;
- Capital expenditures for the replacement of any transportation vehicles;
- Capital expenditures that provide improvements to transit security and passenger safety; and,
- Major refurbishment on any fully accessible, or to be made fully accessible, public transportation vehicle.

In 2013, the provincial government passed the *Dedicated Funding for Public Transportation Act* responding to municipal government requests to make the fund permanent, and specifically in response to AMO's 2011 Provincial Election 12 Asks campaign. This Act legislated dedicated revenues of two cents per litre of gasoline for the Ontario Gas Tax for Transit Program.

On January 27, 2017, former Premier Kathleen Wynne announced that the Ontario Gas Tax for Transit program would double from 2 cents/litre to 4 cents/litre starting in 2019. This increase was to be phased over time (see Appendix 1). However, in Budget 2019, it was announced that the Ontario Gas Tax for Transit fund would not be expanded due to provincial fiscal restraints and the need to restore balance to Ontario's budget.

MTO Ontario Gas Tax for Transit Program Consultation Questions

Municipal Own Source Funding Cap

MTO is seeking input from municipal governments regarding the own source municipal funding cap. Ontario's Gas Tax for Transit funding is capped at 75 per cent of municipal own source funding for transit. This cap ensures that municipal governments support local transit as the primary funder.

The ministry is consulting on increasing the cap to 100 per cent of municipal own source funding. This would mean, in practice, that a municipality that now received 75 cents from the province in

³ MTO and Ontario Public Transit Association (OPTA).

⁴ OPTA reports that almost two-thirds of Ontario Gas Tax for Transit Program funding may be used to support transit operating costs.

Gas Tax for Transit funds for each municipal dollar invested would be able to receive 100 cents per dollar.

Increasing the cap to 100 per cent should provide more flexibility to municipal governments and allow them to invest more funding to support transit in their communities. Overall, removing the cap may be a benefit to many, particularly smaller, municipalities and ease some constraints on transit funding in these communities, however, if funding is not increased or if the amount of fuel bought in Ontario subject to the tax were to see a reduction, it is possible that this could lead to a reduction of funding.

Ontario Gas Tax for Transit Allocation Formula

From inception, Ontario's Dedicated Gas Tax Funds for Public Transit allocation formula has been based on 70 per cent ridership (as reported by the Canadian Urban Transit Association) and 30 per cent municipal population (provided by the Ministry of Finance). This allocation formula has been in place since 2004 and was developed to balance the interests of large transit systems with high annual ridership with the interests of smaller systems.

As a principle, AMO supports formula funding for infrastructure and other funding programs because it provides generally stable and predictable funds to municipal governments for priorities while eliminating costly applications. AMO understands that many smaller municipalities that receive Ontario Gas Tax for Transit Program funds receive most of their funding on population criteria. Similarly, larger systems with substantial ridership benefit from ridership criteria.

AMO cannot take a position on the allocation formula. Municipal government officials should, however, be aware that significant changes to the balance will have important ramifications for Ontario Gas Tax for Transit funding throughout the sector and could leave the needs of some municipalities under-recognized.

Municipal Baseline Funding

Baseline funding is required to be met by municipal governments receiving Ontario Gas Tax for Transit Program funds. Much like the incrementality requirements of other funds, this criterion is aimed at ensuring that municipal own source funding is not reduced over time. This forms one of the Ministry of Transportation's compliance mechanisms and is an average of municipal own-source support for transit over time.

AMO understands that the baseline funding requirement may challenge some municipalities, especially if a municipality's population is declining or another significant challenge to municipal fiscal capacity is experienced. The Ministry is consulting on removing the requirement. Removing this requirement may be helpful to municipal governments in these types of circumstances and could allow municipalities with reduced baselines to invest a greater amount in transit systems.

Local and Regional Allocations

Under the Ontario Gas Tax for Transit Program regional transit allocations are calculated by deducting lower tier populations from the upper tier. Deducting lower-tier populations reduces the amount of funding a regional transit agency is allocated from the Ontario Gas Tax for Transit Program. However, ridership calculations are not affected. The ministry is seeking suggestions that

could lead to better balance between upper and lower tier needs. AMO understands that the impetus to examine this may arise from transitioning of services in some cases between tiers.

Establishing Transit Systems

The Dedicated Gas Tax Funds for Public Transit Program was created to expand and improve public transit services. One significant challenge that AMO members have raised from time to time about the Ontario Gas Tax for Transit Program is that it does not help municipal governments to establish systems and that municipal governments must have dedicated funding to public transit already to access funding.

Establishing a transit system is a major undertaking for most municipalities and these services require a critical mass of riders and funding to support them from the start. Meanwhile, economic, environmental and social benefits of these services may take some time to accrue to the community. This creates a 'catch-22' for many smaller municipalities.

Since 2013, 13 new municipal transit systems have been established in rural and northern Ontario and have been able to take advantage of dedicated Ontario Gas Tax for Transit Program funding⁵. Nevertheless, establishing a transit system is a major undertaking for most municipalities that remains challenging.

Ontario Community Transportation Grant Program

One response to the challenge of establishing new transit systems in underserved communities is the creation of a flexible community transportation support program in Ontario. The [Ontario Community Transportation Grant Program](#) was established in 2015 to help small, rural and northern municipalities and community service organizations to provide services that connected residents to transportation services in communities across Ontario. The original program was a \$3 million pilot that provided funding to community-based transportation solutions. The program helped municipalities and community agencies to leverage resources to find local solutions to transportation problems. In the original program, 22 municipalities received funding to improve transportation in their communities.

As of January 2019, the Minister of Transportation [announced](#) the next phase of the Ontario Community Transportation Grant Program would continue, providing \$30 million to 39 municipal governments to provide innovative transportation solutions tailored to their community needs. The program will last 5 years and help to establish services that could become eligible for Ontario Gas Tax for Transit Program funding. Continuation of this program could help many municipal governments to offer needed transportation and transit solutions to their residents and communities.

Ontario Community Infrastructure Fund (OCIF) Review/Redesign

While the challenges of establishing and operating quality public transit systems that serve the needs of residents are difficult for many communities, many others have land use, population and transportation patterns that are too dispersed to make transit economical in all or part of their

⁵ OPTA.

communities. For these municipal governments, roads, bridges and culverts remain their core transportation systems and in need of support to maintain their contribution to the community.

The Provincial-Municipal Roads and Bridges Review led by AMO and MTO in 2012 noted that Ontario municipalities managed over 140,000 kilometers of roads, 15,000 bridges including 5,000 kilometers of roads and over 600 bridges that were transferred from the provincial government in previous decades. One major recommendation of the Roads and Bridges Review was the establishment of a permanent and predictable infrastructure fund – when the provincial fiscal situation permitted – to support municipal roads and bridges. The Ontario Community Infrastructure Fund (OCIF) was established in 2014 as a response to this need.

OCIF provides funding to support core infrastructure (roads, bridges, water, wastewater and stormwater) in all rural and northern municipalities and those with 100,000 or fewer residents. In 2014, the OCIF fund was \$100 million - \$50 million formula allocation and \$50 million application with a view to increasing the funding over three years. Application funds were based on needs and limited to \$2 million each. Funding for Connecting Links of \$10 million/year was announced during the same period to fund municipal roads that connect provincial highways. [Connecting Links](#) funding has since expanded to \$30 million/year.

In early 2016, changes to OCIF were [announced](#) by the Premier based on municipal infrastructure needs. OCIF formula funding was increased to \$200 million. Application funding was increased to \$100 million. The Ontario Budget in 2016 [committed](#) to the overall amount of \$300 million per year for OCIF by 2018-19. OCIF funding was always meant to be complementary to other funds. In particular, the Ontario Gas Tax for Transit Program and the Building Canada Fund Small Communities Fund (BCF-SCF). In addition, OCIF was eligible to be used as the municipal contribution component to the federal [Clean Water and Wastewater Fund \(CWWF\)](#) in 2016-17.

In 2019, OCIF provided \$200 million in formula funding to 426 municipalities with 100,000 or fewer residents. All rural and northern municipalities are eligible for funding. Program changes in 2016 allow OCIF formula funding to be banked by municipalities so that larger projects can be funded.

In announcing the 2019 allocations for OCIF the provincial government [indicated](#) that provincial fiscal circumstances mitigated against the full expansion of the OCIF and that the OCIF Top-Up (application component) would be canceled. However, the province committed to the increase in formula funding for the year and Top-Up applications for certain categories such as roads and bridges were invited to apply first to the federal-provincial-municipal Investing in Canada Infrastructure Plan (ICIP) Rural and Northern Funding Stream to mitigate the impact on communities seeking Top-Up funding. Similar treatment for other Top-Up applications could be forthcoming⁶.

OCIF Formula

OCIF's funding formula is allocated based on the intensity of core infrastructure need and economic conditions. The formula is calculated by establishing a municipality's core infrastructure index relative to other municipalities through measures of infrastructure per household and relative to

⁶ This has been requested by some communities and AMO has raised this with MOI.

weighted property assessment values. A more detailed explanation can be found in the [OCIF Program Guide](#).

This formula was established deliberately to provide municipal governments with higher infrastructure needs relative to economic circumstances with a proportionally higher grant. The formula is a direct response to municipal governments, particularly smaller, rural and northern communities that support extensive infrastructure systems on relatively small or spread out populations as well as those transferred significant provincial assets.

While the OCIF formula is more complex than a straight population or infrastructure value calculation, it ensures that municipalities with higher core infrastructure needs relative to their ability to pay for it are supported to a higher degree. OCIF also includes a minimum grant, or floor, of \$50,000. Along with changes to allow banking, this helps municipalities with smaller formula allocations to save for longer-term projects.

AMO Comments – Ontario Gas Tax for Transit Program and OCIF Reviews

Ontario's Gas Tax for Transit Program and the Ontario Community Infrastructure Fund play an important role in supporting and funding municipal infrastructure and transit services. These complementary funds provided almost \$600 million in stable, predictable and flexible formula based funding to municipal governments in 2019. Together with other infrastructure funds such as the federal-provincial-municipal ICIP and MTO's Community Transportation Grant Program and Connecting Links fund, these programs form an important suite of supports for municipal capital projects.

The **Ontario Gas Tax for Transit Program and OCIF formulas balance municipal infrastructure system needs with economic circumstances and population characteristics.** Changes to the OCIF program in recent years have made it more flexible and the ability to bank the funds under OCIF as permitted under the Ontario Gas Tax for Transit Program, allows municipalities to save for more significant projects over time.

AMO cannot comment on changes to the formulas of either program. Changes in formula will advantage and disadvantage AMO members depending on how they are weighted and criteria for eligibility. However, members are encouraged to view the whole suite of programs and their overall network advantages. Collectively, the Ontario Gas Tax for Transit, OCIF and Community Transportation Grant Program function to fund the establishment of transportation services, maintenance, operation and expansion of transit services and upgrade and rehabilitation of roads, bridges and culverts as well as water treatment and management in many Ontario communities. These respond to overall transportation needs experienced by municipal governments of all sizes and geographic profiles.

The questions being consulted on by the Ministry of Transportation such as **removing the funding cap and eliminating baseline funding requirements under the Ontario Gas Tax for Transit Program could help municipal governments to more flexibly employ funding for transit in their communities.** In addition, a more formal **program to help municipal governments establish municipal public transit programs** that can become eligible for Ontario Gas Tax for Transit funding would help to resolve the need for start up funding amongst smaller municipalities in particular.

With regard to the **OCIF**, AMO believes this fund could be improved by **removing the restriction that limits funding to only core infrastructure systems** as municipal asset management planning matures and accounts for priorities across the entire municipal portfolio. Municipal governments that expand their asset management plans sooner and meet the provincial regulatory criteria should have the restrictions removed sooner to incentivize their planning functions.

Finally, AMO believes that as part of its plan to return to fiscal balance, it is important for the provincial government to **commit to phasing increases in the Ontario Gas Tax for Transit Program and OCIF funding envelopes in a predictable and responsible fashion as the province's fiscal situation allows**. Municipal governments are working with the province to reduce costs and increase efficiency in public services. However, municipal residents' needs increase over time and planned increases of these programs would help municipalities to plan investments over the long term.

Appendix 1

Ontario Gas Tax for Transit Program and Ontario Community Infrastructure Fund

Scheduled Expansions 2016 – Revised in 2019

	Transit (Millions) Gas Tax Funding	Infrastructure Fund (Millions) OCIF
2017	\$334.5	\$145
2018	\$321.0	\$230
2019	\$401.3	\$300
2020	\$481.5	TBD
2021	\$642.0	TBD

Appendix 2

Ontario Gas Tax for Transit Program Historical Funding Profile

Year		
October 2004 – September 2005	1 ¢/litre	\$156 million
October 2005 – September 2006	1.5 ¢/litre	\$232 million
October 2006 – September 2007	2 ¢/litre	\$313 million
October 2007 – September 2008	2 ¢/litre	\$314 million
October 2008 – September 2009	2 ¢/litre	\$321 million
October 2009 – September 2010	2 ¢/litre	\$316 million
October 2010 – September 2011	2 ¢/litre	\$318 million
October 2011 – September 2012	2 ¢/litre	\$321 million
October 2012 – September 2013	2 ¢/litre	\$324 million
October 2013 – March 2014	2 ¢/litre	\$163.4 million
April 2014 – March 2015	2 ¢/litre	\$321.5 million
April 2015 – March 2016	2 ¢/litre	\$332.9 million
April 2016 – March 2017	2 ¢/litre	\$334.5 million
April 2017 – March 2018	2 ¢/litre	\$357.2 million
April 2018 – March 2019	2 ¢/litre	\$367.5 million
TOTAL		~\$4.1 billion

Appendix 3

OCIF Historical Funding Changes

	OCIF Total (Millions)	Formula (Millions)	Top-up (Millions)
2015	\$100	\$50	\$50
2016	\$150	\$50	\$100
2017	\$195	\$95	\$100
2018	\$130	\$130	\$0
2019	\$200	\$200	\$0