

PREPARED FOR: Victoria Regional Transit Commission

PURPOSE

To provide the Victoria Regional Transit Commission (the “Commission”) with a summary of the use of fuel tax as a source of revenue for INFORMATION.

BACKGROUND

The Victoria Regional Transit System’s (VRTS) local share of operating expenses for conventional and custom transit is 68.3 per cent and 37 per cent respectively (Figure 1). The local share is funded by the following sources: Passenger & Advertising revenue, Property Tax revenue, Fuel Tax revenue, and the Transit fund.

Figure 1: Victoria Conventional & Custom Funding Split:

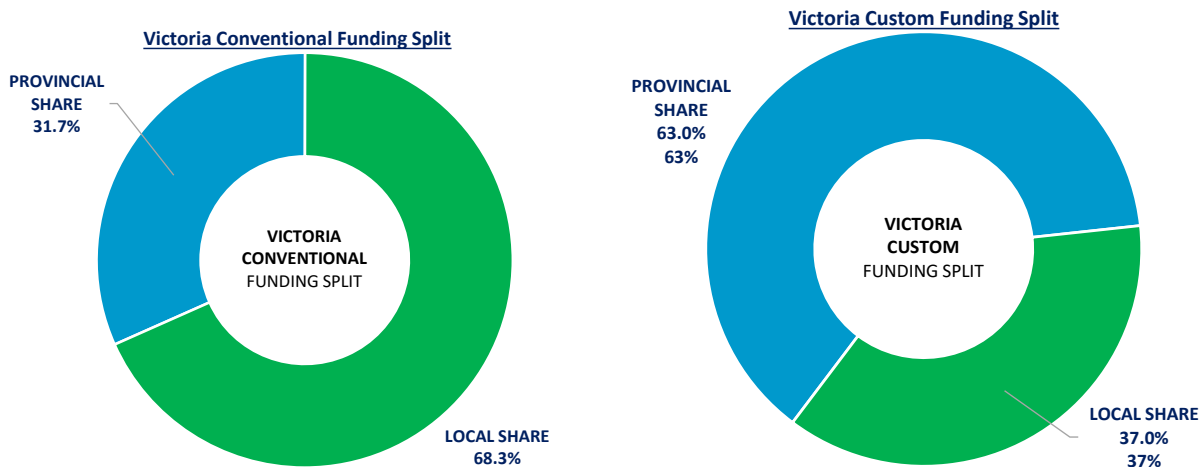
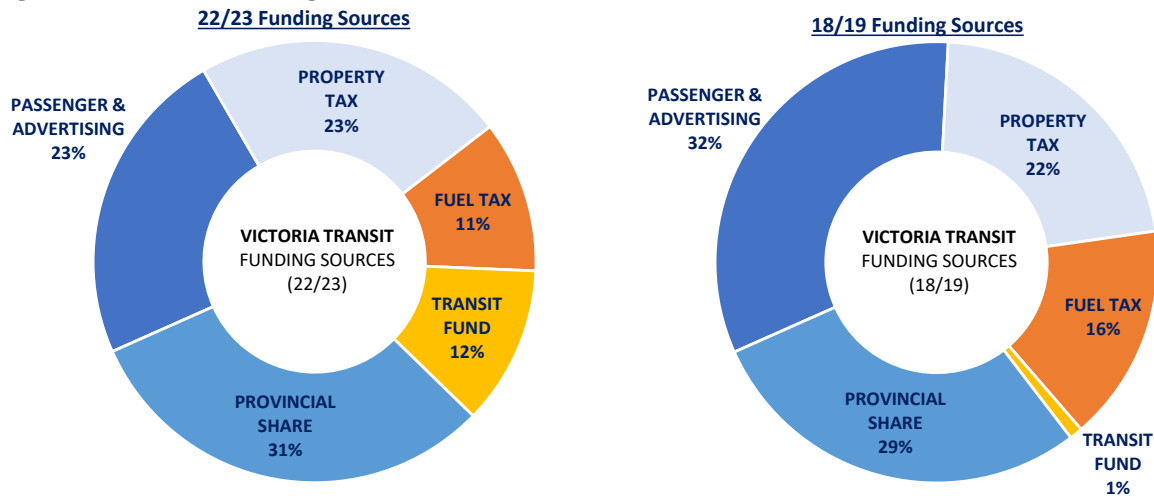


Figure 2 illustrates a breakdown of the funding sources for the VRTS for 2022/23 in comparison to 2018/19, (2018/19 was chosen to represent the most recent complete pre-pandemic year as a reference).

Figure 2: VRTS Funding Sources 2022/23 and 2018/19:



Note that this is a total funding comparison for all Victoria Transit (conventional and custom) and includes local share of lease fees.

The Fuel Tax levy, also known as the Local Motor Fuel Surcharge, is authorized through the *British Columbia Transit Act*. The Fuel Tax levy is one of the Commission’s revenue levers to support the local share portion of Victoria Regional Transit funding. Any changes to this tax requires approval from the Province and an amendment to the *Motor Fuel Tax Act*.

In 2022/23, fuel tax accounted for approximately 11 per cent of total funding sources for VRTS. This levy is unique among BC Transit systems, with no regional transit systems having this within their funding mechanisms.

The Fuel Tax levy was introduced in the VRTS in 1993 at 1.5 cents per litre sold in the Greater Victoria region. The levy has been set at 5.5 cents per litre since 2018.

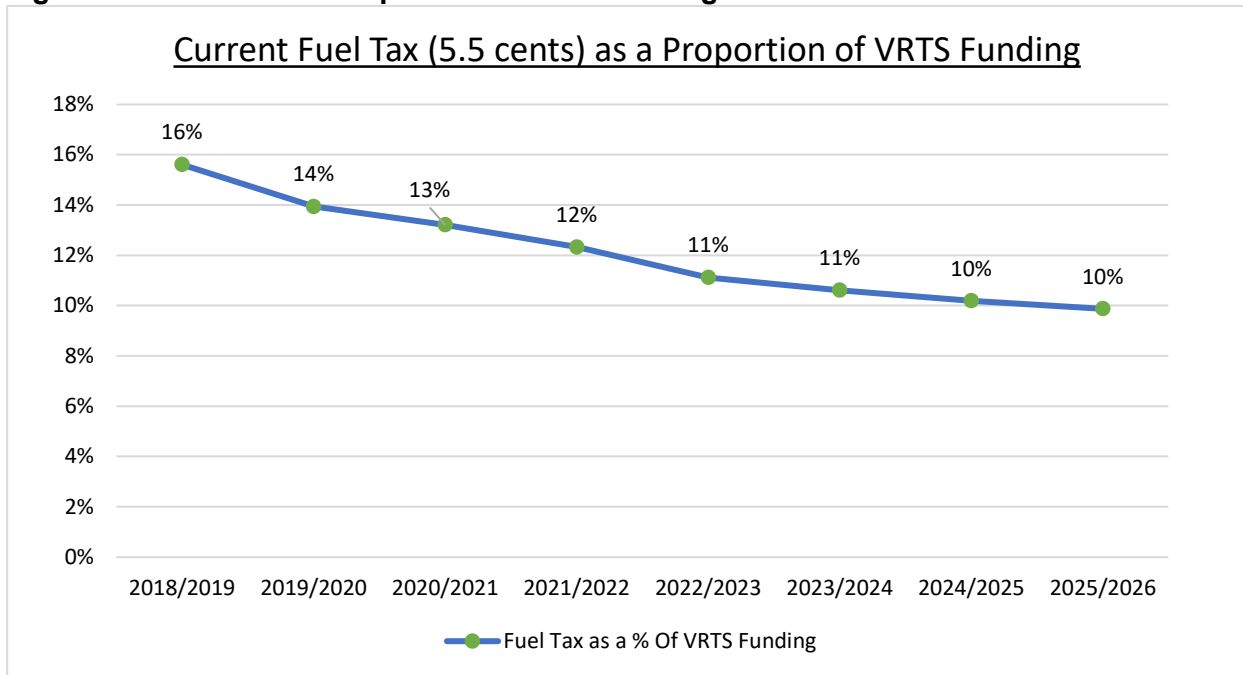
Fuel Tax levies exist elsewhere in Canada, for example in Metro Vancouver (TransLink) at 18.5 cents per litre, and Montreal at 3 cents per litre.

DISCUSSION

Fuel Tax Revenue

In 2018/19, fuel tax accounted for approximately 16 per cent of total funding for the VRTS. As illustrated in Figure 3, this has declined over the past five years to 11 per cent and is budgeted to be 10 per cent by 2025/26:

Figure 3: Fuel Tax as a Proportion of VRTS funding:

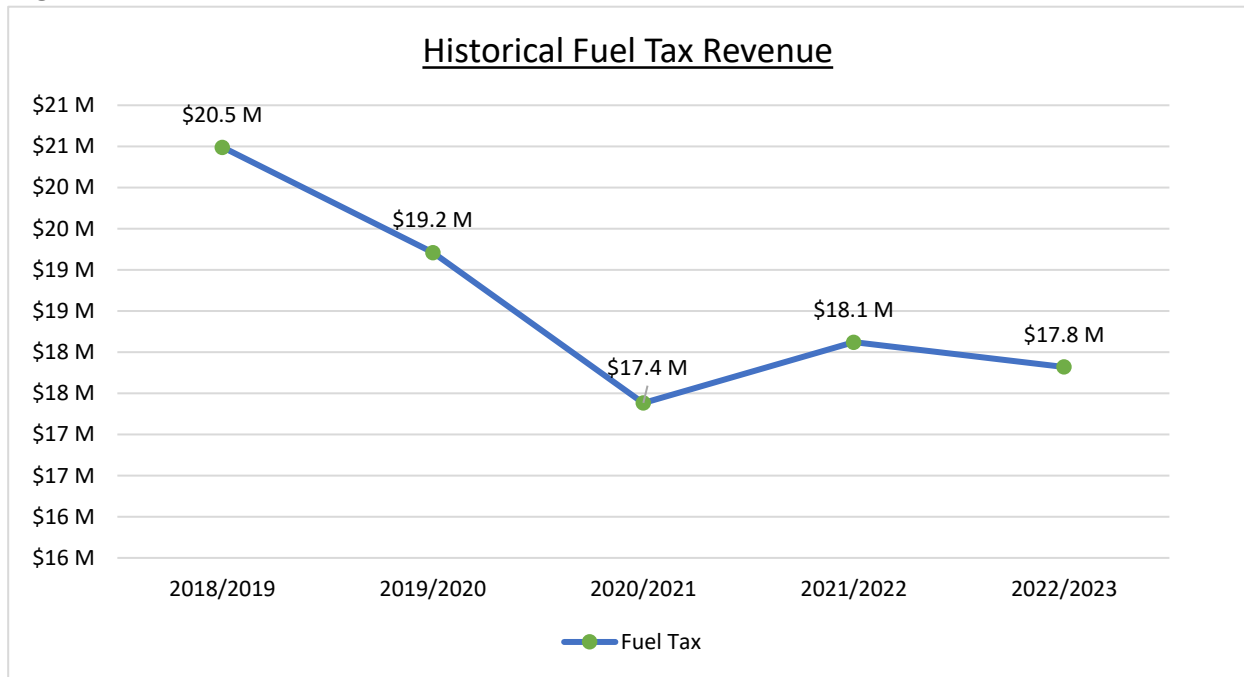


Note this is based on total funding for VRTS. 2018/19 – 2022/23 is based on actual funding, with 2023/24 – 2025/26 based on budget.

This decline is primarily a result of increasing expenses outpacing any growth in fuel tax revenue. This is placing greater pressure on other funding sources, including passenger revenue and property tax. While this pressure has largely been mitigated in recent years as a result of the \$67M in Safe Restart funding that was received between 2020 and 2022, Safe Restart funding is not a long-term sustainable source of funding for the Commission.

Further, fuel tax revenue has started to decline in recent years in absolute terms. While this was in large part due to the COVID-19 pandemic, there was a year-on-year decline in 2022/23 versus the prior year. Figure 4 shows revenues gained from fuel tax since 2018/19:

Figure 4: Historical Fuel Tax Revenue:



To maintain existing service levels in recent years, the Commission has increased revenue through property tax and by using funds from the Transit Fund. In the 2023/24 – 2025/26 Three Year Budget, which the Commission approved in March 2023, expenses are budgeted to increase by 7.5 per cent over the three-year period. Fuel Tax is budgeted to be flat at \$18.4M. Consequently, if status quo is maintained on the Fuel Tax levy, further pressure will be placed on other funding sources.

Potential Fuel Tax Levy Increase

A one cent increase in the fuel tax will generate approximately \$3.2 million annually. This is based upon an estimated annual fuel consumption of 320 million litres (2022/23 actual consumption) in the Victoria region and can be seen in Table 1.

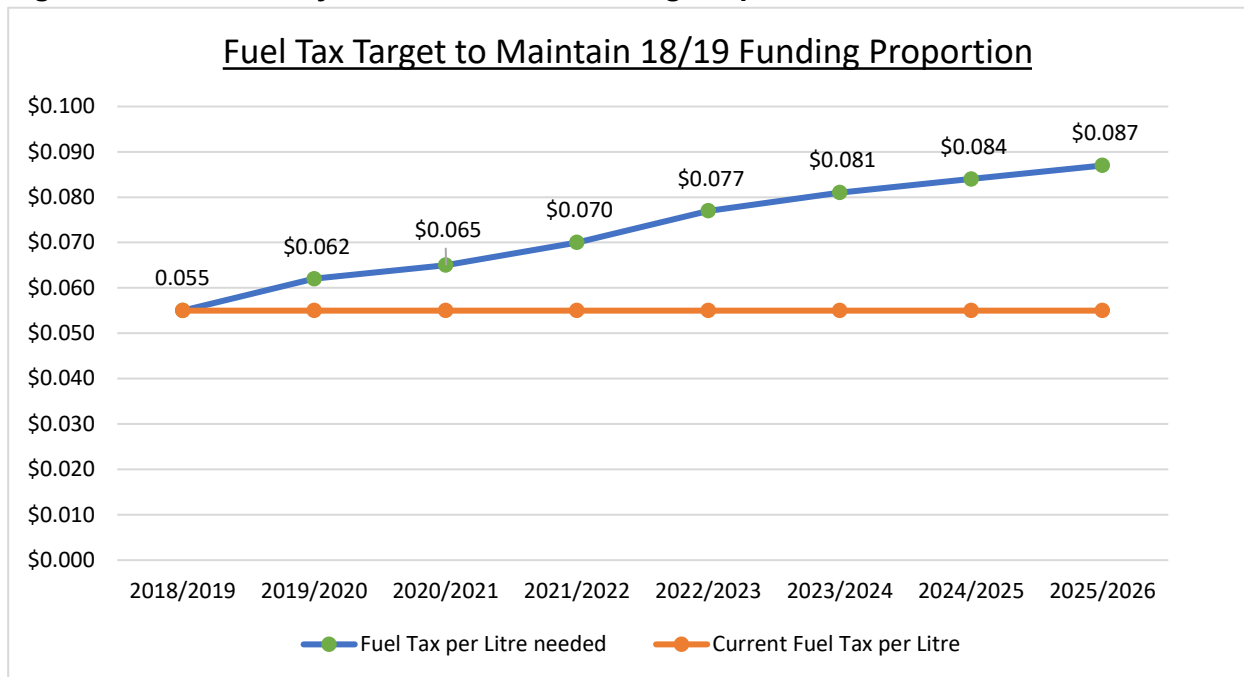
Table 1: Estimated Revenue Generated from a Fuel Tax Levy Increase:

Estimated Revenue generated from a Fuel Tax Levy Increase		
LEVY INCREASE PER LITRE	TOTAL LITRES	ESTIMATED ADDITIONAL REVENUE
0.010	320,000,000	\$3,200,000
0.020	320,000,000	\$6,400,000
0.030	320,000,000	\$9,600,000
0.040	320,000,000	\$12,800,000
0.045	320,000,000	\$14,400,000

For context, a one cent per litre increase in the Fuel Tax levy is the equivalent of a 9 per cent increase in the transit levy applied to local property taxes based on 2022/23 property tax revenue, or a 14 per cent passenger revenue increase based on 2022/23 passenger revenues (cash, tickets, and monthly passes only).

Based on the 2023/24 – 2025/26 budget, for fuel tax to regain the 16 per cent funding proportion seen in 2018/19, it would require the Fuel Tax levy to be increased to almost nine cents per litre by 2025/26 (Figure 5).

Figure 5: Fuel Tax Levy to Meet 2018/19 Funding Proportion:



Note that the blue line does not represent actuals, but the projected levy per litre needed in order to maintain the 16 per cent fuel tax proportion of total funding.

It is important to note that there may be further pressure on fuel tax revenue in future years due to a potential reduction of fuel consumption as more consumers switch to electric vehicles or other sustainable modes of transportation, as well as a continued shift in flexible working patterns.

Amending the Fuel Tax Levy

Since its introduction in 1993, the Fuel Tax levy has been increased three times:

- 1997: 1.5 to 2.5 cents per litre
- 2008: 2.5 to 3.5 cents per litre
- 2018: 3.5 to 5.5 cents per litre

Further, in 2013, an additional request to increase the Fuel Tax levy was made, however the request was declined.

Amending the Fuel Tax levy requires approval from the Province to amend the *Motor Fuel Tax Act*. Prior to this, a number of steps need to be taken, however these steps are not mandated.

For the most recent Fuel Tax levy increase in 2018, the following steps were taken:

- BC Transit presented the Commission with rate increase options.
- The Commission endorsed a targeted fuel tax rate increase.
- The Commission asked BC Transit staff to seek Capital Regional District (CRD) endorsement for a 2 cent per litre increase.
- The CRD endorsed this increase.
 - Of note, this request emphasized the financial constraints to support a new conventional transit center within the VRTS, a new custom facility, exchange improvements and on-going fleet renewals.
- The Commission submitted this request to the Province, including the CRD endorsement, to increase Fuel Tax by 2 cents per litre.
 - This letter is attached as Appendix A.
- The request was subsequently approved by the Province and the Fuel Tax Levy was increased by 2 cents to 5.5 cents.

RECOMMENDATION

It is recommended that the Victoria Regional Transit Commission receive the Fuel Tax summary for INFORMATION.

Appendix A:

**Victoria Regional
Transit Commission**

**Councillor Susan Brice –
Chair**
District of Saanich

Mayor Richard Atwell
District of Saanich

Mayor Alice Finall
District of North Saanich

Mayor Lisa Helps
City of Victoria

Mayor Barb Desjardins
Township of Esquimalt

Mayor Carol Hamilton
City of Colwood

Mayor Maja Tait
District of Sooke

Councillor Marianne Alto
City of Victoria

July 19, 2017

Hon. Claire Trevena,
Minister of Transportation and Infrastructure
PO BOX 9055, STN PROV GOVT
VICTORIA BC, V8V 9E2

Dear Minister Trevena,

On behalf of the Victoria Regional Transit Commission, I would like to congratulate you on your appointment as Minister of Transportation and Infrastructure. The Commission has worked diligently to ensure its transit services are operating as effectively as possible and is excited to work with your ministry to ensure that public transit services expand to meet the Capital Region's growing needs.

In consultation with residents and business associations, the Commission approved a long-term transit strategy for the greater Victoria region. This Transit Future Plan, endorsed by 12 of the municipalities, confirms that growth in transit service is a priority of the region's economic development and transportation strategies. Recent consultation has also shown strong support from the public in moving forward with improvements to transit service. The challenge the Commission faces is in generating the necessary funding to support the expansion.

As you may know, the Commission has three funding levers that it can utilize for transit: fares, property taxes and a 3.5 cents per litre gas tax. While the Commission will continue to use all funding levers to maintain the existing level of service, moving forward with the desired level of expansion will require additional funding beyond what can be achieved from property tax and fares. In addition to operating costs, up to \$125 million in capital expenditure is necessary over the next five years to upgrade transit exchanges, acquire fleet, and build operating centers. Without significant new funding, transit service expansion will remain limited.

This past year, the Commission made significant changes to its fare structure to maximize fare revenue. Additionally, the residential property tax levy supporting transit has increased by over 200 per cent over the past ten years. On the other hand, the gas tax has not changed in over eight years.

Recent consultations with municipalities and business associations confirmed a clear message that expanded transit should be funded through an increase in the gas tax and not through increased property taxes. In alignment with this preference, the Commission requested a 2 cent per litre increase in the gas tax. While no tax is welcomed, public surveys and funding studies show that increases to fuel tax are preferred approaches to funding transit rather than relying solely on property taxes.

The Commission is seeking your support of this approach to fund increased transit services and associated facilities. We would be pleased to meet with you to provide further background and discuss this issue to ensure transit services continue to meet the needs of the Capital Region.

Yours sincerely,



Susan Brice, Chair
Victoria Regional Transit Commission

Cc: Commission Members

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