

The Next Chapter

The 2013 AMO Pre-Budget Submission

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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 Next Chapter

The Next Chapter has to be rooted in the ongoing economic challenges of getting to a balanced budget. We know the fiscal room of the Province is limited – investments will be needed to help drive jobs and the economy. Municipal governments get this – we see what happens when industry closes, or reduces its production, or cuts shifts. But we also know that when people work together that things can change.

We saw this with the 2008 Agreement to upload the cost of social assistance benefits and court security costs over ten years. It is vitally important to us. The property tax base is not the right tax to fund social programs – it never was and never will be. We continue to applaud that upload Agreement – yearly. We need to see its continued protection, without any slippage. The Premier has already committed to this.

We must also remember that significant costs of other social programs still remain on the property tax base, costs that should not be there – social housing, child care, long term care and public health being the most significant.

Those upload ‘savings’ are not there to be eaten up by more provincial programs. A long list of ‘ancillary’ policies and programs, new and old, service growth pressures, higher needs and inflation, hit our bottom line and eats away at these ‘savings’. At the same time we are struggling with massive infrastructure challenges.

I offer four themes today.

First, municipalities are not all the same. Even in communities that are referred to as rural, they are not identical. The same goes for northern and urban communities.

We have communities that have been prosperous and are facing what we hope are temporary challenges, where resource industry will rebound and new resource opportunities can be realized.

We have communities that unfortunately, given history and circumstances of geography and other factors, will require a much different kind of help. And we have growing municipalities with different challenges still. Narrowing the gap between the relatively fiscally healthier and poorer communities must remain a constant and unambiguous aim.

The Ontario Municipal Partnership Fund (OMPF) is the main transfer 'equalization' program. It helps many small rural and northern municipalities fund base services to Ontarians in communities. They have a very limited assessment base and residents with low disposable household incomes.

Helping those with greater need should be embedded in the OMPF grant formula. Yet it is this very same group of municipalities that bore a \$25 million reduction this year and will face a further \$50 million cut over the next two years. This seems counter intuitive and even more so when those rural and northern municipalities with OPP service must pay an 8.55% wage increase starting in 2014.

In addition, we are told that reconciliation will cease from 2011 onwards. Since 2005, reconciliation recognizes the difference between projected and the actual municipal costs for social programs and policing costs.

This year, 71% of the municipal Ontario Work benefit costs are still on the property tax bill. So if there are higher caseloads, it will be left to these property tax payers to foot that bill too - and this is occurring in communities that are already having economic hardships.

So we have to ask the question is 2014 really the best time to make another \$25 million cut to the OMPF? Does it make sense to cut funding for equalization, northern and rural communities and policing even further? This is coming at a terrible time for many Ontarians. Do we want to see property taxes rise and rise quickly?

The impacts of going forward with the next \$25 million reduction could be more costly to the Province, not to mention citizens, than the cut itself - and so we say - let's take the time to get the OMPF transition right, and in the meantime restore reconciliation. Let's find a formula that is sound and which can deal with volatility.

Our second theme is infrastructure. Municipalities own 67 percent of the infrastructure in this province. The infrastructure challenge is on top of all the other services we have to provide.

We have to do this, and more while collecting nine cents of every household tax dollar. While we need to have a much bigger discussion about how municipalities can achieve fiscal sustainability, it's safe to conclude that the municipal share should no longer be counted using the obsolete penny.

Building on some of my previous comments, different responses and tools are required to deal with the diversity of our challenges.

AMO is heartened by the discussions in a variety of forums on how to pay for the urban transportation infrastructure needs of the GTHA and elsewhere. A plan to move people and goods through urban Ontario will require vision, boldness and long term commitments. No one can hide from it because to do so means even more lost productivity - and frankly, gridlock can no longer afford the start and stop of funding commitments of successive governments.

If there is a will to tap new sources of revenue to address congestion, then surely there is a will to use existing revenue tools to get the ball rolling. Even modest changes to the *Development Charges Act* would be a good place to start fixing the funding challenge.

The range of tools being considered in urban Ontario, where the tax base is broader and the economy is stronger, cannot be transplanted to rural or small town Ontario, including the north.

AMO and the Province worked on a roads and bridges report in 2012. Its purpose was to do work that would help design a future program. We know the work was solid. What we now need is an envelope of funds to help deliver it. Moving agricultural products and extracted resources to market is part of the economic backbone of Ontario. It too cannot be left out of the equation.

A successful solution to the infrastructure financing challenge is one that responds to this diversity.

Achieving greater efficiency and effectiveness in the delivery of public service is our third theme. Earlier this week, the government introduced legislation to improve the municipal collection of *Provincial Offences Act* (POA) fines. It will put a significant dent in the total of unpaid fines that has existed for many years. We are pleased all three provincial political parties have voiced their support for these changes and we look forward to speedy passage. It is also an example of mutual problem solving.

Of all the services a municipality provides, none is more expensive than policing. Municipalities spend in excess of \$3.5 billion annually on a wide array of policing activities that has grown well beyond the core function of law enforcement. Sixteen years ago, that total cost was \$1.5 billion. This growth in cost is unsustainable. It hits your budget. It hits ours.

It is time to rethink how we deliver policing. What alternatives exist regarding core and non-core policing functions? What efficiencies can be found in the operations of the Ontario Provincial Police (OPP)? AMO remains committed to working with the government and others on these issues. However, we cannot afford to wait long for solutions.

Accountability and Transparency is the final theme. All municipalities – large and small across Ontario are committed to changes to interest arbitration. Each MPP received our information about the changes that will bring transparency and accountability to arbitrators. A copy is appended to this presentation so I am not going to go over the changes in detail - but I do want to go on the record that none of the proposals tabled in the House or the government's draft bill, the *Protecting Public Services Act*, go far enough.

In fact, we are concerned these attempts could actually make the arbitration environment more challenging. What we are interested in is a system that is fair, has balance for both employers and employees and holds arbitrators to account for their decisions. Their interest arbitration decisions do materially affect the fiscal situation of municipal governments and their taxpayers. What is wrong with accountability and transparency? What is wrong with giving some priority to local circumstances?

Let us remember that the Ontario municipal property taxpayer still bears the highest burden of any taxpayer in any province. Property tax dollars in Ontario deliver more services than in any other Canadian province. This is a factor when industry and commerce scout locations.

Conclusion

There are many opportunities beyond those I've spoken about that can make a difference. The next chapter must be about empowering, it must be results driven not process driven and must include the availability of tools that make sense locally to achieve local priorities and needs.

AMO's Proposed Improvements to Interest Arbitration

Ontario's municipal leaders represent a wide range of views, experience and political backgrounds. They have come together to propose balanced and practical changes that are needed to strengthen the interest arbitration process. Specifically, their proposals would:

- Improve efficiency
- Improve accountability and transparency of decision-making
- More accurately assess a municipality's fiscal health

These improvements can be achieved by making changes within the existing legislative framework, and in a manner that compliments the existing interest arbitration process.

Meaningful Improvements

While two bills on this issue were introduced in 2012, both fell short of achieving needed improvements. Now, all parties need to work together to deliver what will best serve the people of Ontario.

Previous government proposals did not give priority to local circumstances nor did either provide arbitrators with more specific and appropriate criteria for evaluating fiscal health. Establishing this criteria and getting it right is essential to achieving meaningful improvements.

AMO further advocates for a single arbitrator model, which offers efficiency while retaining the current process. As well, interest arbitrators should be given one year following the hearing to complete their work, which provides flexibility for both parties while also affording a timely resolution.

Achieving the Spirit of Existing Legislation

Current legislation states that, when making a decision or award, the arbitration board shall take into consideration all factors it considers relevant, including:

- The employer's ability to pay in light of its fiscal situation,
- The extent to which services may have to be reduced, in light of the decision or award, if current funding and taxation levels are not increased,
- The economic situation in Ontario and in the municipality,
- Comparison to other employees,

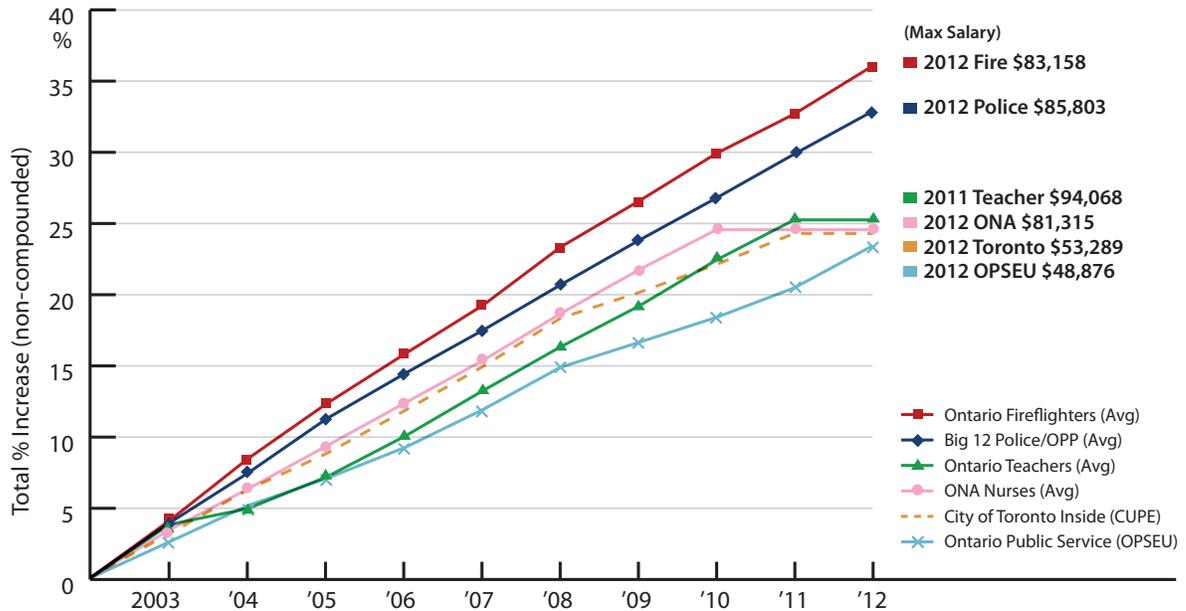
- The employer's ability to attract and retain qualified employees,
- The interest and welfare of the community, and
- Any local factors affecting the community.

The intent is to have local realities and economic conditions play a role in arbitrators' awards that are comparable to negotiated contracts.

For more than a decade, emergency service costs have been growing at an alarming pace. Cumulative wage increases for police, fire and paramedic employees have exceeded growth in Canada's Consumer Price Index by between 50% and 80%. Growth in emergency service

Wage Growth in the Broader Public Sector (BPS) since 2003

Source: Ontario Ministry of Labour



wages and benefits, including pension benefits have also exceeded growth for average Ontarians, private sector employees, general CUPE and OPSEU employees, registered nurses, and teachers.

For several years, wage restraint and deficit fighting has been paramount as Ontario's public sector struggles with undeniable fiscal challenges. Despite this, and despite the criteria within the current interest arbitration regime, generous awards for emergency services employees have continued unabated. In part this is because arbitrators have stated that they place a greater priority on replicating agreements from other communities over local fiscal circumstances. Ability to pay has become nothing more than 'ability to tax.' Property tax rates impact economic growth just as much as provincial taxes.

Recent awards in early 2013 include a 12% increase over three years for firefighters in Georgina, and a 23% increase over four years for firefighters in Scugog.

Understandably, many municipalities feel forced to negotiate police, fire and paramedic contracts that far exceed agreements with their other unions. The alternative is arbitrated settlements that they cannot afford.

AMO's Proposals

AMO is proposing changes that would help to ensure that the original intent is achieved. They would not impose limits on an Interest Arbitrator's ability to award costs. They would ensure that decisions are completed in an efficient manner, more accountable and transparent, and tied to meaningful assessments of a municipality's fiscal health.

Improving Efficiency

Practical time limits would enable municipalities to better manage financial impacts. Our advice would see:

- Interest Arbitrators given one year to complete their work.
- The current single arbitrator model would be applied to all hearings which would eliminate time and treat all services identically.
- Deadlines would be imposed for post-hearing submissions.
- Upon request by a party, arbitrators would provide written reasons for the award, and a clear explanation of how a community's financial health was considered, using meaningful criteria.

Improving Accountability and Transparency

Interest Arbitrators make decisions about public spending. The public has a right to know that appropriate due diligence has been exercised when tax dollars are committed. It is fair and reasonable that arbitrators consider:

- The fiscal health of the municipality, based on clear, measurable criteria, as a priority. The proposed criteria are similar to those used by the province for distribution of the Ontario Municipal Partnership Fund.
- Settlements reached by the same municipality, with other employee groups.
- The total compensation of the entire proposed agreement (present and future liabilities) compared to that of comparable collective agreements.
- The tax increase that would be needed to pay for a proposed agreement, without reducing services.
- The employer's ability to find and retain qualified people.
- The interest and welfare of the community served by the employer.
- Provincial law or ministerial directives that place financial limitations on employers.

Accurately Assessing the Fiscal Health of Communities

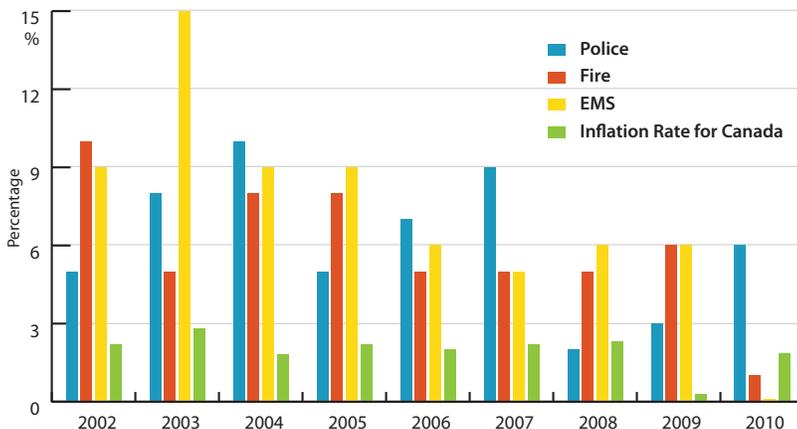
Financial experts have offered more reliable measures of a municipality's capacity to pay. Interest Arbitrators would use fiscal health indicators that include:

- Total property tax assessment (the total property tax base)
- Property tax assessment per household
- Ratio of residential, commercial and industrial properties
- Actual tax revenues
- Proportion of unpaid property taxes
- Rates of employment/unemployment
- Social service caseload
- Median household income
- Proportion of low-income households
- Compensation of other municipal employees in the same community
- Compensation of public sector employees in comparable communities
- Compensation of private sector employees in comparable communities

For more information about AMO's Interest Arbitration proposals, please contact us, or visit www.Bit.ly/AMOIInterArb.

Growth in Emergency Service Wages vs. Inflation

Source: Statistics Canada and Ontario Ministry of Municipal Affairs and Housing Financial Information Returns (2002-2010)



About AMO

AMO is a non-profit organization representing almost all of Ontario's 444 municipal governments. AMO supports and enhances strong and effective municipal government in Ontario and promotes the value of municipal government as a vital and essential component of Ontario and Canada's political system. www.amo.on.ca