Transportation is one of the largest expenses for households alongside housing and food. It also represents the second-largest source of greenhouse-gas emissions in Canada. To provide affordable, clean-energy transportation options to lower-income Canadians, the federal government should revise its electric-vehicle incentive program and provide sustainable operating funding for transit systems.

Nearly one million people living in Canada’s eight largest cities were at risk of transport poverty in 2019, meaning they cannot access or afford transportation. Without more support, these Canadians risk social and economic isolation. Urban mobility policies must better serve low-income households and consider their needs foremost on the path toward net-zero greenhouse-gas emissions.

With transit systems in financial crisis and the introduction of national regulations that will phase out the sale of new gasoline cars by 2035, now is time to rethink the federal role in passenger transportation.

To achieve a more equitable and low-carbon transportation system, the Affordability Action Council recommends that the federal government take two key actions:

1. Reform the Incentives for Zero-Emission Vehicles (iZEV) program to support the purchase of lower-cost zero-emission transportation options such as used electric vehicles, e-bikes, mopeds and e-scooters, and shift incentives to better support low- and middle-income households.
   To manage program costs and promote equity, the federal government should make low- and middle-income buyers the main beneficiaries of the program and phase out the point-of-sale discounts for higher-income households. It should also gradually lower the existing price limits on vehicles that are eligible for the program.

2. Leverage federal transit funding to expand accessible and affordable service by providing operating funding to boost ridership.
   Operating funding would allow transit systems to adapt to new travel patterns and recover from pandemic-related ridership losses, expand service frequency and improve fare affordability. To boost ridership growth and housing affordability, the government should also accelerate the deployment of the Permanent Public Transit Fund and put in place housing density requirements near transit stations.
“Making public transit more reliable, affordable and accessible will mean Canadians won’t be forced to drive where they need to go. And helping low- and middle-income families afford clean transportation options will save them money and reduce emissions.”

— NATE WALLACE, PROGRAM MANAGER, CLEAN TRANSPORTATION, ENVIRONMENTAL DEFENCE

MANY CANADIANS STRUGGLE WITH A LACK OF AFFORDABLE TRANSPORTATION OPTIONS

When it comes to getting around, many Canadians lack affordable choices. Public transit is often not available or convenient in areas where housing is affordable, and the costs of car ownership are rising.

This results in transport poverty, which occurs when people lack access to transportation options that are affordable and accessible (Kiss, 2022). Without the ability to get where they need to go, people who face transport poverty often experience social exclusion and have limited access to work opportunities and essential services such as health care and education.

Low-income households are particularly vulnerable to transport poverty because many are unable to afford private vehicles. Other factors, such as disabilities, parenthood, gender and ethnicity, can exacerbate it. A 2019 study found that 65 per cent of the dissemination areas of Canada’s eight largest cities were at some risk of transport poverty (see figure 1). The study also found that 40 per cent of all low-income residents (nearly one million people) of Canada’s eight largest cities were at risk of transport poverty (Allen & Farber, 2019).

Transportation is one of the largest costs for Canadian families. As figure 2 shows, transportation spending accounted for more than one-quarter of the before-tax income of very low-income households in the second quarter of 2023.

Although household spending on transportation declined in the wake of the pandemic, people are now returning to in-person workspaces and commute times are increasing again. Between January 2019 and January 2023, the Consumer Price Index (CPI) for public transportation rose 17 per cent, while private transportation prices rose 21 per cent over the same period (Statistics Canada, 2023a).

High transportation and housing costs create an affordability paradox

Rapidly rising housing costs are pushing more and more Canadians to live farther from urban cores. This has pushed many low-income families into more auto-dependent places that have less frequent transit service and require longer commutes. Many low-income and racialized Canadians face “extreme commutes,” that is, those that exceed one hour for a one-way trip (Allen & Farber, 2021).
Canadians increasingly face an “affordability paradox”: they must choose between lower-cost housing in suburban outskirts, where a lack of public transit service makes costly personal vehicle ownership a must, or more expensive housing in urban cores, where access to reliable public transit can potentially make automobile ownership unnecessary (Kramer, 2018). For many, the choice to live farther from central areas has led to increased social isolation and compounded social disadvantages, such as reduced access to jobs, services and other opportunities (Allen et al., 2022).

A lack of transportation options exacerbates inequity

Across Canada’s 10 largest metro areas, racialized individuals, young people, women, immigrants and individuals with low income are more likely to use public transit to get to work (Statistics Canada, 2022a). Supporting public transit systems is therefore key to advancing equitable access to transportation options.

Additionally, a significant portion of the people relying on public transit take off-peak trips, including low-income workers, who are disproportionately racialized (Palm et al., 2023). Yet most public transportation systems are designed to serve commuters going to and from a central business district on a 9-to-5 weekday schedule (Taylor & Morris, 2015).
In Montreal, work-related commuting trips comprise less than half of all public transit trips (Ravensbergen et al., 2023). The second most common trip type is care travel, which is disproportionately carried out by women. It includes activities such as grocery shopping, escorting children and other trips related to household upkeep. The pandemic proved that public transit is a key enabler of daily life, not just a means of commuting (Farber et al., 2022). Throughout the pandemic, transit demand remained strong in low-income neighbourhoods where manual and service workers are more likely to live (Freemark et al., 2021).

In Canada’s three largest metro areas (Montreal, Toronto and Vancouver), only 12 per cent to 16 per cent of trips are taken via public transit (ARTM, 2018; TransLink, 2017; Transportation Tomorrow, 2016). In smaller urban areas where public transit stops are fewer and farther between (Statistics Canada, 2023b), the majority of trips are by car (Statistics Canada, 2022b).

Estimates show that 20 per cent to 40 per cent of people in a typical community cannot, should not or prefer not to drive for most trips (Litman, 2023). This includes people with disabilities, seniors who do not or should not drive, adolescents, households with a shared vehicle and others. For some people, including those with certain mobility impairments and other special

FIGURE 2. INFLATION IS PUSHING HOUSEHOLDS TO SPEND MORE OF THEIR INCOME ON TRANSPORTATION

Source: Statistics Canada, Table 36-10-0124-01 and Table 18-10-0004-01.
Notes: The y axis shows transportation consumer price index (CPI, indexed to 2002) and the x axis shows share of household income spent on transportation. Applied to all households and the two bottom household income quintiles for Q1-2020 and Q2-2023.
needs, driving a car may be the only viable option for getting where they need to go. Yet owning and operating a car is becoming increasingly expensive.

The median price of a used vehicle, which low- and middle-income families are more likely to purchase, increased by 110 per cent between 2019 and 2023, from just under $19,000 to about $40,000 (AutoTrader, 2023). For new vehicles, prices rose almost 70 per cent from $39,000 to $66,000 over the same period. Higher interest rates are also making it increasingly difficult for households to service car payments (Young & Fanjoy, 2023). Compared to pre-pandemic prices in early 2020, the cost of monthly car payments has risen by 30 per cent for used vehicles and 20 per cent for new vehicles (Alini, 2023).

**CURRENT TRENDS ARE NOT ON TRACK FOR AFFORDABILITY OR CLIMATE-CHANGE GOALS**

More housing is being built farther and farther from city centres, transit systems are cutting service and increasing fares, and the size of vehicles is growing. As a result, household transportation costs are rising. These trends are also pushing Canada off track from meeting its greenhouse-gas emission-reduction targets.

Transportation is the second-largest source of greenhouse-gas emissions in Canada, emitting 150 megatonnes of carbon dioxide equivalent in 2021 (Environment and Climate Change Canada, 2023). Passenger travel (including passenger cars, light trucks, motorcycles, bus, rail and aviation) accounted for more than half of these emissions.

Emissions from gasoline- and diesel-powered vehicles pose significant health risks, particularly for children and seniors. Health Canada estimates that air pollution from car traffic contributed to 1,200 premature deaths and resulted in $9.5 billion in socioeconomic costs in 2015 (Health Canada, 2022).

**Urban sprawl and commuting**

Urban centres are growing and commute times are increasing. In 2021, 73.7 per cent of Canadians lived in a large urban centre (Statistics Canada, 2022b). From 2016 to 2021, there was significant growth in intermediate suburbs (those located 20 to 30 minutes from downtown); these areas grew by more than 20 per cent in Edmonton, Calgary and Ottawa. Distant suburbs (those located 30 minutes or more from downtown) also grew. These areas increased by more than 9 per cent in Toronto and Vancouver, and more than 7 per cent in Montreal.

Between May 2021 and May 2023, the number of workers with a car commute lasting over one hour increased by 51.7 per cent and accounted for 7 per cent of all car commuters (nearly 900,000 people) (Statistics Canada, 2023c). Notably, these long commutes are increasingly taking place within the same urban areas.
Driving longer distances means households are spending more on gasoline and cars are emitting more carbon dioxide. It also means more traffic congestion and air pollution for urban areas.

**Transit systems and the revenue gap**

Public transportation systems are struggling to adapt to post-pandemic travel patterns (see figure 3). Previously, transit systems focused on peak commuter-travel patterns and operating budgets relied on passenger fare revenue to cover more than half of costs (Canadian Urban Transit Association, 2020).

![Figure 3. Transit systems have not fully recovered from the pandemic](image-url)

During the pandemic, the federal government provided emergency operating support to transit agencies so they could continue providing service to essential workers and rebuild ridership, but that support has since ended, and the revenue gap has only partially been filled by some provinces.

Many municipalities have opted to pass the burden onto transit riders through higher fares and cuts to service. Yet these trends drive an even greater reduction in ridership, which inevitably leads to more route cuts and fare increases (Freemark & Rennert, 2023).

**Vehicle size and fuel efficiency**

Passenger travel using light trucks accounted for one-third of total greenhouse-gas emissions from transportation in 2021 (Environment and Climate Change Canada, 2023). The share
of light trucks (minivans, sport-utility vehicles, light trucks and vans) as a percentage of all new car sales in Canada has steadily climbed from 53 per cent in 2010 to 80 per cent in 2022 (Statistics Canada, 2023d). As a result, the Canadian passenger-vehicle fleet has the worst fuel economy of any major car market in the world and the growth in light truck sales is offsetting gains in fuel efficiency and GHG reductions (see figure 4). Light trucks have worse fuel efficiency compared to other models of cars, produce more emissions and have higher costs for their owners.

**FIGURE 4. GROWTH OF LIGHT TRUCK SALES IS CANCELING OUT GHG REDUCTIONS**

![Figure 4](image)

Source: Statistics Canada, Table 20-10-0002-01 and Canadian Climate Institute (n.d.)
Notes: The bars correspond to light truck sales as a share of all motor vehicle sales (left axis), while the lines correspond to transportation GHG emissions by source (right axis). Light trucks include minivans, sport-utility vehicles, light trucks and vans.

**Positive trends**

There are positive trends as well. The number of new vehicle registrations for battery electric vehicles and plug-in hybrid vehicles is steadily increasing, reaching 13.3 per cent of market share in the third quarter of 2023. S&P Global Mobility (2023) predicts zero-emission vehicles will account for 25 per cent of Canada’s new market share by 2025.

The federal Incentives for Zero-Emission Vehicles (iZEV) Program offers up to $5,000 to individuals purchasing new zero-emission vehicles from registered dealerships in Canada. Between 2019 and 2023, annual incentive requests rose from around 34,000 to 114,000 (see figure 5). Modelling suggests that continuing existing subsidies until 2035 would cost nearly $27.3 billion (Axsen & Bhardwaj, 2022). As the Canadian EV market expands, it will be crucial for the iZEV program to evolve and provide more targeted support to low- and middle-income households.
CURRENT POLICY APPROACHES AND GAPS

All orders of government are falling short on efforts to improve transportation access, affordability and sustainability. Public transit systems are struggling, and they need more operating funding to run additional service and boost ridership. Provincial measures like gasoline tax cuts primarily benefit wealthy households, work against efforts to reduce emissions and deprive governments of revenues needed to invest in solutions. And the signature federal program aimed at encouraging the purchase of electric vehicles is not working for lower-income people.

Focus on providing capital funding is leaving many buses sitting idle

In 2016, the federal government launched the Investing in Canada Infrastructure Program (ICIP), which included $23.5 billion in capital investments for transit systems. The program committed to sharing 40 per cent of the costs of capital projects through federal-provincial-territorial bilateral agreements. Despite the promise of these historic investments, public transit service per capita is now 7 per cent lower for the average Canadian than when the program was launched (Canadian Urban Transit Association, 2022). Public transportation systems have simply not kept up with population growth.
Because the ICIP only funds capital investments and not operating expenses, a growing number of buses are sitting idle in garages. For example, the Toronto Transit Commission has 172 buses, 44 streetcars and 13 subway trains that are sitting idle because of a lack of drivers (Elliott, 2023). Across the country, there are an estimated 1,700 buses sitting idle.

In 2021, the federal government committed to providing $3 billion annually in permanent public transit funding starting in 2026-27 through the Permanent Public Transit Fund, but it will also fund only capital projects and not operations (Infrastructure Canada, 2022).

Without a predictable and stable source of operational funding, municipalities with tight budgets struggle to shoulder the burden. Local governments collect only 10 per cent of all tax revenues (OECD, 2021), but are responsible for 60 per cent of Canada’s infrastructure (Johal, 2019). Municipalities already pay 75 per cent of transit operating costs (Canadian Urban Transit Association, 2023). Regions that rely primarily on bus service, including most of Canada’s medium and small cities, are disproportionately affected since each bus needs a driver and labour is the primary operating cost of transit.

**Fuel tax cuts are primarily benefiting the wealthy**

In response to increasing energy prices and affordability concerns, some provincial governments have cut fuel taxes to relieve price pressures for consumers. However, these policies often have a regressive impact, primarily benefiting wealthier people because they drive more. Fuel tax cuts also work against climate policies such as the carbon price, and result in forgone tax revenues needed to support government services (Samson et al., 2022).

Recent research by Trevor Tombe and Jennifer Winter (2023) shows that indirect taxes such as sales taxes, fuel taxes and the federal carbon tax have a minimal impact on consumer prices. They estimate that the cumulative impact of all indirect tax increases on consumer prices from January 2015 to October 2023 was just 0.6 per cent. An analysis by the Canadian Climate Institute shows that exemptions to the carbon tax, such as the federal government’s recently announced exemption for home heating oil, increase emissions and leave low-income households worse off due to reduced rebates provided under the Climate Action Incentive Payments program (Sawyer & Beugin, 2023).

**The iZEV incentives are not serving the needs of low-income households**

Zero-emission vehicles (ZEVs) currently come with higher upfront costs compared to gasoline-powered equivalents, but their long-term operating and maintenance costs are lower, contributing to significant carbon reductions and cost savings for their owners in the long run (see figure 6) (McNamara et al., 2023).

Transport Canada encourages the adoption of zero-emission vehicles through the iZEV program. However, this program does not serve the needs of low-income households.
Lower-income households are more likely to purchase used cars. Used ZEVs can offer meaningful discounts compared to newer models. However, they are not currently eligible under the federal iZEV program. Several other jurisdictions, including the United States, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador include them.

The iZEV program is also not income-tested. As a result, higher-income households are the primary beneficiaries. Many higher-income buyers purchase an EV regardless of government subsidies, which means the government is effectively subsidizing existing behaviour (Sheldon & Dua, 2019). Studies have found that 90 per cent of all EV tax credit benefits are distributed to the top 20 per cent of income earners (Borenstein & Davis, 2016) and are predominantly distributed to more affluent neighbourhoods (Guo & Kontou, 2021).

Lower- and middle-income consumers are typically more on the fence about purchasing an EV. Tying incentives to income would better influence their buying decisions (DeShazo et al., 2017). Some jurisdictions such as British Columbia and California are already income-testing their EV incentives, adjusting their programs to focus on lower-income households as ZEV uptake increases.
The iZEV program also does not apply to newer forms of zero-emitting micro-mobility such as e-bikes, mopeds and quadricycles despite the growth in demand for these forms of mobility. British Columbia’s income-tested e-bike rebate saw overwhelming interest, reaching oversubscription just eight hours after it was launched (The Energy Mix, 2023). Globally, ZEV adoption has already reduced oil demand by nearly 1.7 million barrels of oil per day in 2022, with 61 per cent of that coming from two- and three-wheeled vehicles (BloombergNEF, 2022).

Canada’s new vehicle regulations will require all new light-duty vehicle sales to be zero-emission by 2035. Modelling suggests that these regulations can lower the price of a ZEV by approximately 20 per cent below the current baseline trajectory by encouraging more investments in vehicle and battery research and development, bringing more affordable models to market (Axsen & Bhardwaj, 2022). As Canadian requirements for zero-emission vehicle sales ramp up, rebates will play a reduced role in driving demand for EVs and broad-based incentives will become fiscally unsustainable.

THE FEDERAL GOVERNMENT CAN HELP PROVIDE MORE AFFORDABLE TRANSPORTATION OPTIONS

While provincial, territorial and municipal governments are on the front lines of fixing Canada’s transportation woes, the federal government can play an important role in two critical areas. It can reform its iZEV program to better support low- and middle-income households. It can also adjust its funding for public transit to provide operating funding that better targets affordability and access, and capital funding that is linked to housing and climate outcomes.

Recommendation #1: Reform the iZEV program to focus on low- and middle-income households

As the EV market grows and budget models become available, the iZEV program should offer targeted support for low- and middle-income buyers purchasing EVs in the affordable segments of the market. It can also be used to encourage new and innovative forms of zero-emitting modes of mobility, providing more choices to Canadians.

- Expand the program’s scope to include used ZEVs
  The program should expand eligibility to used ZEVs. In other jurisdictions where used ZEVs are covered, there is typically a single incentive allowed for each used vehicle (verified with the vehicle identification number), applied only at registered dealerships and with a requirement for testing the battery’s performance. The United States has set an upper price limit on used ZEVs eligible for the incentive at US$25,000 (C$34,000) and buyers can determine used vehicle eligibility for tax credits by entering the vehicle identification number in an online search tool (Internal Revenue Service, 2023).

- Gradually lower the price limit for vehicles purchased with iZEV incentives
  Industry analysts have observed how ZEV prices are influenced by the price limits set by the federal government for eligible vehicles under the iZEV program (Kennedy, 2023).
current price limits range from $55,000 to $70,000 depending on the model. Gradually lowering the existing price limits could encourage automakers to bring more affordable EVs to the Canadian market.

- **Provide more support to low-income households**
The program should reallocate existing funds in a more equitable way by providing more support to lower- and middle-income households and phasing out incentives to wealthier ones. California has placed an income cap on eligibility for its ZEV rebate program, and British Columbia has done the same while expanding the rebate amount for lower-income buyers.

- **Support the purchase of lower-cost zero-emission transportation options**
The iZEV program should be expanded to include mobility chairs and quadricycles, as well as two- and three-wheeled vehicles such as electric mopeds, e-bikes and scooters. Over half of all commuter trips taken via car, truck or van are less than 10 kilometres, and 32 per cent are 5 kilometres or less (Statistics Canada, 2017). Replacing these short trips with scooters and e-bikes could significantly improve traffic congestion and reduce emissions. In British Columbia, income-tested e-bike rebates range from $350 to $1,400 (BC Electric Bike Rebate Program, n.d.). California offers up to US$1,000 for regular e-bikes and up to US$1,750 for cargo or adaptive e-bikes (California E-Bike Incentive Project, n.d.).

**Recommendation #2: Leverage federal transit funding to expand accessible and affordable transit service that aligns with housing and climate targets**

The federal government can use support for operating funding to drive improvements in transit service quality that increase ridership. Long-term capital investments can be leveraged to ensure that housing, climate and transportation funding decisions are integrated.

- **Accelerate the Permanent Public Transit Fund**
One of the most significant drivers of transit demand is the frequency and proximity of transit service (Diab et al., 2020; Redman et al., 2013). Increasing federal government support for operations would be a quick and effective way to increase ridership by enabling transit systems to get their idle vehicles running again. This is particularly important for medium and small cities that rely on bus transit.

Support for operating funding can be delivered through the proposed Permanent Public Transit Fund. The government should accelerate the funding promised under the program to 2024-25 from 2026-27 so that local transit agencies can begin hiring drivers and operators as soon as possible.

Taking lessons from the Investing in Canada Infrastructure Program, the federal government should deliver this funding in a way that accounts for regional differences, including expected population growth and the capacity of municipal infrastructure. It should also require provincial cost sharing for major projects. Similar to the Canada Community-Building Fund, Infrastructure Canada’s permanent source of infrastructure funding, the
Permanent Public Transit Fund should offer predictable and long-term funding directly to municipalities (Canadian Urban Transit Association, 2021)

Operating funding will allow transit systems to improve service outside of peak periods and better serve the travel requirements of equity-seeking groups. Cities should be allowed to use the operating funding to reduce the fares paid by public transit riders, and to establish discounted fares for those with low incomes.

- **Link housing and climate outcomes to public transit investments**

  When allocating transit funds, the federal government can take inspiration from the success of the Housing Accelerator Fund, a program that delivers funding directly to local governments to increase housing supply. The Permanent Public Transit Fund can likewise provide incentives directly to municipalities that achieve federal goals on housing affordability, poverty reduction and emissions reductions through transportation projects.

  Major capital projects funded by the Permanent Public Transit Fund should include “supportive policies agreements” that acknowledge municipal jurisdiction over land use policy while encouraging changes that would ensure the success of transit projects. These could include housing density requirements, the elimination of minimum parking requirements around public transit stations, and improved transit connection points for buses, pedestrians and cyclists. Increasing housing supply near transit stations would bring more riders closer to accessible transit options and foster higher levels of ridership.
In support of climate goals, the federal government should require all new transit vehicles procured with federal funding to be zero-emission. To ensure that transit-oriented development is equitable, municipalities that receive federal funding for large transit projects should also be required to have action plans to prevent resident displacement.

People need more low-carbon transportation choices that work for their lives and their wallets. Experience proves that, when people have better, more affordable and low-carbon mobility options, they use them. Giving people reliable, affordable, and sustainable ways to get where they need to go gives them more control over their costs, their time and their well-being.

**CONNECTIONS TO OTHER AFFORDABILITY PRIORITIES**

The Affordability Action Council has prioritized housing, transportation and food as key areas in which the federal government can take action to help low-income households meet their basic needs in ways that also support emission reduction and resilience to a changing climate. Well planned public transit can play a significant role in advancing affordable housing developments. Providing efficient and accessible transportation options that are integrated with affordable housing developments can reduce costs for households, improve access to employment opportunities and social activities, and reduce the need to own a car, which is good for household budgets and the environment.

Transit-oriented housing density reduces car dependency and distance travelled. For those who need to drive, the switch to zero-emission vehicles can reduce maintenance and operating costs and lower emissions at the same time. Housing developments that include electric vehicle ride-sharing programs and charging stations for micro-mobility options may require fewer parking spaces, which can reduce development costs and lower rents. More affordable housing and transportation options boost household budgets, improve air pollution and lower emissions. Lower costs can free up spending for food and reduce food insecurity.
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