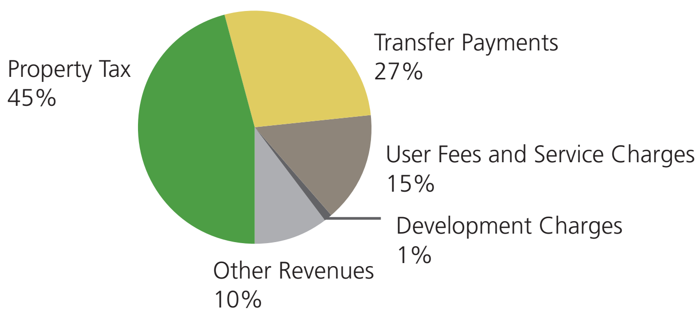
# Snapshot of the Local Share Analysis

Municipal governments provide many critical daily services. Across Ontario, municipal costs and responsibilities are growing, and municipal revenue isn't keeping pace. Based on in-depth financial analysis and outreach, the AMO Board of Directors is seeking the input of municipal elected officials on a proposed new 1% sales tax, dedicated to local infrastructure investment. This 1% would help close the municipal fiscal gap, reduce pressure on property taxes and create more stable funding.

**Property Taxes Represent the Largest Revenue Source for Ontario Municipalities**

Revenue Sources as Percentage of Total Revenues (2009-2013 Average)




As a starting point, property taxes and transfers from the provincial and federal governments account for almost three-quarters of municipal revenue, sector wide.

## Future spending need over 10 years

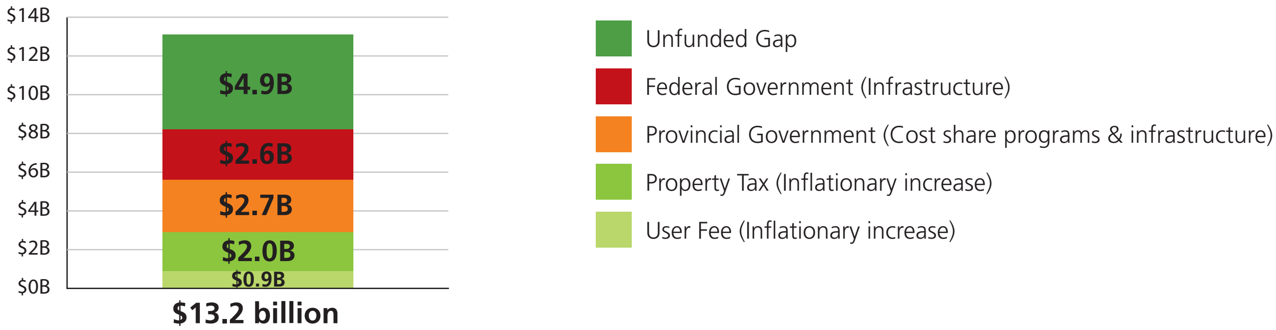
Municipal operating costs are growing at $1 billion annually, just to maintain current services. Costs are driven by factors such as rising insurance and electricity rates, increased demand for services, provincial legislation and areas like policing. We own two-thirds of all public infrastructure, which is also a significant cost driver over the next 10 years.

| Estimated Need in Next 10 Years | Amount |
|---|---|
| **Increase in Operating Expenditures**<br>Annual Growth of $1 billion (trend) | **$55 billion** |
| **Increase in Capital Expenditures**<br>$6 billion required each year for municipalities to close the estimated $60 billion infrastructure gap over 10 years (PMFSDR) | **$60 billion** |
| **Social Housing Repair Backlog**<br>(HSC Estimate) Repair existing only, funds no new units | **$1.5 billion** |
| **Social Housing 10-Year Plan to Expand Supply**<br>1/3 of Waitlist (57,000 units, est.) | **$8 billion** |
| **Arenas, Libraries, Recreation Facilities**<br>(AMO) In the absence of consolidated information on municipal budgeting intentions, $750 million annually based on accounting values | **$7.5 billion** |
| **TOTAL** | **$132 billion**<br>**Or $13.2 billion per year in addition to 2015 spending** |

## What is the gap?

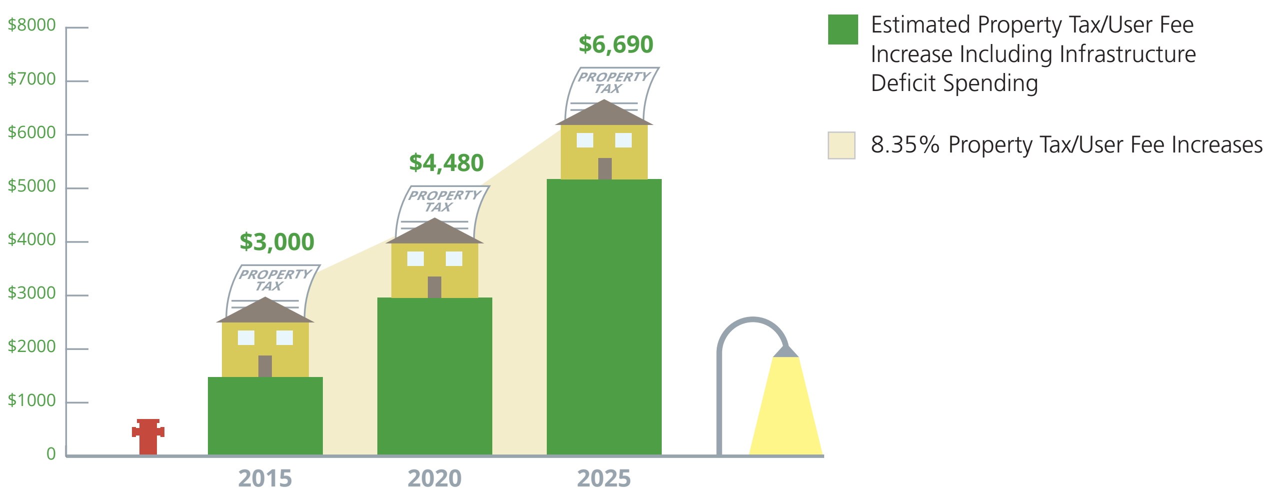
Property taxes and user fees will generate $2.9 billion per year on average for 10 years, with increases for inflation at 1.8%. Another $5.3 billion will be generated annually, assuming that the provincial and federal governments uphold current funding commitments – like cost share programs, uploads and infrastructure – into the future. The remaining gap is estimated to be $4.9 billion annually for the next 10 years to maintain current service levels and finance infrastructure needs.

**Average Annual Change Over 2015 (2016-25)**




## Can property taxes and user fees close the gap?

If higher property taxes and user fees are the only revenue option, municipal property tax bills and user fees might need to double by 2025. That represents a revenue increase of at least 8% each year for the next decade to bridge the $4.9 billion annual gap.

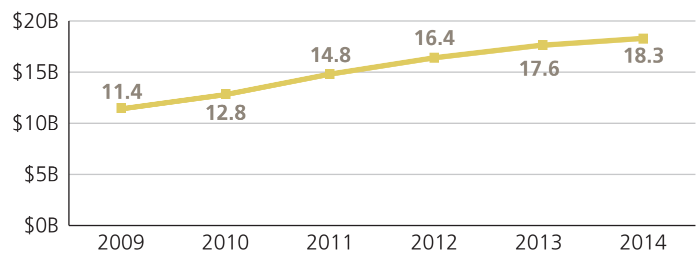


## Debt and deficits

Increases in provincial and federal support is subject to both governments own fiscal challenges and spending priorities, which can change regularly. Forecasts by the Financial Accountability Office of Ontario over the last two years suggest that a return to a balanced provincial budget may be short-lived. Ontario's accumulated debt was $341 billion for 2017-18. In both the 2016 and 2017 Provincial Budgets, the highest annual growth expense was "Interest on Debt." The Province notes that its contribution to municipal governments is $4 billion, factoring in the value of the uploads and funding programs.

Municipal governments have been taking on more debt. However, debt can only finance capital projects, not operational costs. Not all municipalities, especially those with limited fiscal capacity, can afford to take on debt. The right balance of intergenerational equity is another key consideration. Balancing budgets can mean service cuts, which are unpopular and difficult to do.

**Municipal Debt is Growing**




## New revenue and tax tool options

AMO reviewed more than 40 possible new revenue tools that could help municipal governments achieve financial sustainability. All potential revenue options were evaluated against the following criteria:

1. **Sufficiency**
   - To what extent does the option address the fiscal gap?
2. **Public Accountability**
   - Is there a rationale for the new tax that is consistent with how funds will be used? Does it provide a measure of public accountability?
3. **Impacts: Geographic, Economic, Social**
   - Geographic: Does it benefit all regions and types of municipalities with fairness and equity?
   - Economic: Will it impact the competitiveness of the province?
   - Social: Does it change people's behaviour? Are protections available for lower income Ontarians?
4. **Administrative Efficiency**
   - Is it efficient in terms of implementation and collection?
5. **Municipal Role**
   - Would municipal government have authority to create and manage the new tax?

Many of the options were not useful province-wide or did not generate enough revenue to make substantial progress against the gap. The sales tax option rated well against a range of criteria and would not put additional pressure on the province's treasury.

### Criteria Scoring Chart for Some of the 44 Options

| Option | Estimated Revenue | Sufficiency | Public Accountability | Impacts: Geographic | Impacts: Economic | Impacts: Social | Administrative Efficiency | Present Municipal Role? |
|---|---|---|---|---|---|---|---|---|
| **1% HST Increase** | $2.5B | High | Yes | No | Some | Some | Yes | No |
| **Municipal Fuel Tax** Based on 1-10 cent charge per litre of fuel (gas, diesel, oil, propane) | $200M - $2B | High | Yes | Yes | Some | Some | Yes | No |
| **Income Tax** | $1.4 - $2.9B | High | No | No | Yes | Yes | No | No |
| **Land Transfer Tax*** Based on charging 50% or 100% of the provincial land tax rates currently in place | $480M - $1.3B | Moderate | Yes<br>— — — — — — — Removed from further consideration by province — — — — — — — | Yes | Yes | Yes | Yes | No |
| **Vehicle Registration Fee*** Based a new $50 or $100 flat fee per registration | $409-$819M | Limited | Yes | Yes | Some | Some | Yes | No |
| **Alcoholic Beverages Tax*** 5% tax – in addition to HST | $375M | Limited | Yes | Yes | Some | Some | Yes | No |
| **Tobacco Tax*** 5% tax, based on total 2013 Ontario cigarette sales | $236M | Limited | Yes | Yes | Some | Some | Yes | No |

*These are Toronto's tax tools and assuming the province transferred them, their use would be dependent on a municipal decision to implement them. The estimated revenue reflects implementation if done province-wide.

A 1% HST increase meets the criteria better than all other options. The 1% would be added to the provincial portion (8%) of the existing 13% Harmonized Sales Tax (HST) rate in Ontario. After adjustments for collection, administration, and providing tax credit allowances for low income Ontarians, it could generate $2.5 billion.

## What could this mean for you?

There are countless possible allocation options. Some are simpler, such as population and household, and some have very complicated formulas based on numerous variables. To better understand the potential help a 1% dedicated sales tax might mean for individual municipalities, AMO used a per household formula, based on a sliding scale. The results of this allocation method for your municipal government is reflected in your letter. In situations where households are located within a two-tier municipality, the current share of upper tier revenue was used as the basis for sharing the dollars. The methodology achieves a base line for all communities and reflects the service role that households (both permanent and seasonal) place on municipal governments and acknowledges economies of scale for municipalities of different sizes.

Province-wide, this 1% HST proposal would achieve new revenue that is on average 14% of a municipal government's own-source revenues. From a regional lens, the allocation methodology demonstrates that an equitable distribution is possible across the province. It would provide a meaningful infusion of new revenue to fix, expand and build new infrastructure across Ontario's 444 municipal governments.

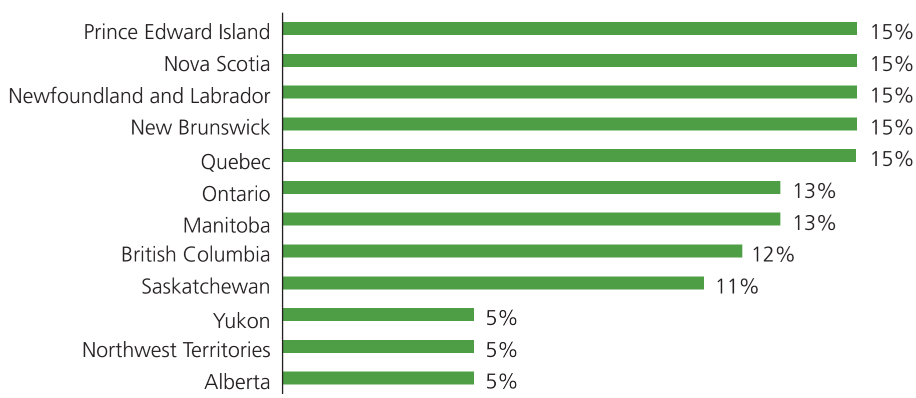
### Regional Distribution

| | Property Taxation Revenue (2014) | 1% of HST | Federal Gas Tax Revenue 2014 (for comparison) | Population (2016) |
|---|---|---|---|---|
| Inside the Greater Toronto and Hamilton Area (GTHA) | $9,424,700,916 | $1,108,898,818 | $381,453,583 | 6,954,041 |
| Percentage of the Provincial Total | 52% | 45% | 52% | 52% |
| Outside the GTHA (Rest of the Province) | $8,684,284,872 | $1,369,774,081 | $358,648,820 | 6,403,156 |
| Percentage of the Total | 48% | 55% | 48% | 48% |
| **Provincial Total** | **$18,108,985,788** | **$2,478,672,899** | **$740,102,403** | **13,357,197** |

## Current sales tax rates in Canada

Sales tax rates across Canada vary according to provincial taxation policies. A 1% increase to the provincial portion of the HST would move the HST to 14%, a combined rate Ontario has seen previously. Five other provinces would continue to have higher sales tax rates than Ontario, including Quebec.

### Applicable Sales Tax in Canada




## Now what?

Municipal governments need a variety of dependable revenue sources to meet the needs of the future. A new 1% sales tax dedicated to municipal infrastructure could help fund critical municipal services like roads, bridges and transit, and community facilities including social housing. It could help reduce the upward pressure on property tax bills, diversify local funding, and provide a regular additional source of revenue. It would offer a significant means to fix chronic under-investment in municipal infrastructure across Ontario. It is also a highly efficient method of taxation.

For a full copy of the Report, please visit **www.amo.on.ca/localshare**.