



Poverty and the Property Tax Burden in Ontario

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Introduction:

The linkages between poverty and health outcomes, educational outcomes and other indicators of well-being in the community are well known. There has been limited discussion, however, about the impact of high property taxes – driven by current provincial-municipal fiscal arrangements – on low income families, seniors on fixed incomes, and the social and economic prosperity of Ontario’s communities.

Ontario’s municipalities are essential to building strong, productive communities that drive our social and economic prosperity. Not only do they deliver important services such as public transit, environmental protection, and public health and safety, municipalities also construct, maintain, and operate the full spectrum of facilities required to support them. They are critical to promoting quality of life in our communities.

Viable, safe, well-serviced communities attract new opportunities and social and economic prosperity. Providing opportunities that seek to reduce barriers and foster full socio-economic participation, communities are critical to any strategy to eliminate poverty. Successful outcomes for young people, for families and seniors and for new Canadians in our communities require more than food, shelter and employment. Municipal services like public transit, recreation and cultural opportunities, public health and emergency services are also critical components to quality of life. However, the ability of municipalities to provide such quality of life services has become increasingly constrained over the years.

An unsustainable fiscal arrangement is hurting our society’s most vulnerable and limiting municipalities’ ability to respond to local challenges. The local programs and services upon which Ontarians rely are funded largely by municipal property tax. This tax base is simply not sufficient to meet the expenditure needs of municipalities, fuelled in large part by offloading of Provincial health and social services. New funding responsibilities for municipalities have diverted billions of dollars away from municipal

investments – investments that improve the quality of life for all people in our communities. To meet their new responsibilities, municipalities have had to raise property taxes. This has presented an additional burden on low income Ontarians who must devote a higher proportion of their income to pay for property taxes.

Municipal governments are stretching their portion of the property tax dollar as far as possible - and then being asked to pull even tighter to fund health and social services. For municipalities to truly serve their residents and foster an environment of economic and social participation, municipal revenue sources must be predictable and adequate to their responsibilities.

This is not to say that the Government has not recognized poverty as a priority issue. The most recent 2007 Ontario Budget focused largely on identifying opportunities to address the needs of Ontario's most vulnerable citizens. Articulated as a plan that would help improve quality of life for all Ontarians, the Budget included commitments such as providing help for children living in poverty, increasing the minimum wage, improving access to affordable housing, and boosting income support for social assistance recipients. While the intent underlying these initiatives is commendable, they do not address the underlying fiscal imbalance that aggravates many of these problems.

Municipalities urgently need a structural change that will allow them to meet their local responsibilities without increasing the property tax burden on low income families and seniors. Reducing provincial dependence on municipal property taxes is the only way to fix the problem and alleviate the fiscal pressures at the local level. The Government has targeted the alleviation of poverty as a social and economic imperative; by investing in the communities that serve our most vulnerable citizens, this is a target that can be achieved.

The Municipal Fiscal Gap:

Competing demands and limited fiscal resources continue to be a reality for all orders of government. Yet, growing responsibilities and shrinking resources are stifling our communities, large and small. Ontario's municipalities continue to struggle under an increasingly unsustainable fiscal situation.

One of the most significant barriers faced by municipalities across Ontario is the \$3 billion gap (or net subsidy) that municipalities provide each year to pay for provincial health, social services and income redistribution programs.¹ By subsidizing the provincial treasury with municipal property tax dollars, municipal governments are forced to defer investments in municipal services and infrastructure. This has resulted in a massive and growing infrastructure deficit across local Ontario communities – one that limits our ability to provide safe, clean water, protect the environment, and provide reliable and efficient transit and transportation, as well as infrastructure for culture and recreation. Individuals and families in Ontario's communities are left to watch as services and local infrastructure decline.

Requiring municipalities to subsidize provincial programs and provincial services is not good public policy and it is not economically sustainable. A system that subsidizes the Province by \$3 billion annually is not a system that supports communities. It is not a system that supports accountability for municipal property taxpayers. And, it is not a system that creates opportunities where opportunities are needed most.

Property Tax as Revenue:

Municipal property tax represents just 6% of the total tax burden that Ontarians pay – meaning that Ontario municipal governments receive a mere 6 or 7 cents of a

¹ Municipal government in Ontario spends over \$8 Billion a year on provincial health and social services programs. When you subtract provincial cost-sharing for some of these programs including the social programs component of the Ontario Municipal Partnership Fund (OMPF), federal contributions and user charges, the *net municipal subsidy* paid toward provincial health and social services programs is approximately \$3 billion a year.

household tax dollar.

This limited revenue funds not only traditional municipal responsibilities like roads, transit and libraries, in Ontario, it also finances a significant portion of provincial health and social services. As a result, Ontario municipal property taxes are the highest in the country: On average, Ontarians spend \$237 more in property tax than in other Canadian provinces. Correspondingly, the Government of Ontario spends \$251 less per capita on health and social services than the rest of Canada (Kitchen, 2006). For people already struggling to make ends meet, these higher taxes can be a significant drain on their personal resources.

At the same time, the consequences of provincial under spending can be seen in our streets, on our highways, in our transit systems and in our community recreation centres and libraries. In many cases, significant capital projects in our municipalities were undertaken in a previous decade, if not a previous generation.

Because the revenues from property tax are not linked to the economy, they do not grow when the economy improves as is the case with provincial sources of revenue like sales or income tax. Although incomes taxes far exceed property taxes, residential property taxes are *regressive* in relation to income (Slack, 2002). That is, lower-income homeowners pay proportionately more of their income for property taxes than their higher-income counterparts. For instance, while the low-income elderly paid 11.7 per cent of their income in property taxes, their non-low-income counterparts paid just 4.2 per cent.²

Well-suited to funding traditional local responsibilities like recreation and infrastructure maintenance, property taxes are problematic as a funding mechanism for health and social services programs. This is because redistributive programs must respond to

² Statistics Canada: Perspectives on Labour and Income. July 2003, Vol. 4, no. 7. Also, in a study by Chawla and Wannell (2003), property taxes were most regressive at the bottom of the income distribution. Although income taxes reduced income inequality by 11%, property taxes were found to increase it by 2%. In other words, property taxes can counter the redistributive effect of income taxes.

economic factors whereas property tax does not. Municipal property taxes do not rise with inflation and they can actually fall during periods of economic decline, periods when municipal services are needed most. Not only is excessive reliance on taxes that do not grow with the economy a recipe for a municipal fiscal crisis, but local residents whose income may not be growing, such as low and fixed income citizens, are hit the hardest.

There are other concerns about property taxes as they relate to its regressivity and ability to pay. In local communities where housing costs are high, citizens may seek more affordable housing in areas with lower assessment, outside the urban core, contributing to urban sprawl and potentially less economic and cultural diversity.

Rural and northern communities face additional challenges. Often facing stagnant population growth, the municipal property tax base may be insufficient to support projects that contribute toward economic development and growth. This can leave municipal leaders unable to complete strategic planning for their communities and frustrated by a lack of certainty surrounding application-based provincial grants and the ever-changing criteria such programs use to assess outcomes.

Impact on Local Communities:

Across Ontario, we have seen so-called discretionary services decline while municipal financial resources have been reallocated to non-discretionary provincial health and social services. Over the years, this neglect has left Ontario's infrastructure in a critical state of disrepair. Roads, bridges, sewer and water systems, transit, parks – these are what make it possible to live and work across Ontario, yet their future existence is threatened. Diverting resources away from core municipal services such as transportation and recreation threatens to undermine the quality of life in local communities.

For families and individuals who are struggling financially, property taxes can represent a huge economic burden. For many low-income working families and those on fixed incomes, high property taxes can be the tipping point between keeping or losing their homes.

Because they are directly tied to assessment values, property tax does not account for a homeowner or renter's ability-to-pay. The lack of correspondence between property value and one's financial state tends to intensify through the life cycle so that by retirement, reconciling a fixed income with soaring property taxes can be virtually impossible. While Ontario's Property Tax Credits do provide a measure of assistance to seniors and those with dependent children, they do not provide consistent relief to all those in need. A stop gap measure, they do not respond to the underlying fiscal imbalance that perpetuates the need for the credits in the first place.

People who are unemployed or living on fixed incomes, those with limited access to employment, childcare or transportation, people who are homeless – *these are people who live in our communities*. On the front lines of providing quality of life services, municipalities are the first to see the consequences of poverty. In the education system,

in the health care system, in the justice system – these are the channels through which the real effects of poverty first become apparent.

When social service needs increase, municipalities are in an especially difficult position. Because they cannot borrow to meet operating deficits, they must face a difficult choice between reducing other local services or increasing property taxes. For municipalities in rural and northern areas that are facing chronic economic uncertainty, these decisions can cause hardship that is especially far-reaching. When local services are reduced or eliminated, the viability of the entire community is at stake. A more sustainable fiscal arrangement is urgently needed to allow municipalities to meet local needs and foster vibrant and sustainable communities. To ensure municipalities can provide a full spectrum of social and economic opportunities that contribute to well-being, they need to be equipped with adequate resources.

For many Ontarians living in poverty, the lack of broad-based investments in infrastructure is a particular barrier. High housing costs affect labour markets, labour mobility and the successful integration of new Canadians. Lack of affordable housing and increasing homelessness affects the competitiveness of local communities and compromises the quality of life for our citizens. Affordable housing programs are in need of investment and physical infrastructure is in need of repair. A national and long-term strategy to provide affordable housing and sustained funding to support homeless initiatives, such as the “Homelessness Partnering Strategy and Homelessness Partnership Initiative” makes good economic sense.

Municipalities are also facing many situations where escalating costs are further driven by provincial actions. Escalating cost pressures resulting from: unfunded pressures in cost shared or downloaded services, such as social housing, social assistance, land ambulance and public health; increased expenditures resulting from mandated provincial standards (e.g., policing); and, arbitrated salary awards driving the cost of emergency services.

The Ontario Government has made some attempts to address some of the factors commonly associated with poverty. Proposed increases to minimum wage, and cost of living adjustments to social assistance rates by five per cent since 2004 will undoubtedly help some families and individuals. The Government has also extended health benefits for those leaving social assistance and increased the income threshold for the Ontario Property Tax Credit for Seniors. At the heart of the Government's plans to address poverty is its recently revealed child poverty agenda. The Ontario Budget recently committed to a \$25 million enhancement to child care programs over 2007-08 with the promise of double that amount in the following year. It also introduced a new Ontario Child Benefit (OCB). But while the intentions underlying these initiatives are commendable, there is a need to explore the real impacts of these changes from a broader vantage point. How these initiatives will actually play out in our communities is something that has yet to be understood. None of these initiatives addresses the fundamental problem of an unsustainable provincial-municipal fiscal arrangement.

The Solution:

Is reducing pressure on property taxes the answer? Ironically, the same taxes that may be inducing hardship in certain vulnerable populations are what currently sustain local services that help to alleviate poverty. Social services, social housing, public health as well as quality-of-life services like culture, recreation, libraries and public transit are all funded off the municipal property tax base. High property taxes are a consequence of current fiscal relationships: when municipal property taxes are high, the Province avoids its responsibilities to collect adequate provincial taxes to pay for what we all understand are provincial responsibilities, like social assistance, prescription drug benefits and disability payments. Under the current provincial-municipal fiscal arrangements, low-income families and seniors on fixed incomes will continue to subsidize the provincial download of the 1990s.

The question is not which order of government should deliver programs in the community, but how these programs are funded. Municipalities are capable of delivering

efficient, quality front-line services. However, structural change is needed so that municipalities are equipped with the resources they need to be truly effective.

The offloading of services by the federal and provincial governments and the virtual elimination of transfers to municipalities has put extraordinary pressure on municipal budgets. Although there have been positive steps, current funding measures have only addressed a small fraction of the problem. Often application-based, lottery-style and short term, they do not provide the stable foundation needed to support strong communities.

Forced to choose between raising property taxes or cutting valuable local services to deal with these demands, municipalities have had few options. Ensuring that these services have a stable and adequate source of funding supports services that can help alleviate poverty and stimulate new opportunities for people in our communities.

What municipalities need is a provincial-municipal fiscal arrangement that reflects the nature of municipal capacity and the services it can support to avoid impacts on local services that would be even more detrimental to the poor than high taxes. Roads, public transit, parks and recreation, public health, emergency services, welfare, employment services, child care, social housing and homes for the aged are all services that municipalities provide. Impacts on any of these programs would diminish important opportunities to improve social and economic outcomes for our most vulnerable residents with reverberations for community sustainability as a whole.

Conclusions:

A great deal more needs to be done if Ontario communities are to be livable, sustainable and competitive in the national and global marketplace. Simply put, municipalities need a fiscal relationship that works – not programs designed to hold together a system that doesn't.

In return, municipalities can offer a great deal: financially sustainable communities; stable and affordable property tax rates; communities where all residents have access to recreation and an enhanced quality of life; where Ontarians want to live and businesses want to invest; overall, competitive communities that support a competitive Ontario.

Furthermore, the municipal sector must play a further part in determining infrastructure investment priorities, and see a demonstrable commitment for a national long-term sustainable funding approach that will help local government plan and budget infrastructure capital and maintenance and contribute to a reduced municipal infrastructure deficit over time.

Ontarians 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 residents. Asking property tax payers in Ontario to subsidize provincial health and social services programs is certainly not the answer.

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