



Turning the Corner

AMO 2009 Pre-Budget Presentation to the Standing Committee on Finance and Economic Affairs

January 12, 2009

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

The year 2008 was a turning point for Ontario municipalities. For the last ten years municipal leaders, economists, and politicians from every party have argued that social services should not be funded from the property tax base.

The year 2008 brought not just a plan to change that but one that is in action. We are turning the corner - significant improvements to provincial-municipal fiscal relations are underway. The outcomes of the Provincial-Municipal Fiscal and Service Delivery Review are among the most important advances municipalities have seen in decades.

The Review achieved consensus on fundamentally important issues. It is resulting in structural cost-sharing changes that are reducing municipal costs and financial risks in the future. This benefits all property taxpayers.

In 2006, AMO and the province set out to deliver a new fiscal and service delivery partnership for the 21st century. The result is the uploading over time of a net \$1.5 billion a year of social assistance and court security costs. This means that Ontario communities will be in a better position to compete with other jurisdictions in Canada and around the world, to attract investment and jobs to Ontario. It sets out a course for provincial-municipal collaboration and partnership which will improve the prosperity of Ontario and its communities.

The provincial government should be commended for taking a bold step forward in collaboration with the municipal sector. What has been achieved has been done together. The path ahead is lined with further work. But as a result of what has been achieved, it is one the province and municipalities will take with a wealth of collaborative spirit, cooperation, and mutual understanding.

In looking to the future, the Association of Municipalities of Ontario is seeking predictable municipal funding and stable revenue; improved economic development through infrastructure investment; and the promotion of green jobs leading to a greener economy.

Predictable Municipal Funding and Stable Revenue

The Ontario Municipal Partnership Fund (OMPF) is an essential equalization program for many communities. If not for the OMPF, northern municipal tax rates would need to be 2.5 times higher than they currently are to sustain existing services. For eastern municipalities, tax rates would need to be 1.5 times higher than they currently are.

The province has provided municipalities with a stable funding guarantee for 2009. Such a guarantee has been in place since the 2005 transition from the Community Reinvestment Fund to the OMPF. The funding stability these guarantees have provided for the last five years remain equally important for 2010 and beyond. Continued stable equalization funding remains an issue of great importance for many communities.

The current value assessment system is the backbone of a fair and predictable property tax system. The Assessment Review Board's decision in early 2008 regarding the interpretation of "current value" as it applies to tenanted commercial properties is highly problematic. While currently under appeal, this decision has put a significant component of municipal revenue for both large and small municipalities in jeopardy for future years.

The Municipal Property Assessment Corporation estimates that if the Board's decision stands, some 17,000 properties would see their assessed value diminish by 25%. Province-wide, tenanted commercial properties like office buildings and shopping malls accounted for an assessed value of \$100 billion. This means some \$25 billion in assessed value is currently at risk across the province.

In March 2008, AMO urged the government to take immediate steps through a legislative amendment to clarify that current practice reflects the original intent of the legislation, and to ensure the continuation of Ontario's longstanding policy of

assessing current value. It is expected that the litigation process regarding the existing valuation methodology will be both costly and lengthy. AMO urges the government to take action and bring clarity to the municipal property and provincial education tax bases.

In addition, municipal costs to deliver emergency services are rising faster than the rate of inflation, faster than the cost of living, and faster than the cost of other municipal services. These increases are not sustainable in the long term.

The increases are primarily attributable to higher wage and benefit costs. Costs are led in part by the settlements reached by the provincial government with officers of the Ontario Provincial Police which in turn are expected by all police services across the province. Municipal property taxpayers bear responsibility for these increased cost pressures through higher taxes. We urge the government to consider the indirect impact on municipal employers of wage settlements made by the government. In addition, changes to the arbitration process and bargaining structure would bring greater parity for municipalities.

Improve Economic Development through Infrastructure Investment

Now is also the time to turn another corner, this time on the infrastructure deficit left in the wake of diverting property tax dollars to social service spending for the past ten years.

The Provincial-Municipal Fiscal and Service Delivery Review estimated that it would take an additional \$6 billion of infrastructure investment each year for the next ten years to close the investment gap that currently exists in Ontario. It would primarily address many of the public works constructed during the 1950s and 1960s and nearing the end of their expected life.

The majority of all public infrastructure in Ontario is municipally-owned and operated. AMO has called upon the federal government to provide for additional infrastructure investment as an economic stimulus with additional monies

disbursed through the federal gas tax system, a new streamlined affordable housing funding program, and accelerated Build Canada Fund investments.

AMO urges similar economic stimulus infrastructure investments by the provincial government. These investments will:

- leverage additional investment by municipalities and the federal government;
- contribute to the province's economic productivity;
- create additional jobs in all corners of the province; and
- advance sustainable development and green objectives.

For example, accelerating the Move Ontario 20/20 investments including projects in the Greater Toronto Area, Hamilton, and Waterloo will create 175,000 jobs during construction and enhance the public transit options of Ontarians.

The current economic circumstances combined with the analysis of Ontario's municipal infrastructure provided by the Review, means that the time is now to implement some of the infrastructure options identified by the Review.

Two of those recommendations merit particular attention at this time:

The first is to create a new Infrastructure Investment Fund to provide predictable levels of support over a sustained period of time to small and rural municipalities. Specifically, some municipalities cannot independently sustain the level of investment that their infrastructure systems require. The reasons include low population density, low revenues, high costs, or very often some combination of these factors. A new infrastructure equalization investment fund should target the infrastructure needs of "asset rich and revenue poor" municipalities and be formula-based and not project-based applications.

The second recommendation is to review the *Development Charges Act*. A key principle in funding municipal infrastructure is the notion that “growth pays for growth.” The charges currently permissible under the *Act* do not uphold this principle and are exacerbating the infrastructure deficit.

In implementing these initiatives and taking action on the infrastructure gap, the province and Ontario’s municipal governments will continue a partnership of improving the lives of Ontarians and the underpinnings of our quality of life.

Green Jobs leading to a Greener Economy

The infrastructure deficit listed above includes roads and bridges, water works, transit, and solid waste management. It does not include other municipal infrastructure such as libraries, arenas, recreational facilities, public buildings or public housing.

There is a tremendous opportunity to, in part, address the infrastructure deficit that exists in these buildings too, but also to further the government’s energy efficiency and greenhouse gas reduction targets. As the second-largest energy consuming sector in the province, municipalities spend over \$955 million on electricity and natural gas each year. Approximately 16% of this energy is consumed by public housing - largely heated by electric baseboards under drafty single-paned windows. A further 11% is consumed in aging arenas mostly built during the 1970s. AMO urges a dedicated infrastructure fund for municipal buildings and public housing energy audits, energy efficiency upgrades, and state of good repair retrofits.

Offering incentives for long-term improvements to the energy management of these facilities is another worthy investment. This should include creating more spaces in colleges which offer energy management programs. Two post-secondary programs - Seneca College’s Building Systems Engineering and Humber College’s Sustainable Energy and Building Technology, are so successful there are waiting lists for companies wishing to hire program

graduates. Funding new spaces for graduates to work in schools, hospitals, and municipalities will more than pay for itself with reduced energy costs for those facilities in the long term. The Next Generation of Jobs Fund seems ideally suited for such a program.

Municipalities also encourage the development of new greener alternatives to energy production which can contribute to the grid in a timely way. To that end, the Province must direct its own utility, Hydro One, plus all other Local Distribution Companies to make grid connections smooth, timely, and more affordable. In addition, the Local Distribution Tax exemption should continue.

The Province is to be commended for directing Ontario Power Generation to test biomass in its coal-fired plants at Atikokan and Nanticoke. AMO encourages the government to take the next step to full conversion as a way to revitalize the flagging forest industry and create new jobs in the north. Provincial support for local biomass and other distributed generation projects will build on the strengths of the standard offer contract to position Ontario as a leader in the green economy.

AMO applauds the government's recent efforts to bring the sustainable waste management principle of "extended producer responsibility" into focus. Municipalities and property taxpayers bear a disproportionate responsibility for the cost and management of solid waste. Broadening those responsibilities to the producers of waste is a sensible and sustainable proposal which AMO supports. In addition, improving provincial incentives for marketable blue box recovered materials will go a long way to helping to build a greener economy into the future.

Conclusion

For too long, Ontario stood alone in its approach to provincial-municipal fiscal relations. This is why municipalities are pleased with the progress that has been made through the Review and which is resulting in the uploading of three key social programs – the Ontario Disability Support Program, the Ontario Drug Benefit Program, and Ontario Works benefits.

While Ontario is still the province with the highest property taxes in the country, Ontario has at least turned the corner. The upward pressure on property taxes caused by downloaded provincial social service costs will wane considerably over the next ten years. Together, provincial and municipal governments have laid the groundwork and set a path that delivers increasingly better results for citizens and communities.

Significant challenges for the future remain and that is evident in all parts of the province. But communities large and small, northern and southern will benefit from:

- predictable municipal funding and stable revenue;
- improved economic development through infrastructure investment; and
- the promotion of green jobs leading to a greener economy.

These investments will create a strong foundation for a prosperous future.