



# AMO's 2019 Pre-Budget Submission: For the People, Every Dollar Counts

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Submission to the Standing Committee on Finance and Economic Affairs

January 15, 2019

## Introduction

For the people living in 444 municipalities in Ontario, every dollar counts, every dollar matters.

Municipal governments rely on provincial grants to provide basic local services and infrastructure. Provincial dollars are a critical part of the municipal financial picture. Together with federal grants, they account for 20% of municipal revenues across the sector. For many smaller municipalities, grants represent an even higher percentage of local revenue.

At the same time, there is also a very heavy reliance on property taxpayers to fund local services. Ontarians pay the highest property taxes in the country. Those dollars are used to deliver a broader range of services locally, than in other provinces. Mostly it is provincial legislation that determines this. Exactly 280 pieces of provincial legislation directly govern municipalities and help to shape local municipal budgets.

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For municipal governments, this interdependence is complicated even more by the fact that municipalities have relationships with multiple ministries across the provincial government. Municipalities are unique in this respect. Universities deal with one ministry, hospitals deal with one ministry, and schools deal with one ministry. Municipalities work with a ministry but they also have reporting or financial relationships with ten others. This reality sets local government apart from the broader public service.

This is why AMO has urged the government to adopt a comprehensive approach to understanding how provincial decisions affect the cost and delivery of local frontline services. What is the cumulative financial impact of decisions made by eleven ministries, or others, on local governments across the province?

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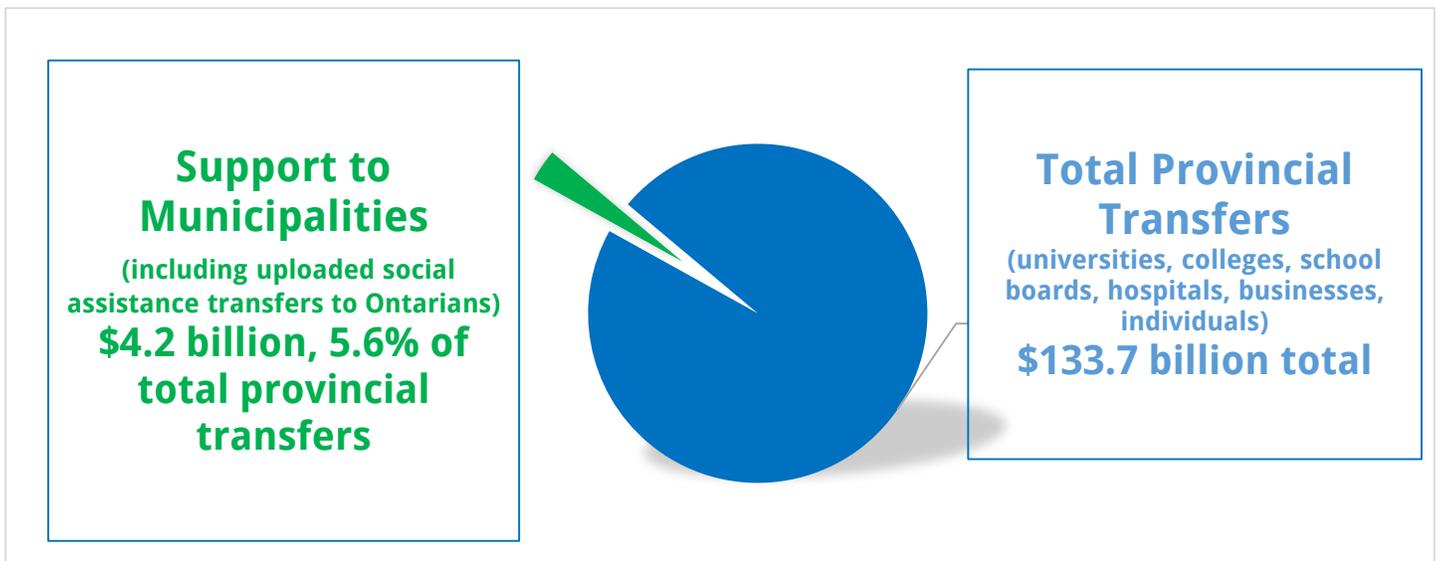
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## The provincial-municipal fiscal relationship

The provincial government commissioned Ernst & Young LLP to conduct a line-by-line review of Ontario Government spending in 2017/18. The report found the operation of ministries through the Ontario Public Service comprised 9% of spending. Interest on debt was a further 9% of spending. The vast majority of spending, 82%, is transfer payments.

Provincial transfer payments are made to individuals, businesses, and the Broader Public Service including hospitals, universities, schools, agencies, boards, commissions and municipalities. In 2018, \$133.7 billion in provincial spending went to transfer payment recipients. These transfers were a key focus of the line-by line review.

According to provincial figures (see below), support for municipalities accounts for just \$4.2 billion of that amount. This represents 5.6% of total provincial transfers. In relation to other recipients, municipal transfers are a small portion of total payments.



But let's also remember that grants from the provincial and federal governments account for 20% of municipal revenues. In other words, while 5.6% of transfers might be a small portion of the provincial budget, these dollars have a magnified impact at the local level, especially when we look at the services they fund.

To illustrate how far those dollars go, and to which services, below are Ministry of Finance figures from 2018 that illustrate, "ongoing support to municipalities".

Program/Service	Details	Amount (2018) <sup>1</sup>
Land Ambulance	50:50 cost sharing (provincial, municipal)	\$581 million
Public Health	75% provincial funding for mandatory local programs	\$568 million
Public Transit	Provincial Gas tax funding	\$334 million
Local Infrastructure	Ontario Community Infrastructure Fund (OCIF) \$130 million in formula funding \$100 million top-up application funding	\$230 million
Municipal Operating Support	Ontario Municipal Partnership Fund (OMPF) for equalization, northern and rural support	\$510 million
<b>Total</b>		\$2.2 billion

In addition to the above, various program costs have been uploaded in recent years. These programs costs were previously paid for locally through the property tax base and municipal budgets. The upload agreement reached full maturity in 2018. These social assistance costs (apart from administration expenses and court security) are transfers made to individual Ontarians.

<sup>1</sup> Ontario Municipal Partnership Fund, 2018 Technical Guide, Ontario Ministry of Finance, Page 4.

Uploaded Program/Service	Value to Municipalities (2018) <sup>2</sup>
Ontario Drug Benefit	\$273 million
Ontario Disability Support Program (Administration)	\$85 million
Ontario Disability Support Program (Benefits)	\$927 million
Ontario Works (Administration additional support)	\$216 million
Ontario Works (Benefits)	\$485 million
Court Security and Prisoner Transportation	\$125 million
<b>Total</b>	<b>\$2.1 billion</b>

The stability of these arrangements helps municipalities finance longer-term challenges like tackling the infrastructure gap. Over time, a significant investment backlog has developed. The upload has meant that municipalities have been able to direct these savings to fixing infrastructure. Significant progress has been made. Municipalities have been plowing those savings back into infrastructure and then some. For every dollar of provincial upload value, municipalities have invested \$1.67 back into infrastructure. The upload is working; its maturity in 2018 is a provincial-municipal milestone.

But there is still a long way to go to achieve sustainability in a way that ensures future generations do not face an unmanageable bill. AMO estimates municipalities need an additional \$4.9 billion per year for ten years to continue delivering today's services and to close the infrastructure gap. This need is on top of inflation-adjusted property tax and user fee increases over the next ten years. This calculation also assumes 2018 federal and provincial transfers and cost share arrangements with municipalities continue into the future. In short, every provincial dollar matters to municipalities and Ontarians.

Ontarians have told us building and repairing local infrastructure is important. Six in ten say that improving the state of roads and bridges is a high priority. Seven in ten are concerned that property taxes will not cover the cost of infrastructure. More than eight in ten Ontarians say they would be concerned if the province placed new demands on municipal governments that result in higher property taxes.

Ontarians understand the limits of the property tax system and they understand that an infrastructure gap exists in their community. Much of what makes Ontario an attractive place to live, start a family and local a business is public infrastructure.

Preserving the existing financial relationship is critical. Maintaining existing cost share arrangements into the future is needed. Through the above mentioned cost-share programs, grants, and uploads; vital services are delivered to Ontarians, by municipalities.

When it comes to the 2019 provincial budget, other top of mind considerations for municipal leaders include the following:

<sup>2</sup> Ibid, Page 3.

## Ontario Municipal Partnership Fund (OMPF)

In late December the Minister of Finance wrote to heads of councils advising that the OMPF will be reduced by an unspecified amount and allocation notices for 2019 will be delayed.

In 2018, the Ontario Municipal Partnership Fund (OMPF) provided \$510 million in unconditional operating support from the Province to municipal governments. It uses an equalization approach to address challenges and support rural and northern communities. The OMPF is a critical source of funding for 389 of 444 municipalities across Ontario. Some are very small municipalities without growth in their property assessment base or face challenging economic circumstance.

If allocations to municipalities are reduced, councils will need to compensate with property tax increases or local service reductions in 2019. OMPF reductions will have a big impact on local property tax rates. For almost half of Ontario's municipal governments, a 1% property tax increase raises less than \$50,000. According to the Ministry of Finance, "[in 2018] the OMPF, combined with the municipal benefit resulting from the provincial uploads, will total over \$2.6 billion in 2018 and is equivalent to 14 per cent of municipal property tax revenue in the province."<sup>3</sup>

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The OMPF seeks to address regional economic imbalances by helping municipalities provide local services throughout the province. As noted in the Ontario Government's recent Fall Economic Statement, "employment has grown but has not been experienced across all regions." Northern Ontario has experienced employment declines while the Southwest has remained generally flat. Employment levels reflect a community's fiscal capacity.

OMPF declines will worsen economic imbalances between regions. Half of the Ontario population lives in municipalities with low or moderate fiscal capacity. More low than moderate. The other half of the population live in communities with higher fiscal capacity but also with much higher infrastructure needs for expensive services like transit.

OMPF reductions will be especially difficult for rural and northern areas. These areas can least afford significant property tax increases.

## Development Charges

The government is currently reviewing the development charge system, on the face of it to improve the affordability of new homes. However, there are much bigger influences on the cost of housing than development charges. These include the cost of lumber and supplies, interest rates, economics, land costs, and developer profits.

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*Development charges are not a root cause of the affordable housing and supply challenge in Ontario.*

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<sup>3</sup>Ibid, Page 3.

For growing communities, development charges are a critical source of revenue. The dollars collected are used to expand the network of municipal services in growing communities. AMO urges the government to consider these three points:

1. Development charges are not a root cause of the affordable housing and supply challenge in Ontario. Even further to the point, DCs only apply to only a small part of the housing market – new homes. DCs represent between 5 – 7% of the cost of a new home.
2. A reduction in development charge collections will increase the cost of public services for all residents. This will increase pressure from taxpayers to constrain growth and to constrain demands on the already stretched property tax dollar.
3. Municipal governments and current property taxpayers do not have means to subsidize developers in building new homes. Legislative changes that reduced charges by previous governments has never resulted in reduced housing prices.

Shortchanging the public services Ontarians depend on is no way to build the communities people want to live in.

### **Ontario Community Infrastructure Fund (OCIF)**

Municipal governments provide important frontline infrastructure services that people depend on every day to make their lives better. From when they switch on their lights in the morning until they brush their teeth at night, high quality municipal infrastructure supports Ontarians. These services also attract business investments from entrepreneurs and global companies that look to dependable infrastructure to provide the launching pad for productivity and jobs.

The Ontario Community Infrastructure Fund (OCIF) supports core municipal infrastructure in communities across Ontario. The OCIF ensures that our small, medium and northern communities have access to the funding they need. During the election campaign, a commitment was made to increasing the OCIF to \$300 million annually, with 2/3 in a formula-based allocation. AMO calls on the government to honour this commitment in the budget.

### **Provincial Gas Tax funding**

Municipal governments across Ontario deliver transit services that connect people to jobs, services, and opportunities. Municipal transit is a foundation of the modern global economy. The Ontario Gas Tax program is an important support to these services with 107 municipal governments sharing a portion of the \$364 million allocated in 2018-19. During the election campaign, a commitment was made to increasing the Ontario Gas Tax for Transit program from two cents a litre in 2019 to four cents a litre by 2022. Transit planning and service improvements depend on this assurance. AMO seeks the provincial budgeting of this important commitment.

## Policing

With the repeal of the new *Policing Services Act* (Bill 175) there is an opportunity to do more to fundamentally bend the policing cost curve.

With provincial and municipal dollars, Ontarians pay the highest policing costs in the country. Improving the efficiency and effectiveness of policing remains a key municipal goal. Some of the measures to control costs include the civilianization of certain policing functions. For example, directing traffic around construction sites does not require a sworn, armed officer.

Also, Justice Tulloch's 2017 report called for the elimination of an adjudicative tribunal interjecting between a municipality and police service boards. Restoring council authority on issues of budgeting and taxation is important. Justice Tulloch's recommendation should be adopted. Existing provisions for budget arbitration continue to infringe on the authority vested in municipal councils.

Despite the repeal of Bill 175, municipalities have a new mandate to develop community safety and wellbeing plans in the years ahead. This remains a concern. This represents a new cost for municipal councils. Policing grants should be designed to support this mandate. At the same time, historical grant programs were used to support the addition of approximately 2,000 front-line officers over many years. Any change to grant criteria should not leave municipalities to fund the "front line" on their own.

## Municipal Reporting

AMO applauds the government's commitment to reviewing municipal reporting requirements. Significant streamlining of these requirements will help municipalities operate more efficiently. AMO looks forward to collaborating with the government and reporting progress in the months ahead.

## Conclusion

Municipal governments are important to the provincial government. We are the front line. We deliver many of the services that make communities strong and we build the infrastructure needed to grow the economy. Our issues are important. They matter to Ontarians. Together we need to develop a plan that helps our communities succeed.

It is worth remembering three points:

1. Ontarians pay the highest property taxes in the country. The transfer of social housing, a role in healthcare, emergency service cost growth, and other service costs drive tax rates.
2. Polling has told us municipal services are important to Ontarians. More than 8 in 10 Ontarians say they would be concerned if the province placed new demands on municipal governments that result in higher property taxes.
3. Every municipality and every local economy is different. Many communities have a very limited tax base and fiscal capacity. For almost half of Ontario's municipal governments, a 1% property tax increase raises less than \$50,000.

This is why AMO has urged the government to adopt a comprehensive approach to understanding how provincial decisions affect the cost and delivery of local frontline services.

Ontarians expect their governments to work together for the common good, on pressing and emerging issues. They expect governments to respect one another in addressing local and province-wide fiscal challenges.

For the people living in 444 municipalities in Ontario, every dollar counts, every dollar matters.