

ONTARIO'S \$3BILLION PROVINCIAL MUNICIPAL FISCAL GAP

Did you know that municipal governments in Ontario are required to subsidize the provincial treasury to the tune of more than \$3 billion a year? It's a fact. If you ever wondered why Ontario has the highest municipal property taxes in Canada, now you have the answer.

Here are some other facts you might be interested in reading about.

Ontario is the only province in Canada where municipal property taxes are used to subsidize provincial health and social services programs, like welfare and employment services, disability benefits, drug benefits, social housing, child care, homes for the aged, public health and ambulance services.

The federal government noted this situation in the 2004 Federal Budget: "...spending for social services, health and housing represents a very small share of municipal expenditures in most provinces, except in Ontario where it represents almost a third of total (gross) municipal spending."

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
Total	3,225.6

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

ONE THIRD OF MUNICIPAL SPENDING GOES TO PROVINCIAL HEALTH AND SOCIAL SERVICES PROGRAMS?

That's right. Municipal governments in Ontario spend over \$8 billion a year on provincial health and social services programs. That's about 1/3 of total municipal operating expenditures of \$23 billion a year. When you subtract provincial cost-sharing for some of these programs, federal contributions and user charges, the net municipal subsidy paid toward provincial health and social services program is more than \$3 billion a year.



ARE THERE OTHER PROVINCIAL PROGRAMS FUNDED BY MUNICIPAL PROPERTY TAXES?

Yes! In 1998, the previous government changed the provincially funded farm tax rebate into a municipally funded property tax discount program, providing a 75% discount on farm property taxes. At the time, the province estimated the cost to municipalities of the program was \$165M a year for approximately \$30 billion worth of farm property. According to the Ministry of Finance, the assessed value of Ontario farmland property increased by more than 50% from 1998 to 2003.

The Managed Forest Tax Incentive Program is another provincial program funded mainly by municipalities.

These are provincial programs designed to meet provincial economic and environmental policy objectives. There is no policy rationale for municipalities to fund these provincial programs.

WHAT ABOUT C.R.F. AND O.M.P.F.?

The Community Reinvestment Fund (CRF) did partially offset a small portion of the cost of provincial programs. And its replacement, the \$656 million Ontario Municipal Partnership Fund (OMPF), provides limited financial assistance to municipalities, including \$179 million to assist some municipalities with their share of provincial social program costs. It's just a fraction of what's needed.

DOESN'T THE PROVINCE HELP WITH THE COSTS OF MUNICIPAL INFRASTRUCTURE?

Yes. The province invests in municipal infrastructure in some municipalities through programs like COMRIF and provincial gas tax funding for transit. This capital funding helps with Ontario's massive \$5 billion a year municipal infrastructure deficit.

But it's widely recognized that the reason Ontario has a massive municipal infrastructure deficit is because municipalities have been required to use their property tax revenues to fund provincial health and social service programs instead of making much needed investments in infrastructure.

WHAT'S THE SOLUTION?

If the Government of Ontario is serious about helping municipalities become fiscally sustainable, it must demonstrate that by reducing its reliance on municipal property taxes.

Income redistribution programs should be funded through income taxes.

The Government needs to agree to work with AMO to develop a plan to start uploading provincial program costs back to where they belong.



WHY HASN'T THE CURRENT GOVERNMENT OF ONTARIO STARTED TO UPLOAD THE COST OF PROVINCIAL PROGRAMS?

There has been a marginal improvement in cost sharing for public health. The province has also agreed that it would not require municipalities to cost share new Best Start (early years) programming funded by the federal government. These are steps in the right direction but they are really about avoiding added costs for municipalities – not reducing the municipal subsidy to the province.

Still, the current Government of Ontario generally recognizes that there is no justification for requiring municipalities to pay for programs like the Ontario Disability Support Program, Ontario Works and drug benefits for people on social assistance. But we hear repeatedly that the government isn't in a financial position to fix the problem.

BUT ISN'T THE PROVINCE'S FINANCIAL SITUATION IMPROVING?

That's right. According to the 2005/06 Provincial Budget, the province will soon be in a financial position where it can make good on its commitment to helping municipalities become fiscally sustainable.

That's why municipal governments are working together to ensure that the 2006/07 Budget sets a course of action for municipal fiscal sustainability.

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