BUDGET 2017-2018

THE QUÉBEC
**ECONOMIC**
**PLAN**

# PUBLIC TRANSIT

# Major Initiatives to Foster Sustainable Mobility

Québec

Budget 2017-2018
Public Transit – Major Initiatives to Foster Sustainable Mobility

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# TABLE OF CONTENTS

**Introduction** .......... **1**

**1. Major, transformative investments throughout Québec** .......... **3**

**2. The Communauté métropolitaine de Montréal** .......... **7**

2.1 The Réseau électrique métropolitain (REM): a flagship project for sustainable mobility .......... 8

2.2 Extension of the métro blue line .......... 21

2.3 Creation of the Autorité régionale de transport métropolitain .......... 23

**3. The Capitale-Nationale region** .......... **31**

3.1 Québec-Lévis bus rapid transit (BRT) .......... 31

**4. Throughout Québec** .......... **35**

4.1 Raising assistance for service improvement .......... 36

4.2 Increasing support for paratransit .......... 37

4.3 Increasing funding for regional public transit .......... 38

**5. Public transit: for sustainable, effective mobility** .......... **39**

5.1 A key role in all regions .......... 41

5.2 A profitable financial partnership .......... 44

**Conclusion** .......... **49**

**APPENDIX:** Framework agreement between the government and the Caisse de dépôt et placement du Québec .......... **51**

## List of charts


| | | |
|---|---|---|
| CHART 1 | Cost of traffic congestion in the Montréal area | 7 |
| CHART 2 | Illustration of the proposed REM route | 9 |
| CHART 3 | Illustration of the capping mechanism for ARTM contributions | 18 |
| CHART 4 | Illustration of the proposed route for the blue line extension | 22 |
| CHART 5 | Governance of public transit in the Montréal area | 24 |
| CHART 6 | Metropolitan public transit expenditures – Share of contributors | 28 |
| CHART 7 | Additional contributions from the government and municipalities relating to the operation of the REM – 2022-2023 | 30 |
| CHART 8 | Illustration of the proposed Québec-Lévis BRT route | 33 |
| CHART 9 | Evolution in public transit ridership – 2006-2015 | 39 |
| CHART 10 | Evolution in public transit investments provided for in the Québec Infrastructure Plan – 2007-2008 to 2017 2018 | 40 |
| CHART 11 | Evolution in the public transit sector | 41 |
| CHART 12 | Public transit expenditures – LTNF | 45 |
| CHART 13 | TECQ program – Public transit contributions | 46 |
| CHART 14 | TECQ program – Share of partners in financing public transit | 46 |
| CHART 15 | Public transit funding in 2015 – Share of partners | 48 |

## List of tables


| | | |
|---|---|---|
| TABLE 1 | Financial impact of the measures to support public transit | 4 |
| TABLE 2 | Land Transportation Network Fund – 2017-2018 to 2021-2022 | 5 |
| TABLE 3 | REM – Proposed financing structure | 12 |
| TABLE 4 | The government's REM-related responsibilities | 16 |
| TABLE 5 | Impact of the REM on the government's financial framework | 19 |
| TABLE 6 | Financial impact of the measures to suppport the ARTM | 25 |
| TABLE 7 | Breakdown of the ARTM's additional requirements | 26 |
| TABLE 8 | Financial impact of the measures to support the ARTM for the commissioning REM | 29 |
| TABLE 9 | Financial impact of the measures to support public transit throughout Québec | 35 |
| TABLE 10 | Economic spinoffs of major public transit projects – 2017-2018 to 2025-2026 | 42 |
| TABLE 11 | Public transit assistance | 44 |
| TABLE 12 | Dedicated public transit expenditures – Green Fund | 45 |

# INTRODUCTION

The Québec Economic Plan provides for major, transformational initiatives to encourage sustainable mobility through public transit. These measures will stimulate economic development in Québec, while reducing greenhouse gas (GHG) emissions. The plan provides for:

- assistance for three major projects:
  - Réseau électrique métropolitain (REM),
  - extension of the Montréal métro blue line,
  - Québec-Lévis bus rapid transit (BRT);
- new funding for the creation of the Agence régionale de transport métropolitain;
- additional funding to increase public transit services in all regions of Québec.

| **Public transit: a primary driver of sustainable mobility in Québec** |
| --- |
| Public transit is a primary driver of sustainable mobility, community development and, ultimately, our prosperity. By developing modern, efficent, smooth-running transit services, the government contributes to improving the quality of life of users and consolidates the expertise of Québec businesses.<br><br>Public transit addresses a sustained demand for flexible, viable alternative solutions to single-occupant car use. Such solutions help reduce congestion on the principal road networks, cut greenhouse gas (GHG) emissions and foster densification of living environments.<br><br>The government chose to develop public transit services for Quebecers' mobility, by opting for the development of forward-looking projects. Québec has reached a turning point with the announcement of major projects, such as the Réseau électrique métropolitain (REM), the métro blue line extension in the metropolitan area, bus rapid service (BRT) in the Capitale-Nationale region and the rollout of additional sustainable mobility solutions in all regions of Québec. |

In addition, in the coming year, the government will table a sustainable mobility policy covering the movement of people and goods and all modes of transportation—public transit and active transport, as well as maritime, rail and air transportation—as a complement to actions pertaining to the road network. The policy will take into account the specific characteristics of all Québec regions.

# 1. MAJOR, TRANSFORMATIVE INVESTMENTS THROUGHOUT QUÉBEC

The Québec Economic Plan provides for an increase in the government's financial contribution to public transit of close to $1.5 billion for the next five years. This financial assistance will:

- support the Montréal metropolitan area in reducing congestion on the main networks and heightening the appeal of urban areas, by:
  - helping to finance the implementation of the Réseau électrique métropolitain (REM),
  - extending the métro blue line,
  - providing new funding for the creation of the Autorité régionale de transport métropolitain (ARTM);
- support the Capitale-Nationale region in carrying out the bus rapid transit project, to provide a flexible, comfortable alternative solution to car commutes;
- provide additional funding for all regions, to increase public transit, paratransit and regional public transit services.

The government expects that these investments will increase ridership by at least 5% by 2021-2022. To reach this target, it is increasing public transit availability by 10% during the same period. Subsequently, another 5% increase in ridership is expected to result from the commissioning of the major projects.

TABLE 1

**Financial impact of the measures to support public transit**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | Total |
|---|---|---|---|---|---|---|
| **Communauté métropolitaine de Montréal** | | | | | | |
| Support for implementation of the Réseau électrique métropolitain | | | | | | |
| Payment to the ARTM | | | | | | |
| Contribution to the operation of the REM | — | — | — | — | –75.7 | –75.7 |
| Land value compensation | — | — | –256.0 | –256.0 | — | –512.0 |
| Public utilities and decontamination | — | — | –86.0 | –85.0 | — | –171.0 |
| **Subtotal** | **—** | **—** | **–342.0** | **–341.0** | **–75.7** | **–758.7** |
| Métro blue line extension(1) | — | — | — | — | — | — |
| New funding for the ARTM | –39.0 | –74.0 | –99.0 | –92.0 | –95.0 | –399.0 |
| **Capitale-Nationale region** | | | | | | |
| Bus rapid transit(1) | — | — | — | — | — | — |
| **Throughout Québec** | | | | | | |
| Increased assistance for service improvement | –17.0 | –45.0 | –72.0 | –87.0 | –87.0 | –308.0 |
| Additional funding for paratransit services | –3.0 | –3.0 | –3.0 | –3.0 | –3.0 | –15.0 |
| Increased funding for regional public transit | –2.0 | –2.0 | –2.0 | –2.0 | –2.0 | –10.0 |
| **Subtotal** | **–22.0** | **–50.0** | **–77.0** | **–92.0** | **–92.0** | **–333.0** |
| **TOTAL** | **–61.0** | **–124.0** | **–518.0** | **–525.0** | **–262.7** | **–1 490.7** |

(1) Investments relating to these projects are provided for in the 2017-2027 Québec Infrastructure Plan.

## ❑ Sources of funding

The new amounts allocated to public transit, with the exception of those to be allocated to paratransit, will be drawn from the Land Transportation Network Fund (LTNF).

Through responsible management of public finances, it is now possible to increase public transit funding without an additional contribution from taxpayers.

TABLE 2

**Land Transportation Network Fund – 2017-2018 to 2021-2022**
(millions of dollars)

| | 2017-2018[1] | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| **Projected annual surplus (deficit)** | **462** | **231** | **266** | **346** | **203** |
| Québec Economic Plan measures[2] | –58 | –121 | –515 | –522 | –260 |
| **Annual surplus (deficit) – After measures** | **404** | **110** | **–249** | **–177** | **–57** |

Note: Totals may not add due to rounding.
(1) At March 31, 2017, the accumulated surplus of the LTNF will be nearly $2.9 billion.
(2) These measures exclude increased funding for paratransit services, which is financed through appropriations from the General Fund of the government.
Sources: Ministère des Transports, de la Mobilité durable et de l'Électrification des transports and Ministère des Finances du Québec.

# 2. THE COMMUNAUTÉ MÉTROPOLITAINE DE MONTRÉAL

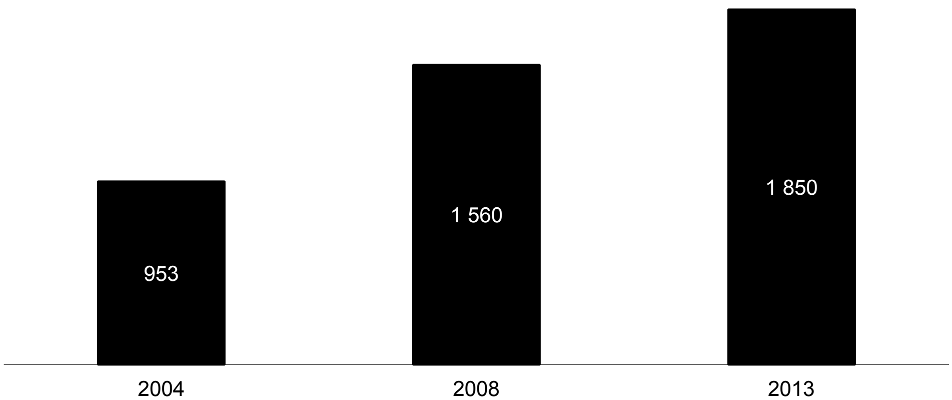
The Communauté métropolitaine de Montréal has the largest population in Québec and the third-highest population density in North America. It is known for its leading-edge expertise in certain sectors, such the aerospace industry and the transportation industry.

The economic vitality of the Montréal metropolitan area is increasing significantly. However, this vigour comes with more congestion on the main roads of the metropolis and a certain saturation of public transit networks.

— In urban areas, traffic congestion is expensive for individuals and businesses, in addition to being a major irritant. The socioeconomic costs of congestion in the Montréal area were estimated at almost $1.9 billion in 2013, a rise of nearly 19% over 2008.

CHART 1

**Cost of traffic congestion in the Montréal area**
(millions of dollars)




Source: Ministère des Transports, de la Mobilité durable et de l'Électrification des transports.

The pressures on the public transit network in the Communauté métropolitaine de Montréal are such that the network requires substantial investments to ensure its development and sustainability. In that regard, the Québec government intends to contribute significantly to the development of public transit in the Montréal metropolitan area.

## 2.1 The Réseau électrique métropolitain (REM): a flagship project for sustainable mobility

In July 2015, the government submitted to the Caisse de dépôt et placement du Québec (the Caisse) two priority projets for analysis: the public transit system on the new Champlain Bridge and a public transit system for the West Island.

On April 22, 2016, further to its analysis, the Caisse unveiled a proposal combining the two projects into a single project: a light rail network called the Réseau électrique métropolitain (the REM).

| Framework agreement between the government and the Caisse de dépôt et placement du Québec |
|---|
| In January 2015, the government and the Caisse de dépôt et placement du Québec (the Caisse) announced that they had entered into a commercial agreement to allow the Caisse to carry out certain public infrastructure projects. Under the agreement, the government determines infrastructure projects that may be of interest to the Caisse. If the Caisse finds that the projects are of interest and have the potential to enable it to generate a commercial return for its depositors, it proposes solutions. If these are accepted by the government, the Caisse takes over project planning, financing, implementation and operation. The agreement is presented in an appendix to this document. |

### ❑ A modern network to meet users' expectations

The REM, which will use automated, electric light rail-type rolling stock, will link downtown Montréal, the South Shore, the West Island, the North Shore and the Pierre-Elliott-Trudeau International Airport. It will be 67 kilometres long and will include 27 stations. This proposal by the Caisse is the biggest public transit project of the last 50 years and will improve commuting flow, by providing connections to all existing public transit networks.

#### ■ To improve public transit and strengthen the economic vitality of the metropolis

According to a survey conducted on behalf of Canada's Ecofiscal Commission, 50% of Montrealers spend at least 60 minutes commuting to work and 60 minutes commuting back home. Three-quarters of them say that congestion makes their commutes too difficult, while one-quarter of them say that traffic congestion diminishes their quality of life. The costs of congestion take a number of forms, some of which, like lost time and wasted fuel, are assumed directly by drivers. Other costs are assumed by businesses and society at large.

The proposal of the Caisse is aimed, in part, at reducing economic losses stemming from traffic congestion, estimated at $1.9 billion annually in the metropolitan area.

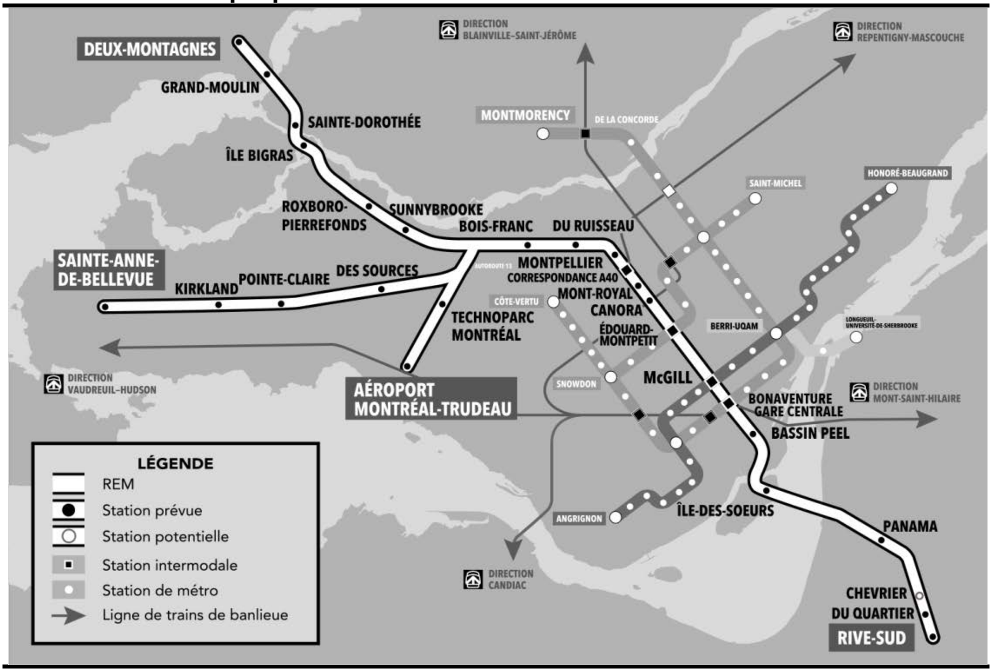
Given their capacity to attract talent, capital and large-scale projects, cities are engines of significant economic development. The world's most vibrant metropolises have efficient public transit systems. The REM aims specifically to give Greater Montréal a modern, efficient, sustainable transit system.

The REM will serve sectors with strong potential for economic development (airport, Technoparc Saint-Laurent, university and hospital hubs, Peel Basin and L'Île-des-Sœurs). The project's emergence is expected to stimulate $5 billion in private investment for real estate development along the REM's route.

Carrying out a project like the REM, given its scale, will greatly stimulate Montréal's economy and that of Québec as a whole: More than 34 000 direct and indirect jobs will be created during its construction, and 1 000 permanent jobs will be created following the commissioning of the REM. In addition, the economic spinoffs of the project are estimated at close to $3.7 billion.

CHART 2

**Illustration of the proposed REM route**




Source: CDPQ Infra.

## A proven, environmentally efficient technology

The Caisse chose a well-known, proven technology for the operation of the REM: fully automated light rail transit (LRT). It is an electric, catenary-powered public transit system that runs in its own lane. LRT technology was successfully implemented in Vancouver to create the Canada Line. The Caisse in fact participated in the financing and completion of that train, built for the 2010 Olympic Games.

According to the preliminary estimates of the Caisse, the REM will reduce greenhouse gas (GHG) emissions by at least 35 000 tonnes as of its first year of operation. LRT is therefore a more eco-friendly mode of transportation, whose main qualities are its high capacity, reliability and efficiency. Moreover, the Caisse pledged to offset GHG emissions during the construction phase of the project by planting 250 000 trees, the equivalent of 87 000 tonnes of GHG. Thus, from the time the first shovel is in the ground to the time the REM is fully operational, the project will have a positive overall impact on the environment.

## Improved service

Completion of the REM will improve the public transit network in Greater Montréal. The REM aims to improve commuting flow throughout Greater Montréal, by ensuring interconnections with existing networks, including three with the Montréal métro system. The REM will ensure 160 000 commutes per day and more than 40 million a year in 2026.

Since the REM will cross the new Champlain Bridge will improve the public transit service for South Shore residents, in terms of both frequency and commute times.

For users in Montréal, the REM will improve, among other things, public transit service for the Griffintown sector, Pointe-Saint-Charles and Cité du multimédia sectors, in addition to providing new rapid access between the métro blue and green lines, in order to relieve congestion on the orange line and facilitate access to several educational institutions (McGill University, Université de Montréal, HEC Montréal and École Polytechnique) and hospitals.

Users of the existing Deux-Montagnes line will also see a substantial increase in the number of departures for downtown Montréal, in addition to spending almost 20% less time commuting.

In addition, the Sainte-Anne-de-Bellevue section will offer West Islanders better public transit service enabling them to reach downtown Montréal in less than 35 minutes, for a reduction of over 40% in their commute times compared to the existing public transit network.

Lastly, by linking Pierre-Elliott-Trudeau International Airport to the downtown core, the REM will give Montréal a modern infrastructure, like a number of large cities in the United States, Europe and Asia.

## ❑ Construction and operation of the REM

The Caisse has been active as an infrastructure investor or partner for over 15 years. At December 31, 2016, it held approximately $15 billion in this type of asset, in Vancouver, London and Brisbane, and elsewhere in the world. This expertise positions the Caisse as a partner of choice for the government.

Once completed, the REM will be an exceptional showcase for Québec know-how on the world stage, not only with respect to public transit, but also with respect to the management of large-scale infrastructure projects.

### ■ Construction of the REM

According to the schedule adopted by the Caisse, the carrying out of the REM project will begin in fall 2017 and the first trains will be in service by the end of 2020. The Caisse estimates that the costs of the REM will reach $6.04 billion. The REM's definitive costs will be released when the results of the calls for tenders are announced.

**Evolution in the construction costs of the project**

In April 2015, the government mandated the Caisse de dépôt et placement du Québec (the Caisse) to study two priority projects as part of the framework agreement for the carrying out of public infrastructure projects. The two projects were a public transit system on the new Champlain Bridge and a public transit system linking downtown Montréal to Pierre-Elliott-Trudeau International Airport and the West Island.

In April 2016, the Caisse combined the two projects and presented the REM. The network spanned 67 kilometres and included 24 stations. The REM was to link downtown Montréal, the South Shore, the West Island (Sainte-Anne-de-Bellevue), the North Shore (Deux-Montagnes) and the airport. The Caisse estimated the construction costs of the project to be $5.5 billion.

In November 2016, three new stations were added to the project: Bassin Peel, McGill and Édouard-Montpetit. These additions, evaluated at $400 million, will allow for better integration with the métro network, and raise the project's construction costs to $5.9 billion.

After consulting the various stakeholders, the Caisse chose to make certain improvements to the project, including the addition of 40 cars, primarily to achieve benefits in terms of frequency, commuting flow and urban integration. These improvements, estimated at $140 million, bring the costs of the project to $6.04 billion.

These costs remain estimates, since the definitive construction costs will be established only once the results of the call for tenders are announced.

## ■ The proposed financing structure

To deliver the REM, CDPQ Infra[1] will create a dedicated project company (Projet REM Co) to see the project through to completion. Under the project's proposed financing structure, the Caisse, the Québec government and the Canadian government would have an equity interest in the project.

The following table presents the planned financing sources for the carrying out of the REM project. Talks are ongoing with the Caisse and the governments of Québec and Canada on the terms of their respective equity interests.

As mentioned earlier, the amounts indicated in the table are preliminary estimates. The exact amount of each partner's equity interest will be released once CDPQ Infra has selected the winning bidders for the carrying out of the REM project and the financing model for the project has been finalized.

TABLE 3

**REM – Proposed financing structure**
(millions of dollars)

| | Source of financing | % | Other sources | Total |
|---|---|---|---|---|
| **Equity interest – CDPQ Infra** | **2 670** | **51.0** | **—** | **2 670** |
| Equity interest requested of the Québec government | 1 283 | 24.5 | — | 1 283 |
| Equity interest requested of the Canadian government | 1 283 | 24.5 | — | 1 283 |
| **Total – Governments equity interests** | **2 566** | **49.0** | **—** | **2 566** |
| Hydro-Québec – Transit electrification | — | — | 295 | 295 |
| Compensation relating land value capture | — | — | 512 | 512 |
| **Total – Other sources** | **—** | **—** | **807** | **807** |
| **TOTAL** | **5 236** | **100.0** | **807** | **6 043** |

## ■ Proposed financial participation of the partners

As set forth in the framework agreement, the project will be financed mainly by:

— a majority equity interest of the Caisse, through its infrastructure portfolio;

— investments by financial partners not related to the Québec government.

1 CDPQ Infra is a wholly-owned subsidiary of the Caisse responsible for the development and operation of infrastructure projects.

## ■ An injection of $5.2 billion in capital by the partners

The plan is for the three shareholders in the REM to collectively inject over $5.2 billion in capital into the project.

The Caisse will invest a total of $2.670 billion in the purchase of common shares in the REM.

The Québec government undertakes to contribute to the financing of the REM by investing approximately $1.283 billion in preferred shares in the project.

Talks are also under way with the Canadian government concerning its participation in the financing of the REM, on the same basis as that of the Québec government.

| Dividend allocation proposal |
| --- |
| Under the Caisse's proposal, dividends would be allocated to shareholders further to the commissioning of the REM, as follows:<br>− The Caisse, which will assume the construction, operation and ridership risks as coordinator and manager of the project, will receive an 8.0% priority return on its investment. Until the Caisse obtains that return, all dividends from the project will be paid to the Caisse. Given the risks and responsibilities assumed by the Caisse, it is agreed that it will receive such a priority return.<br>− Once the Caisse reaches that return threshold, and until the governments' target return[1] is reached, the majority of the annual dividends from the REM will be distributed to the governments, according to the 28/36/36 formula. The Caisse will receive 28% of dividends, while the Québec and Canadian governments will each receive 36%.<br>− Once the governments obtain that return, the annual dividends from the REM will be distributed according to each partner's equity interest in the project. Accordingly, the Caisse will receive 51% of dividends, with the Québec and Canadian governments each receiving 24.5%. |

1 The target return must correspond, at a minimum, to the average borrowing cost on the aggregate of the government's current debt. That rate is 3.7% for the Québec government.

## ■ Other sources of financing

In addition to the partners that put up capital, the REM will be able to count on other sources of financing:

— Hydro-Québec's contribution to the electrification of the network;

— land value capture.

- **Hydro-Québec support for network electrification**

Following the passage of the *Act to implement the 2030 Energy Policy and to amend various legislative provisions*, Hydro-Québec may contribute, on a commercial basis, to the REM project, as part of transit electrification. More specifically, Hydro-Québec would grant a financial contribution of $295 million to cover the costs of the fixed equipment necessary for the electrification of the REM. This is not a subsidy but, instead, a commercial agreement between Hydro-Québec and the company operating the REM, which will be a Hydro-Québec client for the supply of electricity to the REM.

- **Land value capture**

The initial financing of the REM took into account the sharing, between the municipalities and CDPQ Infra, of land value revenues resulting from the REM's presence. The government will leave to the municipalities the full amount of the revenues relating to this land value by increasing the sources of financing of the Autorité régionale de transport métropolitain (ARTM) so that it can compensate CDPQ Infra for these revenues through a payment of $512 million.

By paying this amount, the ARTM enables the municipalities to keep the full amount of these additional revenues without sharing them with the REM. These revenues may be used by the municipalities to finance their contribution to public transit in the metropolitan area.

- **Development royalties**

Moreover, the municipalities will collect development royalties from real estate promoters for new constructions inside the perimeter established around the stations, for payment to the REM in accordance with the terms provided for in agreements entered into between the Caisse and the municipalities or urban agglomerations concerned by the project.

Turning to development royalties as a source of financing is common practice. In that respect, Ontario, British Columbia, Alberta, Saskatchewan and Nova Scotia enacted legislative provisions authorizing municipalities to impose development royalties.

So that public transit projects studied by the Caisse can be carried out, the government intends to propose certain legislative amendments permitting the municipalities or urban agglomerations to collect development royalties, and remit them to the REM, any time a building permit for new constructions (including major alterations to existing buildings) is issued.

## An innovative public infrastructure financing model

The proposed REM financing model is a public-public partnership model enabling the government to take advantage of the Caisse's infrastructure investment expertise, and of a substantial financial contribution to the creation of a public transit infrastructure considered essential to Greater Montréal.

This is a strategic investment for the Caisse that offers an advantageous return while contributing to Québec's economic development.

**A financial lever that gives the government room to manoeuvre**

If the government had decided to carry out the REM project itself, it would have had to borrow $6.04 billion for the construction of the REM. That borrowing, which would have been recorded in the government's financial statements, would have considerably reduced the government's room to manœuvre with respect to investments in other infrastructure considered essential—for example, in other public transit projects, hospitals and schools, or in the road network—while continuing to achieve its debt reduction objectives.

With the "Caisse" model, the public benefits from the same infrastructure, worth $6.04 billion, but for an investment of $1.283 billion by the Québec government. The manoeuvring room thus created enables the government to continue with the Québec Infrastructure Plan, while keeping its debt reduction commitments. Because the government holds an asset that generates a return equivalent to the cost of its borrowing, there is zero impact on the debt.

In the "Caisse" model, contrary to traditional models, the governments recover their capital and generate a return on their investment.

## ■ The government's related responsibilites

The government will finance REM-related projects, as well as elements for which it is responsible under the framework agreement for the carrying out of infrastructure projects:

— A contribution of $221 million will be entered in the Québec Infrastructure Plan (QIP) for REM-related investments, such as bus terminals or an autoroute ramp, and will be available for the government's and the municipalities' use.

— In accordance with normal practices for large investment projects, and as stated in the framework agreement, the government is responsible for the moving of public utilities, the cost of which is $160 million. Moreover, as provided for in the framework agreement, the government will also assume $11 million in land decontamination costs. A total contribution of $171 million is therefore set aside to cover these costs.

TABLE 4

**The government's REM-related responsibilities**
(millions of dollars)

| | |
|---|---|
| REM-related assets that will be available for the government's and the municipalities' use | 221 |
| Moving of public utilities and land decontamination – Per the framework agreement | 171 |
| **TOTAL** | **392** |

## ■ Operation of the REM

In accordance with the planned schedule, the first REM trains will be in service by the end of 2020. Talks are in progress between the Caisse and the ARTM,[2] in order to reach a long-term agreement on the public transit services to be provided by the company operating the REM. Under that agreement, the ARTM will make a payment to the company operating the REM, calculated on the basis of the number of passenger-km for a particular period.

The agreement must, among other things, provide for the integration of REM fares to ensure the smooth operation of the Greater Montréal public transit network, along with the conditions for the REM's integration into the rest of the public transit network. It must contain the performance and service quality objectives to be met by the REM, like any other public transit body in the metropolitan area.

2 Transition Committee set up until June 1, 2017.

- **A competitive passenger-km cost**

The operating costs of public transit networks are financed by two main sources:

— fare or ridership revenues;

— public contributions to public transit.

Through its work to date, the Caisse has been able to establish a highly efficient overall cost for the REM (including capital property, financing, operation, regular maintenance and major maintenance over the project’s life cycle).

— Thus, the basic cost per passenger-km would be between $0.69 and $0.72, taking into account all operating and capital costs. This cost compares advantageously to the cost of the existing network, $0.66, from which a large share of capital costs is excluded.

Moreover, a capping mechanism for ARTM contributions will limit the potential annual financial impact of a substantial increase in ridership. This mechanism has two components:

— If ridership is 15% above the basic projections, initial estimates put the contribution between $0.55 and $0.58, a decrease of 20% in the payment for passenger-km exceeding this threshold.

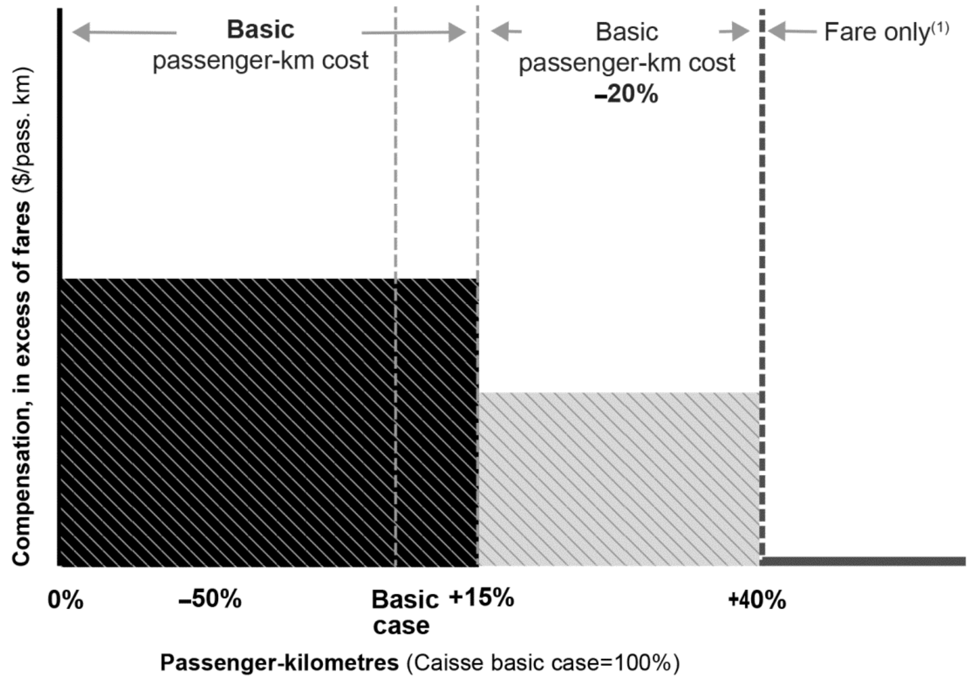
— If ridership is 40% above the baseline scenario, no contribution other than fares will be paid by the ARTM.

The minimum ridership threshold to which the capping mechanism will apply will be established, on the basis of the Caisse’s projections, at the time the agreement between the ARTM and the Caisse is entered into.

To illustrate, if the baseline scenario is 400 million passenger-km for a particular year, and ridership for that year is below 460 million passenger-km, the ARTM's payment will be $0.72 per passenger-km. For a passenger-km level between 460 and 560 million, the ARTM's payment will be between $0.55 and $0.58 per passenger-km exceeding the threshold of 460 million passager/km. If the number of passenger/km exceeds 560 million, only fares will be paid to the REM for that year, for passenger/km above that threshold.

CHART 3

**Illustration of the capping mechanism for ARTM contributions**




(1) Option for CDPQ Infra to request an economic adjustment of the project if reinvestment is required.

## ■ Public transit funding for Greater Montréal

To contribute to the improvement of public transit services, the government will grant additional funding to the ARTM for Greater Montréal.

For an increase of approximately 2% to 4% in the ARTM's budget, taking into account steady ridership and the replacement of certain existing networks by the new REM service, the population of Greater Montréal will have a brand new automated métro system that practically doubles the distance of the existing métro network. Whether it is students, seniors or workers using the REM, travel will be improved for everyone through connections to the métro and bus lines on the Island of Montréal and its north and south shores.

Moreover, the REM will multiply the network's capacity to transport more users every day and enable the increased demand for public transit, stymied by the saturation of existing networks, to be met, and at a highly competitive cost.

The contributions required in subsequent years will change on the basis of ridership, the capping mechanism and indexation of the rate schedule.

TABLE 5

**Impact of the REM on the government's financial framework**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| Compensation relating to land value capture(1) | — | — | −256 | −256 | — | — |
| Public utilities and decontamination | — | — | −86 | −85 | — | — |
| Contribution to the operation of the REM(1),(2) | — | — | — | — | −76 | −133 |
| **TOTAL** | **—** | **—** | **−342** | **−341** | **−76** | **−133** |

(1) Expected ARTM contributions.
(2) The government's contribution is augmented by an additional contribution from the municipalities on the order of $23 million in 2022-2023.

## ❑ The next stages

### ■ Agreement between the Québec government and the Caisse

The government will enter into an agreement with the Caisse concerning the management and carrying out of the REM project. In accordance with section 88.10 of the *Transportation Act*, the agreement will include mechanisms for integrating the REM into the existing public transit network and its rate schedule, including indexation mechanisms. This agreement is conditional on the entering into an agreement between the Caisse and the Canadian government, required for the carrying out of the project.

The Caisse will unveil the cost per passenger-km, including the capping and indexation mechanisms, once the agreement has been entered into.

### ■ Québec government funding for the ARTM

The government will grant additional funding to the ARTM for the REM.

### ■ Agreement between the Caisse and the ARTM

The Caisse will enter into a service agreement with the ARTM concerning the terms for integrating the REM into the existing public transit network.

The agreement will deal, in part, with the terms of the ARTM's payments to the REM, the capping and indexation mechanisms for these payments, and the method for collecting fares.

## ■ Results of the calls for tenders

CDPQ Infra launched a call for tenders process in summer 2016, for the purpose of awarding two contracts for the carrying out of the REM project:

- IAC contract: delivery of infrastructure in engineering, procurement and construction mode;
- MRSEM contract: supply of rolling stock, operating systems and services, regular maintenance and long-term maintenance of project infrastructure and assets.

Calls for proposals for these two contracts were launched in November 2016. Five companies and consortiums qualified for the contracts (two for the IAC contract and three for the MRSEM contract). The bidders' proposals are expected by early summer 2017.

Specific terms relating to the cost of the project and its schedule, will be released once the winning bidders have been chosen by CDPQ Infra. It will then be possible to finalize the REM financing package.

### ▪ Legislative amendments

To ensure that the REM project stays on schedule, the government will table a bill in the coming months that will the REM to be delivered. The legislative amendments will pertain to, among other things:

- expropriation and vacating of private land;
- road management and permits;
- adoption of railway regulations specific to the REM;
- introduction of development royalties.

## 2.2 Extension of the métro blue line

In September 2009, the government set up a project office—the Bureau de projet pour les prolongements des lignes du métro de Montréal—under the responsibility of the Agence métropolitaine de transport (AMT) and the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports, and mandated the office to conduct the necessary studies for the planned extensions.

— The project office is supported in its work by the municipal stakeholders concerned.

Extension of the blue line stood out as the option offering the most transportation, environmental and urban development benefits. It has the best ridership and modal shift[3] potential, compared to the other extension sections.

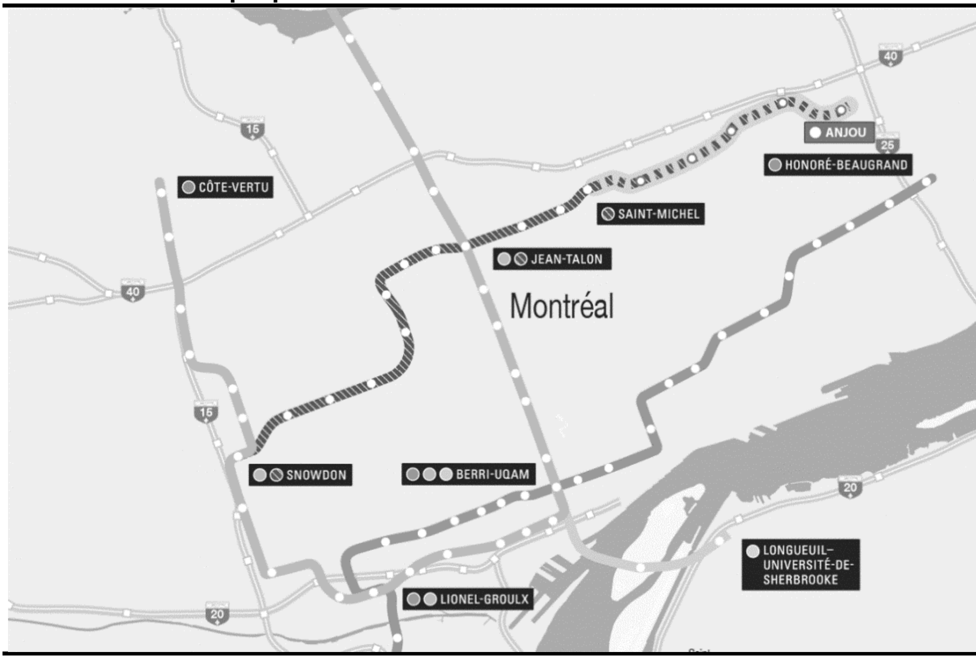
— According to the studies conducted by the project office, this extension, once fully implemented, could lead to a daily ridership of more than 80 000 users and stimulate economic and social development throughout the area served.

| Project to extend the Montréal métro blue line |
| --- |
| The blue line currently ends east of boulevard Saint-Michel, in the Villeray–Saint-Michel–Parc-Extension burrough.<br>On the basis of the plans considered to date, extending the blue line to Anjou, a distance of 5.5 kilometres, would:<br>− substantially improve access to the network in the northeastern sector of Montréal;<br>− facilitate connections for boulevard Pie-IX users;<br>− serve existing centres of economic activity in the Anjou and Saint-Léonard burroughs.<br>Moreover, the blue line extension will reduce rush hour greenhouse gas emissions by 24.6 tonnes. |

[3] A modal shift takes place when a user of a particular mode of transportation changes his or her commuting habits and opts for an alternative mode of transportation.

CHART 4

**Illustration of the proposed route for the blue line extension**




Source : Ministère des Transports, de la Mobilité durable et de l'Électrification des transports.

To support the carrying out of the project, the government is announcing, for the first time, that amounts have been set aside in the 2017-2027 Québec Infrastructure Plan to ensure Québec government funding. Québec intends to request federal infrastructure funding for this project.

— Ville de Montréal would like the work to begin in 2021, so that the blue line extension can be commissioned in 2025.

## 2.3 Creation of the Autorité régionale de transport métropolitain

In recent years, the limits of the metropolitan public transit governance model had been revealed.

This model was characterized by:

— governance divided among several transit networks covering 83 municipalities;

— a large number of stakeholders, all responsible for planning and operating public transit on their territory—the AMT, three transit authorities, 12 municipal transit bodies and 13 paratransit bodies;

— a wide range of transit tickets (over 500), without a single window for ticket sales or customer information;

— difficulties ensuring long-term financing of activities.

For a sustainable response to these challenges, the National Assembly passed, in May 2016, the *Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area*.

This new organizational model draws on:

— best practices in public transit organization, in Vancouver and elsewhere in the world;

— the *Act respecting the governance of state-owned enterprises*, whose purpose is to establish corporate governance principles so as to strengthen the stewardship of state-owned enterprises, by enhancing the effectiveness, transparency and accountability of the officers and bodies that make up their management.

The new model is based on enhancement of the role of the Communauté métropolitaine de Montréal (CMM) regarding public transit and sustainable mobility, and on full cooperation with local officials in the region.

Accordingly, the CMM will have substantial public transit planning and financing powers. Regarding public transit, the CMM will oversee two new entities—the Autorité régionale de transport métropolitain (ARTM) and the Réseau de transport métropolitain (RTM).[4] This reorganization is based on:

— expertise enhancement, through the presence of independent experts on the board of directors of the ARTM;

— greater integration of jurisdictions (public transit, paratransit, car pooling, active transport and arterial road system);

[4] The RTM will provide the public transit services of the 12 intermunicipal boards of transport on the north and south shores, which will be abolished. It will also take charge of the services provided by the AMT.

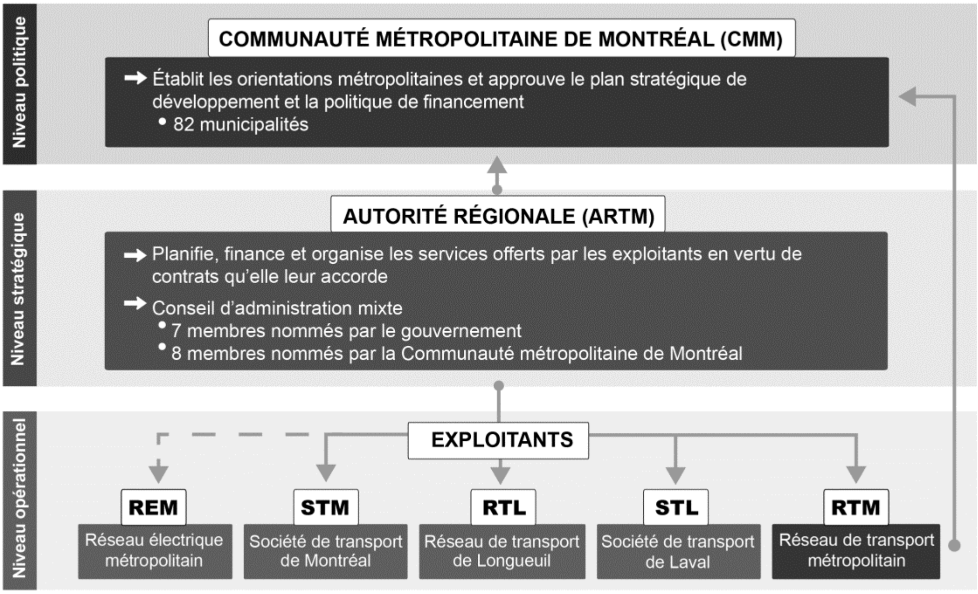
— an improved distribution of responsibilities between operational, strategic and political stakeholders.

This structure will reduce the number of stakeholders and clarify the responsibilities and accountability rules between policy makers, planners and carriers, in order to develop an integrated vision for sustainable mobility.

| **Role of the Communauté métropolitaine de Montréal (CMM) in public transit organization** |
|---|
| In addition to appointing eight of the 15 members of the board of directors of the Autorité régionale de transport métropolitain (ARTM), the Communauté métropolitaine de Montréal (CMM) will approve:<br>− the ARTM's strategic development plan, which must comply with the Metropolitan Land Use and Development Plan (PMAD) of the CMM;<br>− the ARTM's ten-year capital expenditures program, as well as the definition of the metropolitan arterial road network and the related standards;<br>− the financing policy developed by the ARTM. |

CHART 5

**Governance of public transit in the Montréal area**




Source : Ministère des Transports, de la Mobilité durable et de l'Électrification des transports.

As part of its responsibilities, the ARTM will be required to:

- produce a strategic development plan, which will be the only public transit plan on the territory of the CMM;
- produce a ten-year capital expenditures program and update it annually;
- draw up contracts for services provided by operators, for ticketing services and for metropolitan equipment (park-and-ride lots, reserved lanes and stations) maintenance and operation services.

The operators, that is, the region's three transit authorities[5] and the RTM, will ensure service delivery on the basis of the parameters established for the purposes of contracts with the ARTM and the REM in the coming years.

## ❑ New funding for the ARTM

To support the ARTM in its new responsibilities, the Québec Economic Plan provides for additional funding of nearly $1 billion over five years:

- $399 million to ensure the ARTM is on a sound financial footing;
- $587.7 million to support the ARTM in the commissioning of the REM.

TABLE 6

**Financial impact of the measures to suppport the ARTM**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | Total |
|---|---|---|---|---|---|---|
| Ensuring a sound financial footing | –39.0 | –74.0 | –99.0 | –92.0 | –95.0 | –399.0 |
| Supporting the commissioning of the REM | — | — | –256.0 | –256.0 | –75.7 | –587.7 |
| **TOTAL** | **–39.0** | **–74.0** | **–355.0** | **–348.0** | **–170.7** | **–986.7** |

5 Société de transport de Montréal, Réseau de transport de Longueuil and Société de transport de Laval.

## ■ Ensuring a sound financial footing

To carry out its responsibilities, the ARTM will be able to rely on the sources of financing currently available to the AMT and the other transit bodies in the metropolitan area, such as the revenues from the 3-cent-per-litre specific tax on gasoline in the Montréal area and government financial assistance for operating and capital expenditures.

Analyses conducted by the Transition Committee indicate that, without additional funding, creation of the ARTM could require a substantial financial contribution from municipalities and users.

In that regard, to ensure the ARTM is on a sound financial footing, the Québec Economic Plan provides that the new entity will receive additional funding of $399 million for the next five years.

Of that amount, $39 million will be available in 2017-2018 to help finance:

- increased capital and operating expenditures;
- the impact of the 50% Québec sales tax (QST) rebate;
- costs relating to preferential fare adjustments;
- the deficit inherited from the AMT for 2017-2018.

TABLE 7

**Breakdown of the ARTM's additional requirements**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | Total |
|---|---|---|---|---|---|---|
| Capital and operating expenditures | 24.8 | 52.0 | 75.8 | 67.7 | 70.1 | 290.4 |
| Impact of the 50% QST rebate | 6.1 | 12.5 | 13.5 | 14.3 | 14.7 | 61.1 |
| Costs relating to preferential fares | 5.4 | 9.5 | 9.7 | 10.0 | 10.2 | 44.8 |
| Deficit inherited from the AMT | 2.7 | — | — | — | — | 2.7 |
| **TOTAL** | **39.0** | **74.0** | **99.0** | **92.0** | **95.0** | **399.0** |

Source: Transition Committee.

**Costs relating to the creation of the Autorité régionale de transport métropolitain**

The main objective of the creation of the Autorité régionale de transport métropolitain (ARTM) is to improve the performance of the Montréal area public transit network, while ensuring user satisfaction.

Nevertheless, creating the ARTM will come with additional expenditures due to:

- higher capital and operating expenditures incurred by, in particular, the new AZUR métro cars, extensive métro station renovations and the arrival of the Société de transport de Montréal's new fleet of electric buses;
- the impact of the 50% of the Québec sales tax (QST) rebate, which must be assumed by the new body. The Agence métropolitaine de transport (AMT) has a QST rebate rate of 100%, as a government body, whereas the ARTM will be entitled to a 50% rebate, as a municipal body;
- preferential fares, including student fares, which must apply to everyone, regardless of age and place of residence. This obligation is provided for in the *Act to modify mainly the organization and governance of shared transportation in the Montréal metropolitan area*.
  - The student discount must be available to all age groups, not solely to students 18 to 25 years of age, as it is currently the case.

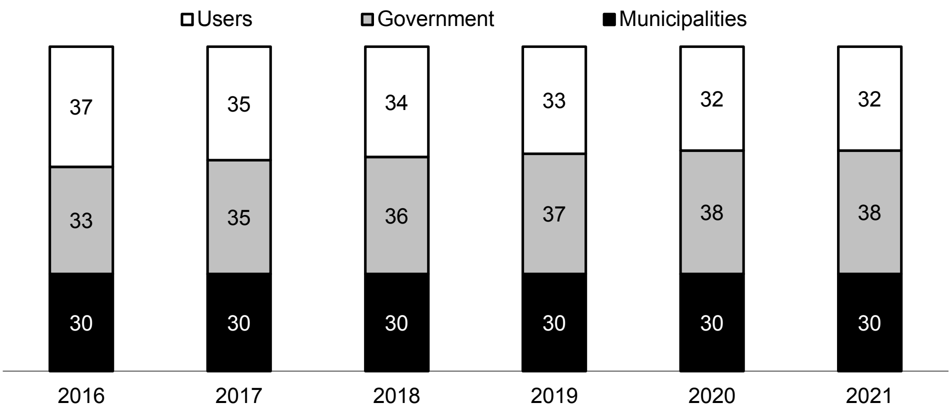
the deficit inherited from the AMT in 2017-2018.

With this increased financial assistance, the share of municipal contributions to metropolitan public transit will remain stable in the years ahead at 30%, that is, at 2016 level.

— In 2016, municipal contributions stood at $724 million, 30% of total expenditures of $2.4 billion.

CHART 6

**Metropolitan public transit expenditures – Share of contributors**
(per cent)




Note: For illustration purposes, user fares were indexed at an annual rate of 2%.

## Supporting the commissioning of the REM

The Québec Economic Plan provides for additional funding for the ARTM for the commissioning of the REM. This support will consist of:

— a contribution to the operation of the REM;

— compensation relating to land value capture.

TABLE 8

**Financial impact of the measures to support the ARTM for the commissioning REM**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | Total |
|---|---|---|---|---|---|---|---|
| **Réseau électrique métropolitain** | | | | | | | |
| Contribution to the operation of the REM | — | — | — | — | –75.7 | –133.2 | –208.9 |
| Compensation relating to land value capture | — | — | –256.0 | –256.0 | — | — | –512.0 |
| **TOTAL** | **—** | **—** | **–256.0** | **–256.0** | **–75.7** | **–133.2** | **–720.9** |

### Contribution to the operation of the REM

The government intends to provide financial assistance to the ARTM equivalent to 85% of the additional cost relating to the commissioning of the REM. This assistance is estimated at $75.7 million for 2021-2022 and $133,2 million in 2022-2023.

**Additional costs relating to the Réseau électrique métropolitain (REM)**

Compared to the current situation, in 2022-2023, the net additional impact of the REM will be $133.2 million for the government and $23.5 million for the municipalities.

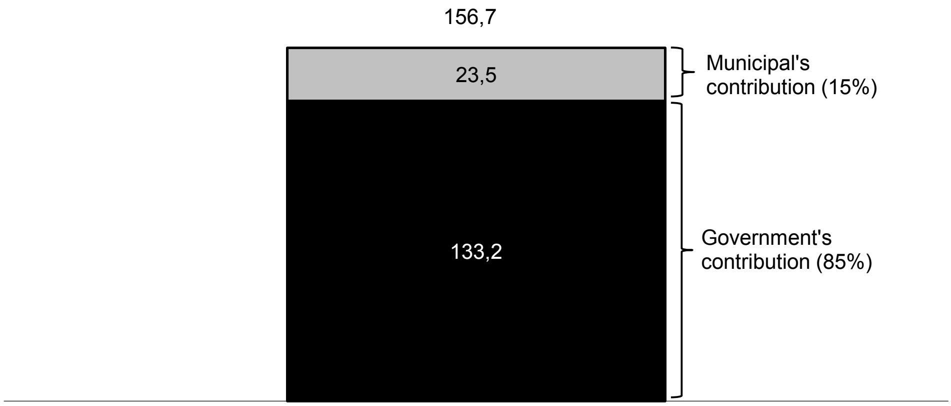
**Additional costs relating to the REM**
(millions of dollars)

| | 2022-2023 |
|---|---|
| Québec government | 133.2 |
| Municipalities(1) | 23.5 |
| **TOTAL** | **156.7** |

(1) Excluding municipal contributions on the order of $30 million.

CHART 7

**Additional contributions from the government and municipalities relating to the operation of the REM – 2022-2023**
(partners' share, millions of dollars)




Note: Excluding municipal contributions on the order of $30 million.

- **Compensation relating to land value capture**

The initial financing of the REM took into account the sharing, between the municipalities and CDPQ Infra, of land value revenues resulting from the REM's presence.

The government will leave to the municipalities the full amount of the revenues relating to this land value by increasing the sources of funding of the ARTM so that it can compensate CDPQ Infra for these revenues through a payment of $512 million.

By assuming payment of this amount, the ARTM enables the municipalities to keep the full amount of these additional revenues without sharing them with the REM. These revenues may be used by the municipalities to finance their contribution to public transit in the metropolitan area.

These amounts will be financed through the Land Transportation Network Fund.

# 3. THE CAPITALE-NATIONALE REGION

The Capitale-Nationale region is one of most flourishing regions in Canada because of the diversity of its economy. Its vigour translates into, for example, one of the lowest unemployment rates in the country and population growth.

However, this vitality causes increasing congestion on the region's main roads. As a result, public transit services are being used more, which has highlighted the limits of the existing networks.

To address this situation, and in accordance with the findings of the tramway-BRT feasibility study tabled in March 2015, Ville de Québec and Ville de Lévis have opted for the implementation of integrated bus rapid transit (BRT) on their territories.

In recognition of the municipal partners' will in this regard, the government is immediately setting aside the necessary amounts for this major project, which is in line with the government's vision to provide efficient, flexible alternative soluitions to car commutes.

## 3.1 Québec-Lévis bus rapid transit (BRT)

BRT is a means of public transit with exclusive lanes and a network of dedicated stations for rapid, frequent, high-capacity service.

Compared to other means of public transit, like the tramway, BRT requires less investment, has lower operating costs and offers public transit authorites greater flexibility in terms of use. In addition, implementing BRT is an opportunity to rethink urban planning so as to foster the development of the sectors served.

In a context in which improving traffic flow is an important issue for the public, BRT implementation would help improve traffic flow, foster economic growth and enhance users' quality of life.

## Québec-Lévis bus rapid transit (BRT)

The Québec-Lévis BRT route, proposed in the feasibility study presented in 2015, is 43 kilometres long and comprised of two lines:

- a 36.1-kilometre east-west line linking Québec city (avenue D'Estimauville) and Lévis (route Monseigneur-Bourget), and crossing the St. Lawrence River via the Pont de Québec;
- a 6.9-kilometre north-south line serving downtown Québec and the amphitheatre sector.

The route would include approximately 60 stations, including 10 transportation hubs, for accessing the other public transit networks. Adjustments would be made to the routes of the existing transit networks to ensure the complementarity required for the operation of the network.

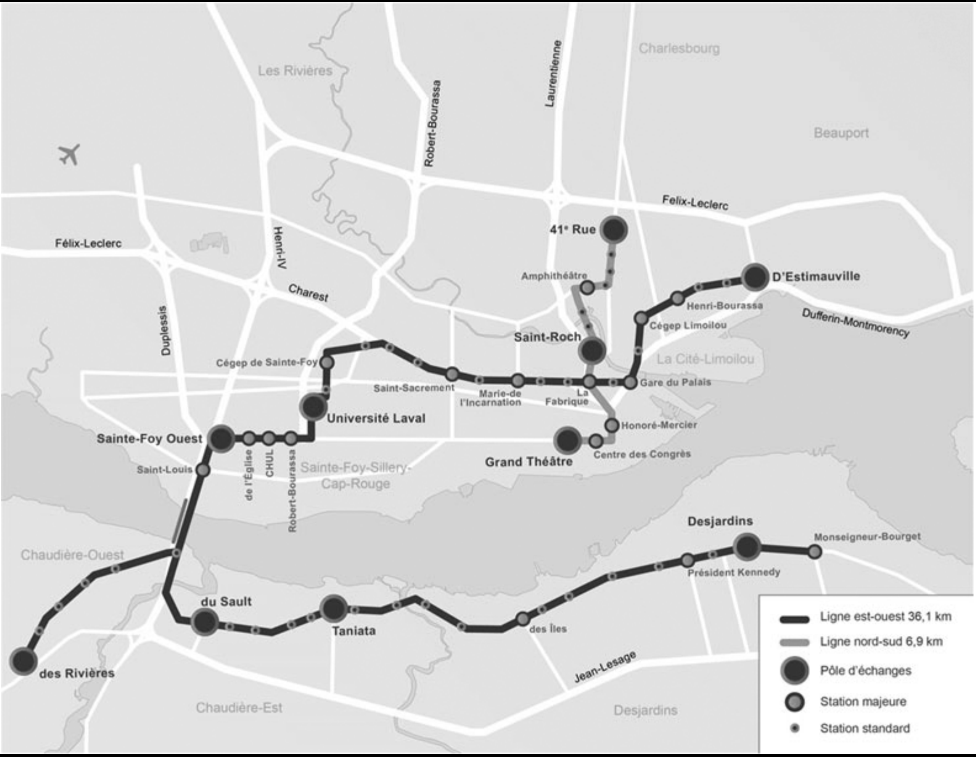
With a capacity of 150 passengers per vehicle and a frequency of up to every three minutes during rush hour, BRT could carry 3 000 passengers an hour.

BRT would travel in lanes dedicated strictly to it and would have the right of way at intersections. In addition, the proposed option provides for the deviation of underground systems (water supply systems, sewers and public utilities), in order to avoid service interruptions if they require work or repairs. These features would ensure rapid, reliable service.

Source: Étude de faisabilité du tramway-SRB, 2015.

CHART 8

**Illustration of the proposed Québec-Lévis BRT route**




Source: Ville de Québec website.

To date, the government has authorized a study on BRT implementation and allocated funding of $12.5 million. This amount was used to create the study office responsible for all analyses required to proceed with carrying out the project.

To support the carrying out of the project, the government is announcing, for the first time, that amounts have been set aside in the 2017-2027 Québec Infrastructure Plan to ensure Québec government funding. Québec intends to request federal infrastructure funding for this project.

In addition, the government will allocate additional funding of $56 million for the drawing up of the plans and specifications and the finalization of the business case, as of 2017-2018.

— Ville de Québec would like to begin the work in 2019, so that a first phase can be commissioned in 2022, with the route to be completed in 2025.

— The work will continue in collaboration with the project office set up.

# 4. THROUGHOUT QUÉBEC

To support the investments of all transit bodies, the Québec Economic Plan provides for another $333 million in funding for the bodies over the next five years. These investments will be in addition to those of close to $1.2 billion already provided for as part of these initiatives.

These investments will:

— raise assistance for service improvement;

— increase support for paratransit;

— increase funding for regional public transit.

TABLE 9

**Financial impact of the measures to support public transit throughout Québec**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | Total |
|---|---|---|---|---|---|---|
| Raising assistance for service improvement | –17.0 | –45.0 | –72.0 | –87.0 | –87.0 | –308.0 |
| Increasing support for paratransit | –3.0 | –3.0 | –3.0 | –3.0 | –3.0 | –15.0 |
| Increasing funding for regional public transit | –2.0 | –2.0 | –2.0 | –2.0 | –2.0 | –10.0 |
| **TOTAL** | **–22.0** | **–50.0** | **–77.0** | **–92.0** | **–92.0** | **–333.0** |

**Organization of public transit in Québec as a whole**

In Québec, nine transit authorities ensure services to the public: the Gatineau, Laval, Lévis, Longueuil, Montréal, Québec, Saguenay, Sherbrooke and Trois-Rivières authorities.

In 14 urban agglomerations, a municipal or intermunicipal transit body is responsible for organizing public transit. These urban agglomerations are Alma, Baie-Comeau, Drummondville, Granby, Mont-Tremblant, Rimouski, Rouyn-Noranda, Saint-Georges, Salaberry-de-Valleyfield, Sept-Îles, Shawinigan, Thetford Mines, Val-d'Or and Victoriaville.

In addition, in the regions of Québec, 71 regional county municipalities organize a regional public transit service.

Moreover, 101 bodies across Québec are responsible for municipal paratransit services.

## 4.1 Raising assistance for service improvement

Since 2007, public transit bodies have been able to claim assistance covering 50% of direct operating costs necessary to offer more public transit services. This support of $130.5 million a year contributed to a 16% increase in ridership.

— Improvement of public transit services directly benefits users through, for example, increased bus frequency.

To further support public transit bodies in their development projects, the Québec Economic Plan provides for a $308-million increase in the assistance available by 2021-2022.

Thus, for 2017-2018, the Assistance Program for Public Transit Development will be granted an additional envelope of $17 million to increase transit services.

These amounts will be drawn from the Land Transportation Network Fund (LTNF).

### ❑ Performance-based government assistance

Following in the footsteps of several U.S. states and European countries, as well as certain Canadian provinces, the government wants financial assistance paid to transit bodies to be based on their performance, in order to spur them to provide more efficient services.

Thus, part of the increase in the Assistance Program for Public Transit Development envelope will be set aside to support transit bodies that achieve certain performance objectives. In the coming year, the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports will announce the specific parameters of this incentive.

## 4.2 Increasing support for paratransit

Paratransit is an essential service for persons with a disability or a mobility impairment. Municipalities, through their public transit body, set up a service parallel to the regular service—a driver-assisted home pickup service. From 2010 to 2015, the number of users of this service rose an average of 5% a year.

Municipalities also strive to make regular public transit service more accessible. For example, almost all of Québec's fleet of buses is comprised of low-floor vehicles.

Apart from paratransit and accessible public transit, more and more taxis, intercity buses, and stations are accessible for persons with disabilities.

To continue efforts toward greater public transit accessibility, the government is increasing funding for paratransit services in all regions of Québec. In that regard, $15 million over five years, that is, $3 million a year, in additional appropriations will be allocated to the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports. For 2017-2018, the planned amounts will be drawn from the Contingency Fund.

## 4.3 Increasing funding for regional public transit

Demand for public transit services has risen sharply in rural areas. In 2015, government assistance ensured over one million trips, an increase of 80% over 2010.

Regional public transit must be interconnected to foster service complementarity and optimize services for users. This interconnectedness means coordination and concertation among stakeholders in public transit, paratransit, intercity transport and school transportation.

As part of the Québec Economic Plan, the government is raising assistance for regional public transit development by $2 million a year over the next five years.

These amounts will be drawn from the LTNF.

| A success for communities in the Gaspésie region |
|---|
| The financial assistance has yielded conclusive results for communities. For example, support for intercity bus transport enabled stops in New Richmond, Port-Daniel and Cap-Chat to be reinstated, and the trip between Rimouski and Grande-Rivière to be extended to Gaspé, with a stop in Percé, on the Orléans Express network. |

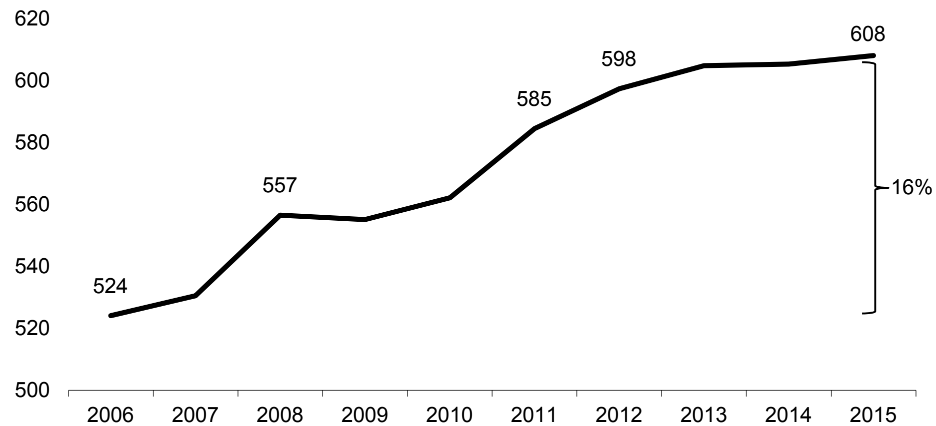
# 5. PUBLIC TRANSIT: FOR SUSTAINABLE, EFFECTIVE MOBILITY

Public transit use has risen significantly in recent years in Québec.

— From 2006 to 2015, services rose by more than 30%, generating a 16% uptick in ridership.

CHART 9

**Evolution in public transit ridership – 2006-2015**
(millions of commutes)

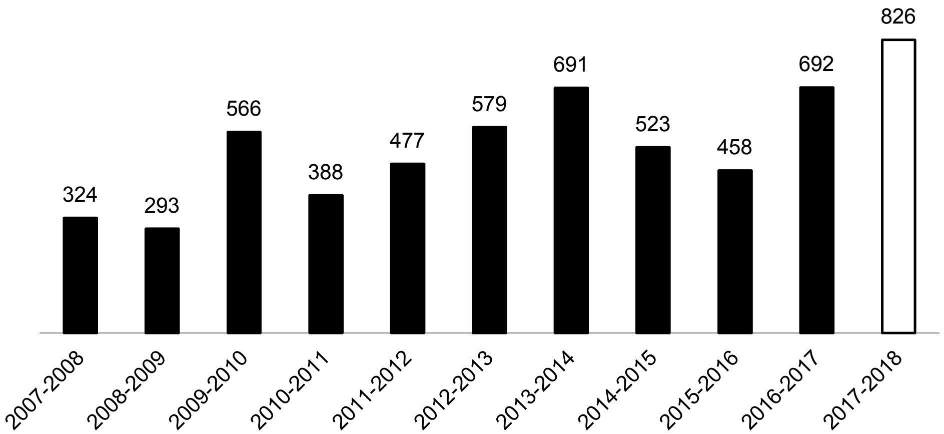



Source: Ministère des Transports, de la Mobilité durable et de l'Électrification des transports.

The government has invested substantial amounts in infrastructure in the past ten years to encourage public transit development. From 2007-2008 to 2016-2017, investments of nearly $5 billion have been made or are being made, for an annual average of $499 million.

CHART 10

**Evolution in public transit investments provided for in the Québec Infrastructure Plan(1) – 2007-2008 to 2017 2018**
(millions of dollars)




Note: The figure for 2017-2018 is a projection.
(1) Investments made by the Agence métropolitaine de transport for 2007-2008 to 2012-2013 are not included in the Québec Infrastructure Plan. AMT investments are presented as of 2013-2014.
Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

## 5.1 A key role in all regions

Whether from the standpoint of the economy or the fight against climate change, public transit plays a key role in the vitality and well-being of people in all regions of Québec.

### ❑ A major sector of the Québec economy

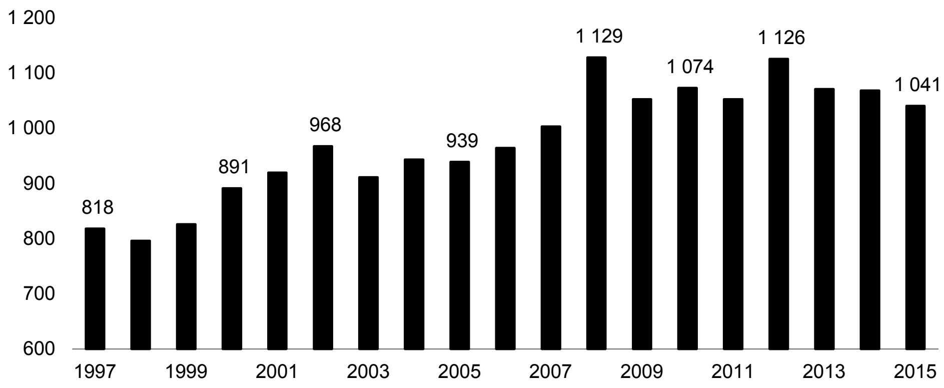
The public transit sector accounted for 19 500 payroll jobs in 2015—0.6% of total payroll jobs in Québec.

— Québec jobs in this sector represented 31.8% of Canadian jobs in the same sector, a higher percentage than the share of Québec jobs in total Canadian jobs.

From 1997 to 2015, real output in the public transit sector rose by more than 27%. Output was over $1 billion in 2015, more than 0.3% of Québec's real gross domestic product (GDP).

CHART 11

**Evolution in the public transit sector**
(millions of dollars, gross domestic product in real terms)




Source: Statistics Canada.

In addition, the large projects announced as part of the Québec Infrastructure Plan—Réseau électrique métropolitain (REM), extension of the Montréal métro blue line and Québec-Lévis bus rapid transit (BRT)—will have significant economic impacts.

Between 2017-2018 and 2025-2026, these projects are expected to:

— create or maintain approximately 6 500 jobs on average per year;

— generate approximately $5.8 billion in direct and indirect GDP, the equivalent of 1.4% of Québec's GDP.

Further jobs will be created or maintained during the intensive construction period at these large worksites.

TABLE 10

**Economic spinoffs of major public transit projects – 2017-2018 to 2025-2026**

| | Direct | Indirect | Total |
|---|---|---|---|
| GDP (millions of dollars) | 3 481 | 2 354 | 5 835 |
| Jobs (per year on average) | 3 786 | 2 678 | 6 465 |

Note: Totals may not add due to rounding.
Sources: ©Gouvernement du Québec, Institut de la statistique du Québec, results calculated on the basis of the Québec input-output model software, and Ministère des Finances du Québec.

The public transit support measures will generate economic benefits for all regions of Québec.

## ❑ Improving the competitiveness of urban centres

Efficient transit networks contribute to the vitality of the economy and improve the competitiveness of urban centres. They broaden the employment pool for employees and open up a bigger labour force for employers. Thus, improved commuting conditions make cities more attractive to households, as well as to investors and businesses.

In Québec's large metropolitan areas, public transit is the means chosen by many Quebecers for commuting to and from work.

— In 2011, 22% of workers in the Montréal area used public transit to commute to and from work, compared to 15% of workers in the Ottawa-Gatineau area (part in Québec) and 11% of workers in the Québec area.

Economic growth in Québec, maintenance of business competitiveness, and Quebecers' quality of life depend in part on efficient, smooth-running, flexible public transit networks.

## ❑ Reducing greenhouse gas (GHG) emissions and air pollution

The transportation sector is the primary greenhouse gas (GHG) emitter in Québec and one of the principal sources of air pollution.

Since 1990, GHG emissions attributable to transportation have risen. Achieving Québec's GHG reduction objective therefore requires significant reduction efforts in the transportation sector.

— Public transit accounts for roughly half of total expenditures, or close to $1.5 billion, under the 2013-2020 Climate Change Action Plan (2013-2020 CCAP).

In tandem with the 2013-2020 CCAP, the government unveiled, in 2015, the Transportation Electrification Action Plan 2015-2020, which aims to reach 100 000 registered electric vehicles by 2020.

— The action plan also has its sights set on expanding the availability of electric public transit, a sector in which Québec businesses stand out.

| **Reducing Québec's energy dependency** |
| --- |
| The synergy created by developing public transit and transportation electrification will result in greater energy independence.<br><br>In that regard, slightly more than 6.3 million vehicles were on the road in Québec in 2015, over 5 million of which were automobiles and light trucks. Currently, these vehicles account for about 47% of consumption of all petroleum products.<br><br>Cutting down on the volume of oil used in the land transportation sector will therefore reduce Québec's energy dependency. This reduction will also have a positive impact on Québec's trade balance. |

## 5.2 A profitable financial partnership

The Québec government will allocate nearly $6.7 billion to public transit in the next five years. These amounts will be available to all public transit bodies for their infrastructure projects or for initiatives to improve public transit services.

TABLE 11

**Public transit assistance**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | Total |
|---|---|---|---|---|---|---|
| **LNTF** | | | | | | |
| Anticipated funding(1) | –748 | –896 | –946 | –894 | –808 | –4 292 |
| Québec Economic Plan measures | –58 | –121 | –515 | –522 | –260 | –1 476 |
| **Subtotal** | **–806** | **–1 017** | **–1 461** | **–1 416** | **–1 068** | **–5 767** |
| **General Fund** | | | | | | |
| Paratransit – Anticipated funding | –90 | –90 | –90 | –90 | –90 | –450 |
| Québec Economic Plan measures | –3 | –3 | –3 | –3 | –3 | –15 |
| **Subtotal** | **–93** | **–93** | **–93** | **–93** | **–93** | **–465** |
| **SOFIL(2)** | **–64** | **–89** | **–116** | **–81** | **–80** | **–430** |
| **TOTAL** | **–963** | **–1 199** | **–1 670** | **–1 590** | **–1 241** | **–6 662** |

Note: Totals may not add due to rounding.
(1) This funding includes transfers from the Green Fund intended for the funding of public transit and alternative transportation.
(2) Share of the Société de financement des infrastructures locales du Québec that is not included in the LTNF.
Sources: Ministère des Transports, de la Mobilité durable et de l'Électrification des transports, 2016 activity report of the Société de financement des infrastructures locales du Québec, and Ministère des Finances du Québec.

### ❑ Land Transportation Network Fund

The creation of the Land Transportation Network Fund (LTNF) in 2010-2011 was a decisive step in achieving sustainable funding for transportation infrastructure by tying revenues collected from motorists directly to investment requirements, such as those respecting public transit.

LTNF revenues represent the primary source of funding for public transit, in addition to adhering to the principle of eco-taxation. They mainly include:

— revenues from the specific tax on fuel;

— driver's licence and vehicle registration fees;

— the contribution of motorists to public transit;

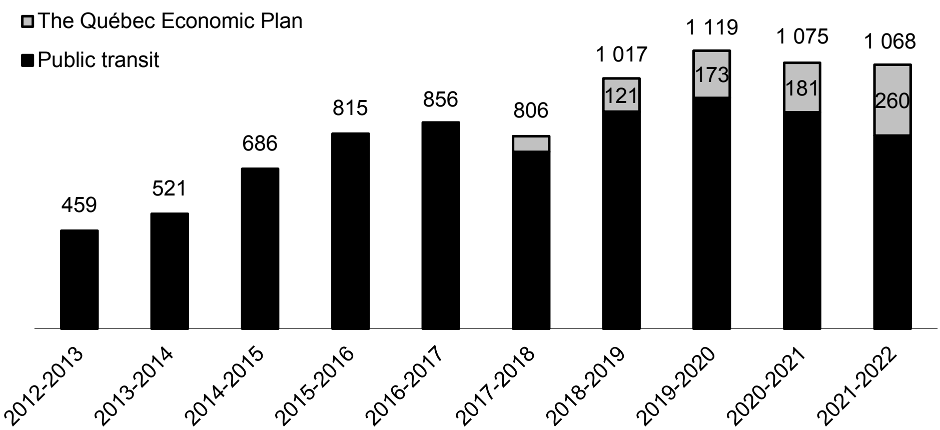
— a portion of revenues from Québec's greenhouse gas emissions cap-and-trade system.

From 2012-2013 to 2016-2017, the portion of LTNF expenditures dedicated to public transit rose from $459 million to $856 million.

Over the next few years, public transit expenditures will continue to rise, primarily because of the measures announced by the government as part of the Québec Economic Plan, and these expenditures will reach $1.07 billion in 2021-2022, for an increase of almost 25%.

CHART 12

**Public transit expenditures – LTNF**
(millions of dollars)




Note: Excludes one-time compensation relating to land value capture paid to the ARTM.
Sources: Ministère des Transports, de la Mobilité durable et de l'Électrification des transports and Ministère des Finances du Québec.

## ■ Green Fund

A portion of Green Fund revenues is dedicated exclusively to the public transit project, via the LTNF. The projected public transit allocation for 2017-2018 is $252 million.

TABLE 12

**Dedicated public transit expenditures – Green Fund**
(millions of dollars)

| | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017F | 2017-2018F | 2018-2019F | 2019-2020F | Total |
|---|---|---|---|---|---|---|---|---|
| Public transit | –127 | –149 | –281 | –211 | –252 | –230 | –222 | –1 472 |

F: Forecasts.
Sources: Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques and Ministère des Finances du Québec.

## ❑ Société de financement des infrastructures locales du Québec

Created in 2004, the main mission of the Société de financement des infrastructures locales du Québec (SOFIL) is to provide financial assistance for municipal infrastructure projects relating to public transit, drinking water, waste water and local roads. Its revenues are derived primarily from:

— federal gasoline excise tax revenues, which are paid by the Gas Tax Fund;

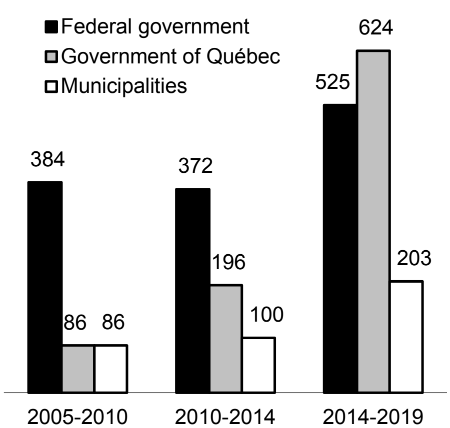
— a portion of revenues from additional registration fees and acquisition fees for large-cylinder capacity vehicles.

SOFIL provides funding to public transit bodies for their infrastructure needs. Its programs, the main one being the Gas Tax and Québec Contribution Program (TECQ program), were introduced to simplify the funding application process and give greater flexibility to public transit bodies in prioritizing their infrastructure work.

The Québec government's contribution to the TECQ program has been over $900 million since 2005, including $624 million for the 2014-2019 period.

CHART 13

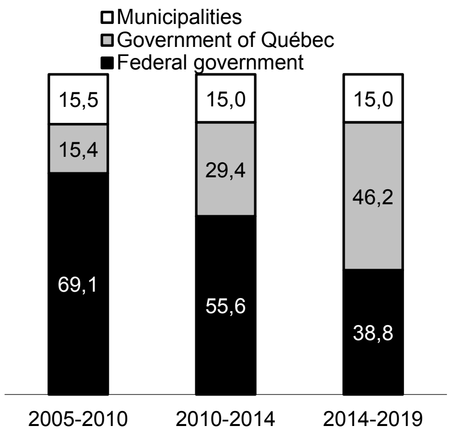
**TECQ program – Public transit contributions**
(millions of dollars)




Sources: 2016 activity report of the Société de financement des infrastructures locales du Québec and compilation by the Ministère des Finances du Québec.

CHART 14

**TECQ program – Share of partners in financing public transit**
(per cent)




Sources: 2016 activity report of the Société de financement des infrastructures locales du Québec and compilation by the Ministère des Finances du Québec.

Including the contribution from the federal government and municipalities, SOFIL's investments totalled nearly $1.4 billion for the 2014-2019 period.

## ❑ The federal government's contribution

In 2005, the Québec government entered into a five-year agreement with the federal government, renewed in 2009, pertaining to the transfer of revenues from a portion of the federal gasoline excise tax, to increase funding for municipal infrastructure, including public transit infrastructure. For the 2005-2010 and 2010-2014 periods, Québec received $756 million from the federal government for public transit.

In 2014, the two governments entered into a new ten-year agreement, similar to the 2005 agreement, under which the federal government will transfer $525 million to Québec for the 2014-2019 period.

In addition, as part of the new Public Transit Infrastructure Fund (PTIF), an agreement was entered into in 2016, under which the federal government plans to invest a total of $923.7 million in the carrying out of public transit capital projects between April 1, 2016 and March 31, 2018.

— These investments are in addition to the share of the Québec government and municipal partners.

Moreover, in fall 2016, the federal government announced the next phase of the PTIF, with an envelope of $25.3 billion for the next 11 years as of 2017-2018.

— The governement will undertake talks with the federal government to ensure that Québec receives its fair share of the envelope and can invest the amounts in projects that meet Quebecers' needs.

## ❑ Municipal investment

Public transit is a municipal responsibility. Municipalities determine the services to be provided to the public and the contribution to be paid by users.

Municipalities have shown their interest in taking up the challenges that sustainable mobility poses and in seizing the economic and social development opportunities that can flow from public transit. Thus, from 2007-2008 to 2016-2017, municipalities invested more than $1.3 billion for public transit-related infrastructure.

## ■ Regionalized sources

To give municipalities greater independence, the Québec government attributed to them revenue sources collected on their territory, in order to fund public transit.

A case in point is the $30 contribution of motorists to public transit collected in the six metropolitan areas. Revenues from the contribution have been remitted to public transit authorities since 1992.

The same is true of the $45 passenger vehicle registration tax collected on the island of Montréal since 2011.

Public transit is also funded through a 3-cent-per-litre increase in the specific tax on gasoline collected on the territory of the Montréal metropolitan area, as well as by a 1-cent-per-litre increase in this tax collected in the Gaspésie–Îles-de-la-Madeleine region to fund the Régie intermunicipale de transport Gaspésie–Îles-de-la-Madeleine (REGIM).

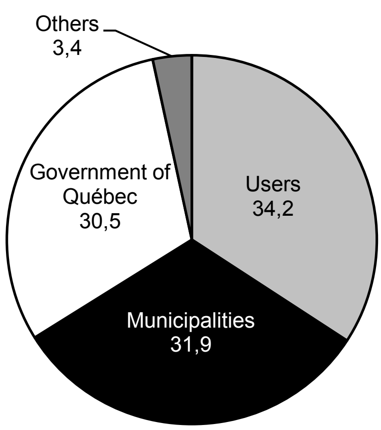
## ❑ User contributions

As the immediate beneficiaries of public transit, users contribute significantly to funding the service. In 2015, users' share of total expenditures of $2.8 billion was 34.2%, while that of municipalities was 31.9% and that of the Québec government, 30.5%.

— With the government's increased funding for public transit, this balance can be maintained and user fares will continue to be affordable.

CHART 15

**Public transit funding in 2015 – Share of partners**
(per cent)




Source: Ministère des Transports, de la Mobilité durable et de l'Électrification des transports.

# CONCLUSION

The government will considerably increase its funding for public transit development in all regions of Québec. In addition to supporting initiatives in the fight against climate change, the amounts invested will foster the growth of a promising sector for the future.

Today, public transit is central to the social and economic development of metropolises and large cities. Their competitiveness depends in large part on the performance and appeal of public transit.

Thus, the commissioning of the three major projects—Réseau électrique métropolitain (REM), extension of the Montréal métro blue line and Québec-Lévis bus rapid transit (BRT)—will be the opportunity for current and future users to take advantage of green, modern infrastructure. In addition, the new funding for the Autorité régionale de transport métropolitain (ARTM) will enable the agency to begin its activities on a sound financial footing.

Moreover, while fostering the accessibility of public transit in the regions, this additional funding represents an innovative response to the sustainable mobility challenge. The public will have better public transit service in terms of frequency and comfort.

— The government expects that these investments will increase ridership by at least 5% by 2021-2022. Subsequently, another 5% increase in ridership is expected to result from the commissioning of the major projects.

Thus, in 2017-2018, the government and its municipal partners will roll out a new, long-term vision for the sustainable mobility of people and goods.

The Québec Economic Plan clearly shows the government's determination to prioritize sustainable mobility.

# APPENDIX: FRAMEWORK AGREEMENT BETWEEN THE GOVERNMENT AND THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

On January 13, 2015, the government announced that a commercial agreement had been entered into with the Caisse de dépôt et placement du Québec (the Caisse) for the purpose of allowing the Caisse to carry out certain public infrastructure projects.

That agreement allows for the carrying out of major infrastructure projects, in particular with respect to public transit in Québec, that would not come to pass in the foreseeable future without the leadership and resources of the Caisse and its partners.

In summer 2015, following the passage of the *Act to allow the Caisse de dépôt et placement du Québec to carry out infrastructure projects*, the Caisse set up a wholly-owned subsidiary responsible for its investments in infrastructure projects: CDPQ Infra.

Under section 31 of the *Act respecting the Caisse de dépôt et placement du Québec*, CDPQ Infra may invest in businesses whose principal activity consists in building or operating infrastructure. As with any other investment it decides to make as part of its fund management duties, the Caisse will decide, with full independence, whether it wishes to proceed with each project submitted to it by the government.

## ❑ An innovative model

CDPQ Infra's business model is geared to the carrying out of major investment projects in Québec and elsewhere, while implementing international best practices, in order to perform work on budget and on schedule.

In Québec, this business model will enable CDPQ Infra to generate returns while maintaining the government's responsibility of determining projects to be proposed and approving the solution to be implemented on the basis of the options proposed by CDPQ Infra.

Moreover, CDPQ Infra may invest in investment projects (e.g. airports, roads) all over the world, in order to optimize returns for its depositors.

## ❑ The agreement between the government and the Caisse

The agreement announced in January 2015 addresses the government's desire to introduce a new business model enabling it to:

- ensure the carrying out of public infrastructure projects that will have a structuring effect on the development of Québec's economy;
- limit the impacts on public finances.

The agreement also addresses the Caisse's desire to invest more in infrastructure projects with potential for generating stable, predictable returns for its depositors. This business decision will enable the Caisse to:

- make long-term investments in tangible, stable assets;
- give Québec the benefit of its world-class expertise;
- develop an exportable model.

Under this agreement, the government will submit to the Caisse infrastructure projects that it determines and that could come to fruition once the necessary preliminary stages are completed.

Under the agreement entered into with the government, the Caisse will undertake only infrastructure projects with a potential for commercial returns that are in the interest of its depositors. An independent expert will evaluate the return anticipated by the Caisse under its business model.

If the Caisse finds a project to be of interest, it will take over the planning, financing, implementation and operation of the project. It will then coordinate calls for tenders for the carrying out of the infrastructure project, and an independent auditor will validate the integrity of the process.

This innovative method is advantageous for both the government and the Caisse.

## ❑ To modernize our public infrastructure

The agreement entered into by the government and the Caisse will enable the government to create room to manœuvre, in order to carry out other infrastructure projects.

To the extent that the Caisse takes over ownership and control of the projects entrusted to it, as well as part of the necessary financing, the accounting impact of the projects for the government will be limited. To receive this advantageous treatment, the applicable accounting standards require, in particular, that the agreement comply with the full independence of the Caisse and that it attribute neither the ownership nor the risks or effective control of each project to the government.

## ❑ To seize the best investment opportunities for the Caisse's depositors: Quebecers

The Caisse is Quebecers' nest egg. It manages the funds of many retirement and insurance plans of Quebecers, as well as the assets of the Québec Pension Plan, which alone stood at $62 billion at December 31, 2016. The return obtained by the Caisse will therefore benefit the entire population of Québec.

The Caisse already has an impressive infrastructure portfolio evaluated at nearly $15 billion at December 31, 2016. It has over 15 years' experience in this field, particularly in Canada, the United States, Europe and Australia. In 2005, the Caisse was one of the main investors in the construction and operation of the Canada Line light rail project linking the Vancouver airport to the downtown core.

Creation of the subsidiary CDPQ Infra will enable the Caisse to carry out infrastructure projects capable of bringing its expertise to the world stage. The Caisse will therefore be able to showcase its construction and operational know-how in the infrastructure field, for the purpose of growing Quebecers' assets.

The Caisse has already shown, through its subsidiary Ivanhoé Cambridge, that it can excel in real estate. CDPQ Infra will enable it to replicate that model with respect to infrastructure, in order to make the Caisse a world-class player.

## ■ A model in keeping with the Caisse's mission and respectful of its independence

The agreement entered into between the government and the Caisse in no way changes the Caisse's mission.

Section 4.1 of the *Act respecting the Caisse de dépôt et placement du Québec* is unchanged. Consequently, the mission of the Caisse continues to be "to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development." This mission is wholly compatible with the carrying out of public infrastructure projects in Québec.

## ■ An agreement that is commercial in nature

The agreement between the government and the Caisse is commercial in nature and is aimed at procuring benefits for both parties.

The agreement between the government and the Caisse has two main objectives:

— facilitate successful and efficient completion of major public infrastructure projects;

— provide to the Caisse commercial returns for its depositors.

The agreement also aims to minimize the impact on the government's debt and deficit in compliance with Canadian accounting rules.

## ■ The roles and responsibilities of each party

The agreement defines the roles and responsibilites of each of the parties, including:

### ▪ For the government

— The government, through its departments and public bodies, identifies the needs and objectives related to the public interest.

— The government retains, at all times, its responsibilities in regulatory and supervisory matters, pursuant to its legislative obligations.

- **For the Caisse**

— The Caisse is responsible for the carrying out of projects. It acts as owner and manager for the implementation phase of projects.

— The Caisse assumes the construction, operational and revenue risks relating to the carrying out of each project.

## Financing of projects

Under the agreement, each public infrastructure project entrusted by the government to the Caisse will be financed primarily by:

— a majority equity interest of the Caisse, through its infrastructure portfolio;

— investments from financial partners unrelated to the Québec government;

— long-term debt.

Since the Caisse will assume all risks related to the construction and operation of public infrastructure projects entrusted to it by the government, pursuant to the framework agreement, it will prepare a financing package enabling it to achieve its target returns.