



Ontario's Municipal Governments in the Vertical Fiscal Balance

***AMO Presentation to the Standing
Senate Committee on National
Finance on Vertical Fiscal Balance***

May 29, 2007

Association of
Municipalities
of Ontario

200 University Avenue, Suite 801
Toronto, ON M5H 3C6 Canada
tel: 416-971-9856 fax: 416-971-6191
email: amo@amo.on.ca
website: www.amo.on.ca

Good morning ladies and gentlemen, my name is Doug Reycraft. I am the Mayor of the municipality of Southwest Middlesex, Councillor with the County of Middlesex, and the President of the Association of Municipalities of Ontario.

As you know, Canada has an international reputation for being one of the best countries in the world to live. In large part, this is due to the quality of life found in the cities and towns that comprise it. In Ontario, that quality is threatened by diminishing municipal resources and a deteriorating infrastructure system.

At the heart of this lies a fundamentally flawed provincial-municipal fiscal relationship whereby 50 cents of every dollar paid in property taxes is siphoned into provincial programs including education and social services.

In Ontario, we collect about \$18 billion in property taxes. Approximately \$6 billion a year is used for education and another \$3 billion is lost through mandatory municipal cost sharing of health and social services programs such as disability benefits and long term care for seniors.

No other province does this – and because of it, Ontario municipalities do not have access to sustainable revenue that matches their responsibilities.

We see this in our streets, on our highways, in our transit systems and in our community centres. In most cases, the significant capital projects in our municipalities were undertaken in a previous decade, if not a previous generation.

It is not what one would expect of the Province with the highest property taxes in the world.

Today Ontarians pay \$237 per person **more** in property taxes from the rest of Canada, yet the provincial government spends \$258 **less** than the rest of Canada on health and social programs and services.

We can do better, and owe it to our communities to make sure we do.

Canada's citizens expect all orders of government to work together to build a strong and competitive nation – and that begins with vibrant and sustainable communities that meet the most immediate needs of their citizens.

I believe in giving credit where credit is due – and also in holding governments accountable to their policy decisions. The federal government deserves credit for recognizing the overwhelming need for infrastructure investments in this province and providing a meaningful source of support in the form of the Federal Gas Tax.

This funding has proved to be of great benefit to municipalities and they have shown their gratitude by using it to serve their communities well.

Importantly, this funding is entitlement based, rather than application based, making it possible for all municipalities to have access to this revenue and plan ahead to make the most of this opportunity.

Ontario's municipalities were pleased and encouraged by the decision in this 2007 federal Budget to extend this funding for a further four years. Ultimately, this funding must be made permanent to keep this country competitive in the face of a massive and growing infrastructure deficit.

Ontario municipalities, largely through AMO, are working with the Province to review the financial structures that we share. Obviously, the Province's fiscal relationship vis-à-vis the federal government has a profound impact on those structures.

Whether or not municipalities achieve their objectives with the joint provincial-municipal fiscal review, the fact remains that we have a decade old infrastructure deficit that continues to grow by billions of dollars every year. It limits our ability to provide safe, clean water, to protect the environment, and to provide reliable transit and efficient transportation networks.

These kinds of limitations hurt more than the communities affected directly – they hurt the perception of the quality of everyday life in this country.

The only way to protect our hard earned reputation of providing first-rate communities in which to live and do business is to put municipalities back on a secure and sustainable footing.

Ultimately, what Ontario municipalities need to thrive is a provincial-municipal relationship that works – not what the Ontario government has been offering us in its place – programs designed to prop up a system that doesn't.

A better federal and provincial fiscal relationship is needed to lay the groundwork for a municipal fiscal relationship within Ontario that is sustainable, predictable, and accountable.

The bottom line is that the vertical fiscal imbalance between Canada and Ontario has a direct impact on Ontario's municipal governments, and by extension on the quality of municipal programs and services throughout this province.

Achieving a vertical balance with Canada will put the Province in a better position to provide a fair deal to municipalities and end its reliance on municipal property taxes to fund provincial programs and services – a reliance that costs Ontario municipal property tax payers more than \$3 billion a year, for income redistribution and health related programs alone.

The Province's reliance on municipal property tax revenue is detrimental to Ontario's future prosperity – and the premier has admitted as much. The problem is that they have limited means to provide alternatives.

It is due time we achieved sound and sustainable fiscal policy for all orders of government. Ontario municipalities are asking that the federal government take the first steps to achieve this.

Ontario municipalities would not make the request if we did not believe we had something of value to offer in return. In return for a sustainable source of revenue we offer:

- Financially sustainable communities;
- Stable and affordable property tax rates;
- Growth that is fully financed by development;
- Safe and well-maintained communities;
- Attractive streets, flourishing parks, and access to recreation; and
- Communities where families choose to live and work and businesses choose to invest.

In return for good public and fiscal policy, we offer competitive communities to support a competitive Canada. And that should be paramount on every government's list.

Another important way to support this shared goal is by ensure that federal funding actually makes its way to municipalities.

AMO supports a flexible national framework that allows programs to be tailored to meet the needs of individual jurisdictions – indeed that is part of what makes the Federal Gas Tax so successful. However, by combining funding for both provincial and municipal projects together under the Building Canada Fund in the 2007 federal Budget, the interests of Canada's municipalities may be overtaken by those of their provincial / territorial jurisdiction.

Only with sustainable, predicable and long-term and dedicated federal infrastructure funding can municipalities turn the page and move forward with progressive capital planning and construction activities.

AMO would be pleased to work with Infrastructure Canada in the development of the Building Canada Fund as a means of ensuring continued success of the national economy through investment in local infrastructure. We offered solid advice and recommendations during last fall's national consultation – we are looking to see that advice reflected in the rollout of the Building Canada Fund.

AMO believes that the fundamental goals of all orders of Canadian government are the same. We all want to be a part of a competitive nation with thriving economies, first rate infrastructure, and healthy communities – and we all need sustainable sources of revenue to make it happen.

We are asking that the federal government take a hard and honest look at the role that municipal governments play in sustaining this vision – and at the national consequences of siphoning property taxes away from the municipal treasury.

It is time to put an end to an era of provincial downloading and deferred infrastructure investments that have occurred to the detriment of our communities, our province, and our country for far too long.

Thank you.