

Financing Roads and Streets in Canada — Ideas for the US

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[Editor's Note - At the 68th Road School, Mr. Laviolette made a presentation that was a summary of a larger report titled "A Presentation by the Ontario Motor League to Members of the Ontario Cabinet Concerning the Taxation of Motorists in Ontario, 1980." The report was published in May 1981. The material published below constitutes Appendices B and D of the larger report.]

APPENDIX B

FEDERAL/PROVINCIAL/MUNICIPAL RESPONSIBILITIES FOR ROADWAYS

Each level of government in Canada is involved in a variety of ways in planning, constructing, maintaining and administering highways, roads, and streets (collectively—roadways) available for the use of the motorists and motor vehicles. Expenditures are made by each level of government to fulfill its responsibilities, assigned or assumed, for the facilities provided. Each level of government must generate the funds required to pay for these expenditures.

To understand the relationship between motorists in Ontario and the provincial government, we must examine how the three levels of government divide their responsibilities for roadways. Three measures of government involvement were considered:

The responsibility for roadways in terms of kilometers;

The amount of expenditures made for the provision and serving of roadways; and

The actual financial burden assumed.

Roadway Kilometer Responsibilities in 1975

Table 27 at the end of Appendix B is a summary of provincial roadway kilometers, including public lanes and alleys, open to motorists in Canada in 1976. This is the most recent year for which comparable information is readily available.

The percentages shown on the right of the table are the proportion of the total kilometers for which each level of government is responsi-

ble. The table shows that the Federal government is responsible for only 1.6% of the total roadway kilometers in Canada.

The federal government's share of the total kilometers in Ontario is 1.4%, about 88% of its share of the total kilometers in Canada. The Ontario provincial and municipal governments are responsible for approximately 18.8% and 79.8% of the total roadway kilometers in Ontario, respectively. The combined Ontario provincial/municipal responsibility for kilometers is the fifth highest of the provinces.

The road kilometers and percentages in the table do not provide a true measure of the road responsibility borne by each level of government, because the nature of the roads is not taken into consideration. For example, although the table indicates that Saskatchewan has more kilometers than any other province, it does not indicate that almost 40% of the kilometers are represented by unsurfaced earth roads. This is different from Ontario where almost 43% of the total roadways are paved, over 53% are surfaced by some other means, and only 4% are unsurfaced.

Roadway Expenditures in Canada, 1975

Roadway expenditures consist of two items: direct expenditures made by each level of government for construction, maintenance and administration of roadways and intergovernmental transfer payments. Transfer payments arise as some provinces are hampered in generating revenues either because their per capita incomes are less than those of other provinces or because they do not have the same abundance of national resources and other taxation fields. Similarly, some municipalities have a much smaller real property assessment base than others with comparable expenditures. Therefore, intergovernmental arrangements have been made to counter these fiscal imbalances.

The federal government uses 4 basic methods of transferring its fiscal resources to provincial and municipal governments:

Reduction of federal taxes to allow provinces to levy taxes in the same field;

Abatement of a portion of federal taxes in favour of the provinces;

Unconditional grants; and

Conditional or shared-cost program grants.

Ontario makes use of the last two methods to direct a portion of its revenues for municipal purposes.

These transfer payments are a direct shifting of financial obligations from one level of government to another through federal-provincial, federal-municipal and provincial-municipal conditional grants or cost-sharing arrangements in respect to roadways.

Table 28 presents the direct expenditures adjusted for transfer

payments incurred by each level of government on roadways in 1976. Table 29 shows each government's responsibility in terms of roadway kilometers and expenditures incurred by each level of government on roadways.

In the right hand column, we notice that of the \$4.4 billion spent on roadways in Canada in 1976, approximately 6% of the expenditures was financed by the federal government, 60% by the provincial government and 34% by the municipal government. In Ontario, the federal government financed 1% of the funds spend on roadways, the provincial government financed 19% and the municipal governments 80%.

TABLE 27
Highway, Road and Street Mileages in Canada, 1976

<u>Provinces</u>	<u>Number of Kilometers by Responsible Government</u>				<u>Share of Total Kilometers</u>		
	<u>Federal</u>	<u>Provincial</u>	<u>Municipal</u>	<u>Total</u>	<u>Federal</u>	<u>Provincial</u>	<u>Municipal</u>
					<u>%</u>	<u>%</u>	<u>%</u>
Newfoundland	336	9,906	2,963	13,205	2.5	75.1	22.4
Prince Edward Island	76	5,262	245	5,583	1.4	94.3	4.3
Nova Scotia	261	26,247	1,983	28,491	0.9	92.1	7.0
New Brunswick	214	20,070	2,675	22,959	0.9	87.4	11.7
Quebec	459	72,821	40,568	113,848	0.4	63.9	35.7
Ontario	2,222	30,232	128,199	160,653	1.4	18.8	79.8
Manitoba	1,188	19,689	60,521	81,398	1.4	24.2	74.4
Saskatchewan	1,089	25,178	179,925	206,192	0.5	12.2	87.3
Alberta	3,035	35,378	141,733	180,146	1.7	19.6	78.7
British Columbia	3,581	45,218	16,521	65,320	5.5	69.2	25.3
<u>Territories</u>							
Yukon Territories	1,019	3,079	142	4,240	24.0	72.6	3.4
Northwest Territories	293	1,812	138	2,243	13.1	80.8	6.1
<u>All Canada</u>	13,773	294,892	575,613	884,278	1.6	33.3	65.1

Source: Statistics Canada, *Road and Street Length and Financing, 1976*.

TABLE 28
Highway, Road and Street Expenditures in Canada¹, 1976

	Expenditures By Responsible Government and Others					Share of Total Expenditures			
	Federal	Provincial	Municipal	Other	Total	Federal	Provincial	Municipal	Other
	(000's)	(000's)	(000's)	(000's)	(000's)	%	%	%	%
<u>Provinces</u>									
Newfoundland	26,989	96,598	17,259	9	140,855	19.2	68.6	12.2	*
Prince Edward Island	2,969	17,599	2,131	1	22,700	13.1	77.5	9.4	*
Nova Scotia	18,013	108,655	25,005	20	151,693	11.9	71.6	16.5	*
New Brunswick	19,459	112,294	41,713	78	173,544	11.2	64.7	24.0	0.1
Quebec	25,580	778,965	418,951	193	1,223,689	2.1	63.7	34.2	*
Ontario	23,005	811,538	467,168	1,508	1,303,219	1.8	62.3	35.8	0.1
Manitoba	17,517	99,466	81,091	188	198,262	8.8	50.2	40.9	0.1
Saskatchewan	14,662	134,232	94,263	17	243,174	6.0	55.2	38.8	*
Alberta	32,886	226,467	231,290	228	490,871	6.7	46.1	47.1	0.1
British Columbia	32,585	258,460	158,783	90	449,918	7.2	57.4	35.3	0.1
<u>Territories</u>									
Yukon Territory	21,439	1,461	1,565	-	24,465	87.6	6.0	6.4	-
Northwest Territories	22,046	1,664	2,940	-	26,650	82.7	6.2	11.1	-
<u>All Canada</u>	257,150	2,647,399	1,542,159	2,332	4,449,040	5.8	59.5	34.7	*

* Insignificant

1. Expenditure financed by each level of government on roadways in 1976 following adjustment for transfer payments.

Source: Statistics Canada, *Road and Street Length and Financing, 1976*.

APPENDIX D

THE TAXATION OF MOTORISTS

All levels of government in Canada profess to make only "general" use of their revenues. Our identification of "selective" contributions from motorists is subjective; nevertheless, it appears to be in agreement with widely held views and historical government practices.

To assess the aggregate burden placed on motorists by taxation, we will examine this selective taxation of motorists by all three levels of government as well as comparing the relative status of Ontario motorists with motorists in other provinces.

Municipal Taxation

In most provinces, property and business taxes collected through municipal real property taxes yield substantial revenues for municipalities and school boards. New Brunswick and Prince Edward Island are the exceptions; in these provinces, the tax on real property is administered and collected by the provincial government on behalf of municipal governments and school boards. All provinces except Newfoundland, Quebec and Manitoba tax real property situated in unorganized areas.

When considering the influences of real property taxation on motorists, it can be argued that the aggregate real burden arising from such taxes paid directly, and indirectly through prices charged, is generally in excess of municipal expenditures on roadways. Many other classes of taxpayers, however, are in essentially the same position. Real property taxes, for the most part, are general in their application and the motorist has no greater right to benefit from related expenditures than any other municipal taxpayer.

Similarly, municipal road programs generally have no greater claim than any other area of municipal spending to the municipal portion of the revenues raised through real property taxation. There is however, a minor exception: the special assessment for local improvements to roads that might be included in the total real property tax bill. Again, however, this assessment applies to real property taxpayers generally, and not only to those who are motorists.

Other motorist-related revenues include those derived from parking lots, street parking and, possibly, fines for traffic violations. There are also other relatively small sources of revenues, such as business licence fees imposed by some municipal governments or commercial motor vehicles operating within their boundaries.

Provincial Taxation

Many of the provincial taxes are too general in their application to be regarded as directly affecting motorists. In addition to the indirect provincial taxes that may be shifted to motorists, a wide variety of direct provincial taxes and other charges are imposed specifically on the owners and operators of motor vehicles such as:

- provincial taxes on motor fuels;
- fees for motor vehicle registration; and
- fees for commercial vehicle operating licences.

Of importance to motorists in Ontario is their tax position vis-a-vis motorists in other provinces. The comparisons in the following tables summarize the different rates of motor fuel taxes and fees imposed on motorists by the provinces.

It is important to recognize that there are significant limitations to the usefulness of inter-provincial comparisons. When comparing the taxation of motorists in Ontario with that in other provinces, it is necessary to consider the "selective" taxes imposed on motorists and the relationship of the selective taxes to the total tax systems of the provinces.

For example, the need for roadways or for roads of a particular type is not the same in all provinces. These variations, in turn, are associated with significant differences in the size and composition of the provincial motor vehicle population.

Even the differences in social, economic and climatic conditions throughout the country contribute to wide disparities in provincial road costs and the levels of priority assigned to road programs and other areas of expenditures. These together with differing bases for provincial motorist-related and other tax levies have contributed to many of the differences in the provincial motorist-related tax structures.

Motor Fuel Taxes

The provincial motor fuel taxes, imposed at the point of sale, are the most productive of the various provincial levies which the owners or users of motor vehicles are subjected to as a selective class of taxpayer. It is important to compare the provincial tax rates on motor fuel consumed in motor vehicles. These provincial rates are shown in the Table 35.

Private Passenger Automobiles: Registration Fees

Private passenger automobiles making use of public roads must be registered in all provinces, and an annual fee must be paid. Although provincial governments use different bases to determine the fee payable

for each vehicle, the provincial fee structures are all graduated in a way to account for the size and/or weight of each vehicle. These fees are summarized in the Table 36.

Ontario is the only province with a schedule of registration fees for private passenger automobiles that is based on the number of cylinders. Six provinces have fee structures based on the curb weight of the vehicle (unladen weight which includes a full supply of water and fuel), Nova Scotia's structure is based on the tare weight of the vehicle (net weight without water and fuel), and Alberta and Saskatchewan base their fees on the length of the vehicle's wheelbase.

Not shown in Table 36 are the flat fees or special charges assessed by certain provinces for the registration of passenger automobiles. For example, some provinces impose extra charges for licence plates, and others require that fees be paid for annual and/or initial registration certificates. These nominal additional charges are not significant enough to warrant further consideration.

Public Commercial Vehicles: Registration and Carrier Fees

Public commercial vehicles must be registered annually in all provinces. In addition to registration fees, most provinces except Saskatchewan and Alberta require the owner to pay for a public commercial licence. In Ontario, this is as a public commercial vehicle (PCV) fee.

In order to make inter-provincial comparisons, it is necessary to compare the combined licence and registering fees. This is difficult because there are several types of operating licences available at varying costs. A detailed analysis of all these licences is not required in this study but we show a comparison of fees for selected public commercial vehicles in Table 37.

Public Intercity Buses: Registration and Carrier Fees

Table 38 summarizes the comparative costs of registration and, where appropriate, carrier fees for medium and large sized public intercity buses. The fees shown in this table exclude certain nominal flat fees charged in some provinces.

In this report, we placed emphasis primarily on the numerous provincial levies that form the selective taxation of motorists as a group. Table 39 summarizes some of these levies.

Federal Taxation

The federal government derives substantial revenues from taxes levied on taxpayers. Some of the federal personal and corporate income taxes initially paid by others are reflected in prices charged to motorists as general consumers.

As consumers of automotive and oil products, motorists bear the real burden of many federal taxes through the prices they are required

to pay for motor vehicles, parts, services, accessories, and fuels. Included among these is the federal manufacturers' sales tax of 9% payable on both domestic and imported goods and services, including motor vehicle fuels.

Customs duties may be imposed by the federal government on motor vehicles, parts, and accessories imported into Canada. In very general terms, private passenger automobiles imported by non-manufacturers are subject to a customs duty based on their fair market value. The rate of duty is nil on automobiles imported that are eligible for the British Preferential Tariff classification. For Most Favoured Nations (United States, Germany, France, Russia, Japan) the rate of duty is 14.3% and for other countries 27.5%. Many vehicles imported from Europe and Japan are subject to duty while the bulk of those imported from the United States are exempted by virtue of the terms of the Canada-United States Automotive Products Agreement, 1965.

Even though the federal sales tax and customs duties impose an indirect financial burden on motorists in the long run, these levies are applied to many other products resulting in a similar indirect burden to all consumers. Therefore, it is not appropriate to regard these revenues as other than a part of the general revenues of the federal government.

TABLE 29
ONTARIO MOTOR LEAGUE
HIGHWAYS, ROADS AND STREETS IN THE PROVINCES OF
CANADA, 1976
ALLOCATION OF TOTAL RESPONSIBILITY

	Table 27 Roadway Kilometers	Table 28 Expenditures ¹
<u>ALL OF CANADA</u>		
Federal	1.6%	5.8%
Provincial	33.3	59.5
Municipal	65.1	34.7
<u>PROVINCE OF ONTARIO</u>		
Federal	1.4%	1.8%
Provincial	18.8	62.3
Municipal	79.8	35.8

1. This column presents the proportion of expenditures financed by each level of government on roadways in 1976 following adjustment for transfer payments.