

2015 Pre-Budget Submission

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Association of
Municipalities
of Ontario

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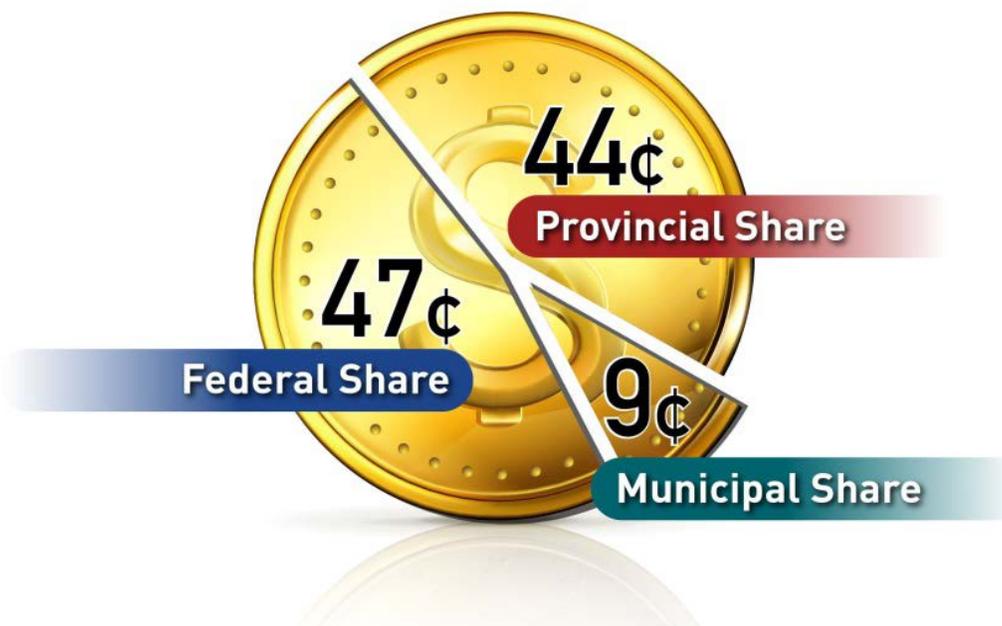
Introduction

We know the provincial government is seized with economic issues. Municipal governments get this. We live, eat, and breathe this reality every day in our communities. We see what happens when industries close, production is reduced, or shifts are cut. We see when city growth and congestion affects Ontario's productivity. We see growing wait lists for housing. We see a continuing need to catch up to replacing and fixing roads, bridges, and other assets that contribute to community well-being and a healthy Ontario.

The Provincial Government is faced with tough financial choices in balancing the budget, reducing the government's long-term debt, and determining investments for the future. Provincial and municipal governments across Ontario share an interest in long-term fiscal sustainability. Municipalities understand the concerns with the provincial deficit and debt, and the related ancillary impacts.

Sustainability for municipal governments will not happen if the Province decides to move costs to the local level in the short or long term, either deliberately or by avoidance. Local pressure builds when the Province stops programs that the public needs or have become the norm over time. Sustainability for municipal governments will not happen if we don't track municipal fiscal health and stay up-to-date on immediate and longer term local and systemic challenges.

Where does your tax dollar go?

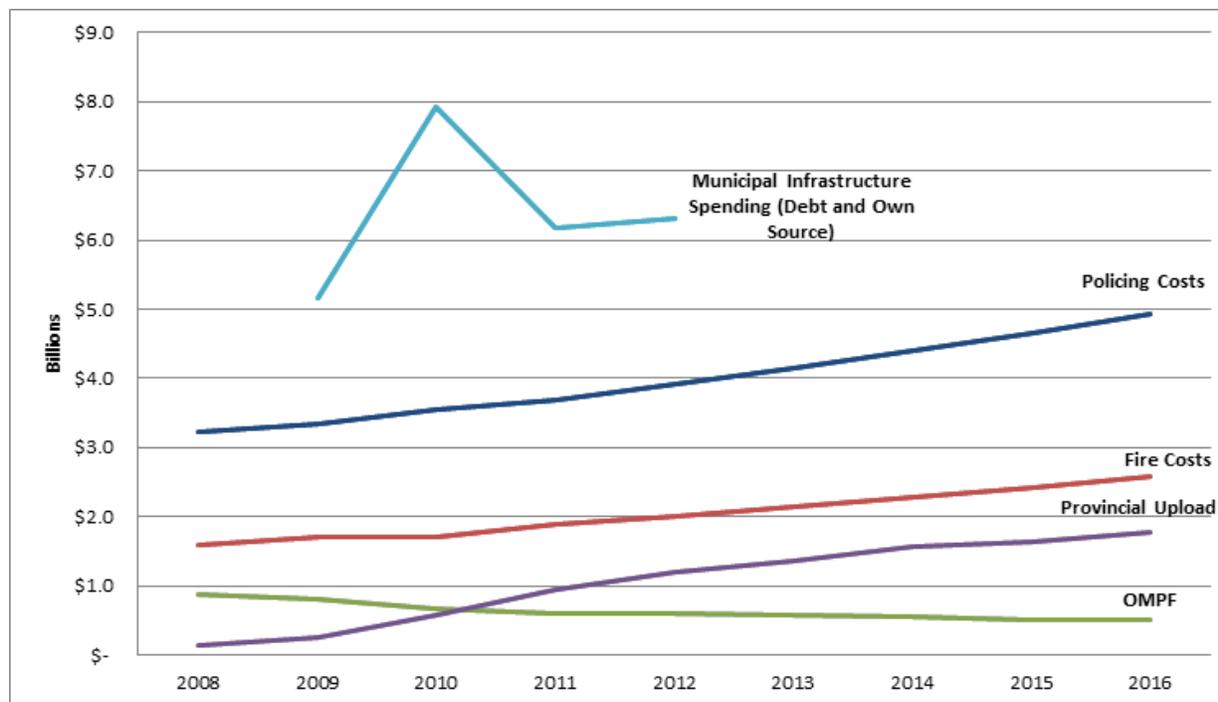


Healthy municipal governments and local economies are essential to a healthy Ontario economy. Municipalities deliver their broad local mandates by collecting just nine cents of every household tax dollar. While we need to have a much bigger discussion about how municipalities can achieve fiscal sustainability and maintain the day to day services that communities need over the long term, it's safe to conclude that the municipal share should no longer be counted using the obsolete penny.

From a provincial perspective, the merit of this pre-budget submission is the many ways in which the Province can help municipal governments without spending as much as a penny. As we look forward and imagine what the future looks like for Ontario communities, a healthy future will include the following, among other matters:

- 1. The Province, in concert with municipal government, undertaking a cumulative impact analysis of municipal fiscal health.**
- 2. Streamline responsibilities between the municipal and provincial orders of government and simplify accountability.**
- 3. Action is needed on police and emergency service costs.**
- 4. Infrastructure and housing investment is a top municipal priority.**
- 5. Improve the rule of law and its administration; pass Bill 31, *Transportation Statute Law Amendment Act (Making Ontario's Roads Safer)*, 2014**
- 6. Make changes that cost the Province nothing, but would help municipal governments manage their costs.**
- 7. Growth must pay for growth.**

1. The Province, in concert with municipal government, undertaking a cumulative impact analysis of municipal fiscal health.



Long Term Trends: Four things the above chart shows

1. As the provincial upload has progressed, municipalities have redirected those savings to addressing the infrastructure deficit. Municipal spending on infrastructure increased by \$1.2 billion from 2009 to 2012. The 2010 peak represents one-time matching municipal stimulus contributions to propel economic recovery.
2. The provincial upload of many social assistance and court security costs from the property tax base has been highly beneficial to the municipal sector as a whole. Financial risk is diminished. However, the upload has affected different municipalities in different ways and the OMPF remains critically important to many municipalities.
3. The impact of declining municipal operating grants through the OMPF has been exacerbated by recent provincial decisions that were not part of the Upload Agreement. These include the \$25 million municipal share of the wage increase for OPP officers in 2014 and WSIB premium increases of up to 28% for newly expanded presumptive firefighter coverage.
4. By 2016, municipal policing costs will be just shy of \$5 billion annually. This is a \$1.7 billion increase over 2008 or an extra \$212 million annually. In 2013, the OMPF's dedicated policing grant component of \$94 million was eliminated.

We need to answer these questions: what provincial actions have affected the budgets of municipal governments and to what degree? Which parts of the sector are most

affected and how can negative impacts be mitigated? These answers will better inform future decision.

The upload of some provincial programs has been very helpful to the sector as a whole. But some municipalities have had greater challenges in adjusting to the decrease in the Ontario Municipal Partnership Fund (OMPF), including the accelerated OMPF reductions for 2015. On its own, this change may have been easier to manage, but it is not the only change. A variety of provincial government initiatives have affected municipalities since the Upload Agreement including: the 2011-2014 OPP wage increase, social assistance benefit increases, OPP billing changes, and the risk of special dam payment cuts in 2016, among other matters. AMO is concerned about this cumulative fiscal impact on municipal governments.

At the same time, many municipalities are dealing with significant reductions in property assessment for specific industrial property types and land uses. Efforts to build prosperity at a local level start with a stable property assessment and property taxation system. The integrity of the assessment system needs to be reinforced to ensure stable and reliable municipal revenues. Yet it seems to be always under attack and whittled away. This not only has an impact on municipal government, it affects the province's education tax.

For the above reasons, we urge a halt to any further OMPF declines. Not all communities have been dealt the same hand; the capacity of some to absorb significant cost increases or grant reductions is severely limited. We cannot ignore this reality. The fiscal health of Ontario municipalities is diverse, and in many cases limited. Widely varying financial capacities, high policing costs, rising EMS cost and demand, and growing infrastructure deficits should not be an abstract idea at Queen's Park. They have real meaning to citizens and businesses that live and operate in our cities, towns, and hamlets.

All municipal governments are highly reliant on property tax for their revenue. This form of revenue does not grow as other tax tools do used by the federal and provincial governments. Many rural and northern municipalities rely heavily on unconditional operating grants from the provincial government to provide services to their residents. These grants have been declining.

| OMPF Grant Components | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Social Services Grant | 30 | | 0 | 0 | |
| Policing Grant | 94 | | 0 | 0 | |
| Farmland/Managed Forests Grant | 46 | | 0 | 0 | |
| Assessment Equalization Grant | 148 | | 149 | 149 | |
| Northern Communities Grant | 86 | | 79 | 79 | |
| Rural Communities Grant | 162 | | 138 | 138 | |
| Fiscal Circumstances Grant | | | 50 | 55 | |
| Transitional and Stabilization Grants | 30 | | 134 | 94 | |
| TOTAL OMPF | 596 | 575 | 550 | 515 | 500 |

The total envelope for the OMPF continues to decrease. A \$35 million cut is occurring in 2015 dropping the total Fund to \$515 million. It was previously \$550 million in 2014 and \$575 million in 2013. If the government continues with its fiscal plan, an additional cut of \$15 million should be expected in 2016. It will prove difficult to manage. It will not lead to more investment in operations or capital works. While it is a scheduled reduction, it must be recognized that events subsequent to the 2008 Upload Agreement have occurred. In 2014 OPP wage settlements cost municipalities an extra \$25 million. Also, in 2014 the Ontario Government expanded the list of diseases presumed to be work-related for firefighters under the *Workplace Safety and Insurance Act*. As a result, WSIB premiums for some municipalities will increase by 28% in 2015.

Long-term budgeting and measuring the cumulative impact of provincial actions on municipal fiscal health will help the provincial government and municipalities plan for the future. At the 2014 AMO Conference the Premier said it is something that needs to be looked at. We are ready.

Case Study: Iroquois Falls, what it means to lose a paper mill

Economic issues have real meaning to the residents of Iroquois Falls. Bad news just hit the town of 4,600, 70 kilometres northeast of Timmins. Last month, residents learned that the Resolute paper mill will permanently close. It represents the loss of 180 jobs and a third of the town's property assessment. The last rolls of newsprint came off the line in December after a century of production.

The mill provided 18% of the Town's property tax revenue, or \$1.2 million. Any tax increase to make up for this lost revenue will be on top of earlier ones. In 2013 and 2014, the town's property taxes increased by 5.9% in each year. OMPF reductions announced in November will mean an additional 1% residential tax increase in 2015. There are longer-term challenges too. The Town's 2013 asset management plan demonstrated an infrastructure deficit of \$6,500 per person. On average, bridges and culverts are in fair and poor condition respectively. The water and sewer assets are in poor condition. The Town needs to be making an annual investment in its capital assets of \$4.3 million, but has only been contributing \$2.1 million.

New provincial investments through the Ontario Community Infrastructure Fund will help Iroquois Falls. For the next three years the town will receive \$26,532 annually. But compared to the annual shortfall in capital spending of \$2.2 million, and the massive operating budget restructuring required, it is a drop in the proverbial bucket.

The Iroquois Falls story is a town faced with tough choices because of circumstances beyond its control. Similar stories could be told in all corners of the province when industries close, or production is reduced, or shifts are cut.

2. Streamline responsibilities between the municipal and provincial orders of government and simplify accountability.



One of the matters that the Drummond Report highlighted was the amount of provincial oversight and required municipal reporting that is not used at the province. He wrote, “ the information reported is often not used at the other end to influence changes in policy or service delivery.” Drummond went on, “we believe there are simply too many layers of watchers at the expense of people who actually get things done. The government must find a new middle ground”.

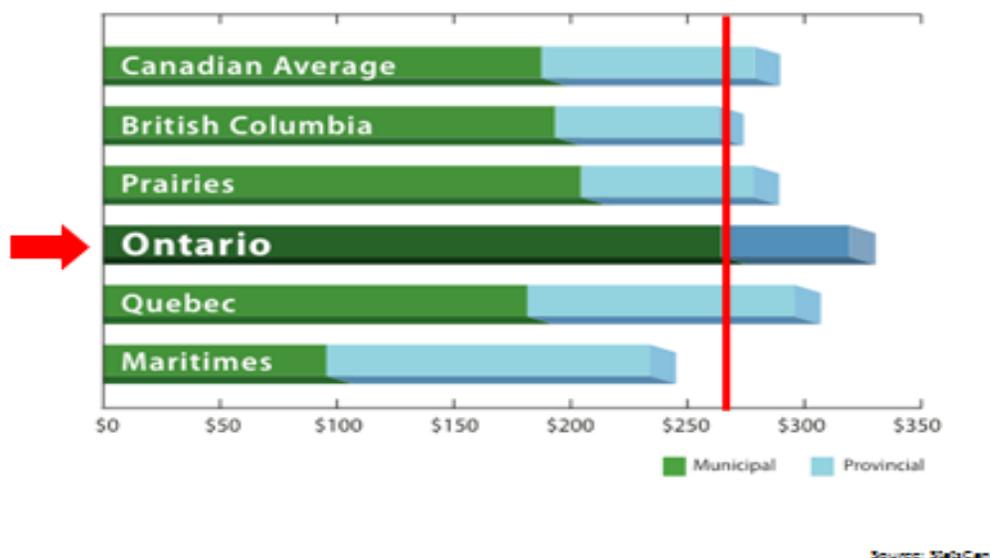
We want to work on finding that new middle ground starting now. One municipality tallied the reports it provides to the Province on a yearly basis. It submits the following to provincial ministries: 96 monthly reports, 100 quarterly reports, 6 semi-annual reports, and 68 annual reports. This is a subtotal of 270 reports annually, plus an additional 16 audited statements, plus the annual Financial Information Return. The total tally: 287 reports. That’s more than one for every single workday in the year.

From AMO's perspective, there is plenty of room to simplify reporting requirements while maintaining accountability and improving the coordination of these activities in a streamlined way. The use of an open data repository for both orders of government may be one way to vastly improve utility and efficiency.

Aligning responsibilities with resources is a key accountability consideration which should be reviewed. Too often municipal governments are footing the bill yet lack the levers to control cost. How do we bring greater cost containment to local bodies, consistent with provincial and local fiscal frameworks? This is a question without an immediate answer but one that must be answered.

3. Action is needed on police and emergency service costs.

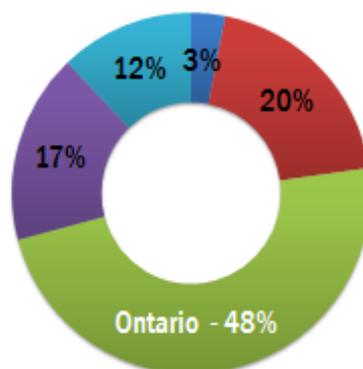
2011 Per Capita Policing Costs



Ontarians pay the highest policing costs in the country. This includes both provincial and municipal expenditures. In 2011, Ontarians spent \$320 per capita on policing. It is about \$35 more than Albertans, \$56 more than British Columbians, and \$24 more than Quebecers. Nationally, Ontario's share of municipal policing costs is 48%, but Ontario only makes up 39% of the Canadian population. In other words, half of the national problem with the cost of policing is owned here in Ontario.

The Province needs to modernize the delivery and standards of these services. Since 2002, the average annual rate of cost growth for emergency services has been three times the rate of inflation. This is not sustainable. Police officers and fire fighters do important work and are well compensated compared to others on municipal salary grids like lifeguards, long-term care nurses, or drinking water technicians. But these ever-increasing costs are challenging municipalities to be able to provide for the full range of programs and services that citizens want.

Ontario's share of municipal policing costs in Canada (2011)



■ Maritimes ■ Quebec ■ Ontario ■ Prairies ■ British Columbia

Source: StatCan

For the OPP, 86% of operating expenditures are staffing costs. This percentage is similar for municipal own-force services. Below is the estimated labour cost of one OPP officer:

| 2014 OPP Estimated Constable Cost | |
|------------------------------------|------------------|
| Salary (provincial average rate) | \$94,702 |
| Overtime (provincial average rate) | \$6,250 |
| Vacation and statutory holidays | \$3,599 |
| Shift premiums | \$675 |
| Benefits | \$25,316 |
| TOTAL | \$130,542 |

Source: [OPP](#) Page 36

How do the salaries of officers compare in North America? The estimated 2014 salary of an OPP officer with 2 years of experience is \$90,623.¹ The salary of a New York City police officer with 2.5 years of experience is \$53,819². The maximum salary of a Detroit police officer is \$51,748.³ No one is suggesting these wages should apply in Ontario. But when we talk about the cost of policing, we are predominantly talking about the cost of labour; not the cost of vehicles, fuel, or handcuffs.

1 [Ontario Provincial Police](#)

2 [New York Police](#)

3 [Detroit Police](#)

Surprisingly, when we talk about policing, we are most fortunately, not talking about crime. Canada's crime rate continues to fall. The homicide rate is at its lowest level since 1966. Statistics Canada notes the police-reported Crime Severity Index fell by 9 per cent in 2013, the tenth consecutive annual decline. A recent survey identified the *cost of policing* as the number one issue facing Toronto's next Chief of Police. Nearly 600 Toronto residents took part in the survey.

AMO has established a Policing Modernisation Task Force to explore policing in depth and is expecting to provide the Minister of Community Safety and Correctional Services with a report this spring. While AMO has been contributing to discussions at the Future of Policing Advisory Committee convened by the Ministry, the pace and scope of those discussions over several years have been slow and limited.

In addition, AMO is advocating for legislative changes that would end union interference in the off-duty volunteer firefighting activities of Ontario's firefighters. Double haters are full-time, professional firefighters that work as volunteer firefighters during off-duty hours.

The International Association of Fire Fighters (IAFF) forbids this practice and can put firefighters "on trial" for violating union rules. Since many municipalities with full time firefighters can only employ card-carrying union members based on collective agreement restrictions, the threat of being put on "trial" and the loss of union membership is ultimately a threat of job termination. The union's actions are unduly interfering with their own member's freedom of association – something we would think they would want to protect.

Double haters bring substantial experience to fire services in many of Ontario's smaller communities that do not require a full-time, salaried department. They often take on a leadership role while they work to ensure the safety of their family, friends, and community where they live. It is the job of individual municipalities to decide how to deliver fire protection services as determined by local need and circumstance. One size does not fit all.

Public polling conducted in the summer by Nanos Research indicated that 85.6% of Ontarians believe professional, full time city firefighters should be able to serve as on-call volunteer firefighters in smaller and rural communities where they live if they wish.⁴

Overwhelming support, including from the large cities where double haters work, has been received through municipal resolutions urging action. A simple change to provincial law would prevent this type of union interference. To our knowledge, every Canadian province has such protection, except for Ontario and Newfoundland. It is time for Ontario to give our volunteer firefighters the same freedom and protection that other employees in Ontario enjoy, as well as those fire fighters everywhere else in the nation.

⁴ Source: Nanos Research, RDD dual frame random telephone survey in Ontario, July 18 to 21, 2014, n=501, accurate 4.4 percentage points plus or minus, 19 times out of 20.

4. Infrastructure and housing investment is a top municipal priority.

We have known since the mid-2000s that infrastructure needs of core assets are greater by far than the available funds. Municipalities own 66 percent of the infrastructure in this province. Maintaining these structures is on top of all the other services we have to provide while collecting just nine cents of every household tax dollar.

We expect the infrastructure gap will be even greater when all municipal assets are included and asset management plans are completed. The good news is all parties are committed to infrastructure but we need to work on a much more involved and predictable infrastructure funding and financing approach. This is an essential part of sustaining economic prosperity for Ontario and for its municipal governments.

The permanent \$100 million Ontario Community Infrastructure Fund is a welcome addition to the suite of programs to help support critical infrastructure in Ontario's smaller communities. Over time, AMO expects that the government will honour its commitment to increase funding and move to a full formula allocation. Larger municipalities greater than 100,000 in population are currently only getting Ontario transit dollars if they qualify. They are also expecting funding from the Provincial-Territorial Infrastructure component of the Building Canada Fund and the next construction period is around the corner. AMO is urging an open process for municipal applications for these dollars.

Closing the infrastructure gap means working together to find and implement solutions that reflect the fiscal diversity of municipalities; and which recognizes the limitations of the existing fiscal framework.

The provincial and federal governments have renewed the Investment in Affordable Housing (IAH) agreement for a further five years. While this is welcome, the short-term, time-limited nature of provincial and federal funding makes it difficult for municipalities to develop and implement long-term housing plans. Permanent and enhanced funding programs for housing are greatly needed. Municipalities are united with the provincial government on seeking additional assistance from the federal government for municipal infrastructure and housing.

In the late 1990s, social housing was fully transferred to the property tax base. More than 156,000 people are on wait-lists for affordable housing, a 10% increase from 2010. There are 270,000 social housing units in Ontario, 70% of which have capital reserve shortfalls amounting to an estimated \$1.2 billion. In 2013 municipalities spent \$1.7 billion delivering social housing services in Ontario. It has grown from \$879 million a decade prior. It is inconceivable that municipal sector can finance this on its own. To tackle wait lists and homelessness others must come to the table, not just municipal government.

5. Improve the rule of law and its administration; pass Bill 31, *Transportation Statute Law Amendment Act (Making Ontario's Roads Safer), 2014*

This would greatly help municipalities by putting more teeth into enforcement and the collection of unpaid fines administered under the *Provincial Offences Act*. AMO has written to all three parties to encourage the speedy passage of this legislation. Take action now to improve the rule of law. Why should some law breakers pay and not others?

6. Make changes that cost the Province nothing, but would help municipal governments manage their costs.

Changes to interest arbitration and joint and several liability reform are two obvious examples.

When arbitrators make decisions, they need to focus on the community itself and benchmark against the negotiated agreements that other municipal staff in that community have negotiated. That is a much better indication of capacity to pay. What arbitrators shouldn't focus on is a settlement from an emergency service elsewhere. The time has come to resolve this long standing challenge. The emergency services salaries highlighted earlier in this submission are a product of how the interest arbitration system has been used. Do some municipal governments settle? Yes, because the arbitrated awards are patterned. Why spend more on arbitration when you can predict the outcome? This is not a balanced system. It certainly has caught the public's eye.

Public polling conducted in the summer by Nanos Research indicated that 59% of Ontarians support police and fire personnel either having the same wage and benefit increases as other employees of the same municipality (32%) or freezing wages and benefits (27%). Using the same rate as other police and fire is mentioned by 30.5% while 10% are not sure.⁵

The Ontario Legislature must restore balance to the interest arbitration system. Wage and benefit increases for emergency workers are growing faster than increases for other public sector employees in Ontario and faster than Canada's rate of inflation. It's unsustainable. Specifically, AMO continues to advocate for an improved, accountable, and transparent arbitration system to ensure essential local services remain affordable.

⁵ Source: Nanos Research, RDD dual frame random telephone survey in Ontario, July 18 to 21, 2014, n=501, accurate 4.4 percentage points plus or minus, 19 times out of 20.

Case Study: London, what interest arbitration means

In August 2013, the City of London entered into interest arbitration discussions with the London Professional Fire Fighters' Association (LPFFA) which represents approximately 400 members. The City's Collective Agreement with the Association expired in 2010. In 2013, it was expected that the arbitration would take place through the balance of 2013 and into the summer of 2014. Further hearings are scheduled in 2015. The timeframe for a decision remains unknown.

The City has provided updates through its website to members of the public regarding the arbitration. This includes the "ability to pay" arguments made on behalf of London property taxpayers. In 2013, per day per household cost for fire service was \$0.74/day. That number sure adds up. More was spent on fire services than social and community support services, or operating parks and roadways. For 2013 it is the City's second highest expense after policing.

If the LPFFA salary submission is successful at interest arbitration it will result in, when compounded, a salary increase of 11.64% over the four years of the contract. By comparison, the City freely negotiated a settlement with Local 107 (outside workers) prior to the expiry of the current collective agreement. It will provide increases of 0%, 0%, 1% and 1.1% from 2016 to 2019 respectively (with modest lump sum payments in the each of the first two years).

Historically the fire services cost per day per household has risen from \$0.50/day in 2003 to \$0.74/day in 2013. From 1990 to 2010, the total annual earnings of a first class firefighter with twenty three years of experience increased by 95.2%, while the median London family income grew by 19.4%. From 2010 to 2014, London tax levy increases averaged 1% while the City absorbed \$72 million of inflationary pressures. The draft 2015 budget proposes a tax levy increase of 2.9%.

Recent debates on tobogganing bans in Hamilton, Orangeville, and in other municipalities are a direct result of provincial inaction and the "liability chill" that is taking over our communities. We see more and more litigation with road and sidewalk cases. Municipal governments cannot afford to be the insurer of last resort nor assume the responsibility of others' mistakes. There are many examples from across the province where municipalities have been forced to scale back on recreational and other services because of "liability chill".

7. Growth must pay for growth.

On Development Charges, artificial discounts for transit, etc. and exclusions (e.g. hospitals) need to end. Municipal governments are looking to see progress in this area.

Development Charges are currently structured to limit the municipal ability to recover capital costs at a time when governments are focused on shrinking the infrastructure deficit. In the eighteen years since the *Development Charges Act, 1997* was passed, provincial priorities have shifted. The cost recovery restrictions are neither financially, nor politically, affordable. They have become a barrier to the achievement of transit priorities and land use intensification.

Conclusion

These are some of the key issues facing municipalities today. Municipalities deliver their broad local mandates by collecting just nine cents of every household tax dollar. We need to have a much bigger discussion about how municipalities can achieve fiscal sustainability while building and maintaining the day to day services that communities need.

From a provincial perspective, the merit of this pre-budget submission is the many ways in which the Province can help municipal governments without significant expenditures other than dedicating staff to work with us.

The provincial government and municipal governments across Ontario share an interest in long-term fiscal sustainability. We know that when people work together, things can change. Let's finish the job; let's make the communities we call home even stronger.