



Association of Municipalities of Ontario

*Unites Ontario's Municipalities*

## AMO Fact Sheet - \$3 Billion Gap

*December 2005*

### \$3 Billion Gap

AMO launched its \$3 billion gap campaign at the August 2005 AMO conference. As a result, there is a growing recognition across the province that the existing provincial-municipal fiscal relationship is unsustainable and damaging to Ontario's communities.

Leading academics, financial industry economists, public policy research institutes, municipal governments and property tax payers agree that Ontario's unique situation of requiring municipalities to subsidize provincial programs and provincial services is not good public policy and it is not economically sustainable.

The \$3 billion gap campaign is based on a straightforward accounting of the net subsidy provided by municipalities each year to pay for provincial health, social services and income redistribution programs listed in the chart below.

The numbers speak for themselves.

Provincial Program	Net municipal (\$M) subsidy to province
Public Health	266.4
Ambulance	312.7
Social Assistance	1,330.9
Senior Services	242.5
Child Care	193.4
Social Housing	879.7
<b>Total</b>	<b>3,225.6</b>

Source: 2003 Provincial Financial Information Returns. Figures net of provincial and federal contributions, user fees and service charges

#### 2001 Provincial Auditor's Report

*...we found that the determination of provincially imposed savings target on municipalities' spending lacked empirical or analytical support.*

*...the LSR initiative cannot be considered to be revenue neutral.*

### It's not about "education tax room"

When the Harris government downloaded services to municipalities, it argued that the download was "revenue neutral". In fact the download began in November 1995 with the announcement that \$600 million cut in unconditional grants. Since the download, the costs of downloaded services have risen steadily and, in many cases, sharply.

While you would be hard-pressed to find anyone who thinks the download was a good idea, the architects of the download continue to argue that "education tax room" vacated by the Province offset the costs of the services swap. The notion contends that, by raising tax rates, municipalities could occupy the so-called "tax room" vacated by the Province. Those municipalities that did this were sharply criticized by the Government, which asserted, remarkably, that the download should result in lower property taxes! The "revenue neutrality" notion included a notional "savings target" of approximately \$500 million. The Provincial Auditor rejected the legitimacy of both of these notions.

In any event, these arguments are irrelevant to any discussion about the \$3 billion in property taxes that are subsidizing provincial programs. The \$3 billion gap is not about whether or not the download was "revenue neutral". It's about Ontario's unsustainable provincial-municipal fiscal relationship, which has resulted directly in Ontarians paying by far the highest property taxes in Canada.

The \$3 billion cap is about a net subsidy to the Province. Some of the programs included were downloaded and others were not. For example, while municipalities are exposed to enormous risk as a result of their 20% contribution to Ontario Works, some experienced net savings as caseloads dropped in the late 1990s. Like child care, Ontario Works was not part of the download. ODSP costs were downloaded and those costs have risen dramatically every year since. According to the Provincial Auditor General, downloaded ambulance costs have risen by about 100%. Yet the Province has refused to pay the full amount of its official 50% share - short changing municipalities about \$90 million a year.

Many downloaded costs are not reflected in the \$3 billion gap. Some are a major problem for municipalities, such as the farm tax rebate. Others, like library funding, are appropriately positioned as municipal responsibilities.

In 1997, Dalton McGuinty said the Harris government.. "had better return to the drawing board now and come up with a better solution fast before they do any more damage." AMO agrees and looks forward to working with the Premier on a better solution for Ontario's municipalities.