AMO's 2017 Pre-Budget Submission: What's Next Ontario?

Submission to the Standing Committee on Finance and Economic Affairs

January 16, 2017

Introduction

The Association of Municipalities of Ontario launched a project in 2015 called "What's Next Ontario?" Its purpose is to look at the long-term financial sustainability of the municipal sector and to imagine what the future might look like.

To date, this has been a conversation among municipal leaders, led by municipal leaders. It has called on local elected officials across the province to consider in practical ways, how municipal finances align with what we reasonably know today, what our communities will need for tomorrow.

With this submission, AMO seeks the government's courage to work with the municipal sector in developing a bolder revenue framework for Ontario's municipal governments. AMO also seeks the government's commitment to address some of the longstanding and developing issues in the provincial-municipal relationship that require action.

Ontarians focused on local needs

Local infrastructure and municipal services are the building blocks of hundreds of local communities and local economies. Ontarians look to elected officials to offer solutions on how to provide for good public services. Many have expressed strong opinions about what's important to them at a local level. Province-wide polling conducted in 2016 highlights some of those views:

- 90% agree or strongly agree that maintaining safe infrastructure is an important priority for their community;
- 89% agree that the services municipalities provide are important to their daily lives; and
- 76% are concerned or somewhat concerned that current local property taxes will not cover the future cost of infrastructure.

In other words, Ontarians see infrastructure as both a problem and a priority. These opinions point to the fundamental need for a plan to pay for local priorities, to address deferred capital and maintenance needs, and to build for the future.

What's been achieved together

Let there be no doubt, progress on infrastructure is being made. In 2008, fiscal relations between the Province and municipal governments were modernized through the upload agreement known as the Provincial-Municipal Fiscal and Service Delivery Review. In return for the upload of key social assistance and court security costs, valued at $1.9 billion in 2017, municipalities promised to try and make up for lost time by increasing investments in infrastructure.

Did the municipal sector deliver on that promise? Did municipalities uphold their side of the 2008 deal? Absolutely.

From 2003-2008, (before the upload agreement) municipal own source spending on infrastructure, including debt, averaged $4 billion. After the upload, from 2008-2013, it averaged $6 billion per year – an increase of $2 billion annually.

This is a great example of what governments can achieve together – both in advocacy, and in delivery. It also points to the merits of a long-term plan.

Municipal governments have redirected upload dollars into infrastructure to help make up for a lost decade of infrastructure investment. At the same time, the Province has also done what it said it would do. This is what should be celebrated about our shared history.

Another notable milestone is this government's decision in 2014 to establish a multi-year plan dedicated to provincial and municipal infrastructure within and outside the Greater Toronto and Hamilton Area (GTHA). The enhancement of this plan in 2016 to $31.5 billion demonstrates an ongoing capital commitment which municipalities and local economies applaud.

Despite this progress, some challenges remain. Capital spending must be significantly ramped up if there is to be any hope of addressing the infrastructure and municipal service needs of Ontarians in the next ten years.

Ongoing challenges

The upload also included a decline in unconditional operating grants through the Ontario Municipal Partnership Fund (OMPF). This is an ongoing challenge. The upload has affected different communities in different ways, just as the download nineteen years' prior, didn't treat all the same either. An inflationary increase needs to be added to the OMPF this year.

Also on the municipal operating side, the ten-year upload agreement will be fully mature next year. In other words, the predictable increases the sector has benefitted from each year for the last ten years, will be fully in place. That progress must be preserved.

Social housing wasn't uploaded – it is still the responsibility of municipal governments – upper tiers, some single tiers, and District Social Service Administration Boards in the north. Currently municipalities still face a $1.5 billion repair backlog in the social housing portfolio. Provincial assistance is needed urgently to address this backlog. A ten-year plan to extend social housing supply to just a third of those on the waiting list, is a further $8 billion capital challenge. Even if new stocks were built, this would create an ongoing operating pressure which municipalities cannot fund. The provincial government must once again become a more active funding partner of social housing in Ontario.

Interest arbitration is another big test. Here's a number to illustrate that point: if fire and police had received the same increase that other municipal unions did between 2010 and 2014, it would have meant $485 million in savings to municipal governments. That could build a lot of infrastructure. It is more than four times the size of the 2016 Ontario Community Infrastructure Fund. That total, $485 million, would build about 1750 kilometres of road - that's a road from Windsor to Montreal and back. This missed opportunity cannot be reclaimed, but it highlights how some provincial policies drive and determine key municipal costs.

Similarly, with policing, AMO is worried that a new provincial grants policy will drive future municipal costs up rather than provide the cost relief so many communities actually need. Municipalities, police service boards, and chiefs of police have shared deep concern for the impact of the government's recent grant funding changes. At stake is the provincial cost share of funding for over 2,000 front line officers. With only six week's notice, the Ministry of Community Safety and Correctional Services cancelled twelve-year-old grant programs when many police services and municipalities had already set their 2017 budgets. This could leave property taxpayers on the hook for $400 million in payroll costs in 2018 without dedicated provincial support for those front line officers. In our view, the Ministry's proposal of a transitional, short-term grant with different funding criteria, is ill considered. The first priority must be to wind up old grants in a way that ensures no residual or legacy fiscal burdens for police services or municipal government. The second priority should be to design future grants and direct Ministry spending in ways that support good civilian governance and policing modernization.

Improvements to the efficiency and effectiveness of policing are desperately needed. For close to five years, AMO has devoted considerable resources to the Future of Policing Advisory Committee (FPAC) on policing modernization. The grant issue above is illustrative of the fact that municipal governments and property taxpayers, the primary funders of police services, are not being fully considered in meaningful ways. The lingering issue of property counts in OPP billing methodology creates an added level of financial uncertainty for over 300 municipalities.

Ontarians pay the highest policing costs in the country. This includes both provincial and municipal expenditures. In 2014-2015, Ontarians spent $347 per capita on policing. It is at least $40 more than Albertans and Quebecers and, $58 more than British Columbians. Cost growth in Ontario shows no sign of slowing down. Since 2011, costs have increased by $2 per capita in British Columbia, by $5 per capita in Alberta and Quebec, and by $27 per capita here in Ontario. We continue to seek provincial action to “bend the cost curve” in Ontario.

Some have suggested that policing is facing a crisis of legitimacy. Perhaps a failure to address cost in Ontario is part of this concern. A 2015 survey of Torontonians identified the cost of policing as the number one issue facing Toronto’s new Chief of Police. Province-wide polling conducted in 2014 and 2016 by Nanos Research also illustrates that point. In 2014, 32% support police and fire personnel having the same wage and benefit increases as other employees of the same municipality. By 2016, that number had increased to 41%. In both 2014 and 2016, over a quarter of the population supported a wage freeze for police and fire personnel.

In his recent review of policing, Justice Stephen T. Goudge, Q.C. said, “Police services have been organized for an older reality. Police services must adapt if they are to improve the effectiveness and efficiency with which they deliver safety and security.” Here in Ontario, that adaptation must accelerate. It will take political leadership at the provincial level to achieve new legislation that delivers.

The challenges highlighted above illustrate just a handful of specific municipal fiscal issues. What does the big picture look like for the municipal future?

Long-term expenditure needs

AMO is looking at municipal expenditure needs over the 10-year period – 2016 to 2025. These numbers include the entire municipal sector in Ontario, all 444 municipal governments, including the City of Toronto.

Municipal operating costs are growing at $1 billion annually. If councils keep doing what they have been doing, and assuming no new mandates, what takes $40 billion a year in 2015 to deliver municipal services, will take $50 billion a year by 2025. That's just to keep municipalities delivering what they've been delivering. That growth is based on historical trend, back to 2009. So it accounts for population change and inflation, if past trends remain relevant. That's just operating. Now, let's consider infrastructure needs.

The provincial government estimated that municipalities need to be spending an additional $6 billion a year over current spending to eliminate the infrastructure deficit in ten years. That includes life cycle investment needs and growth. This estimate is from 2008, the year of the upload agreement.

It would keep what we have in a state of good repair and provides for what we will need to spend on roads and bridges, to treat water and wastewater, manage storm water, build transit, and dispose of solid waste.

The government's estimate didn't include social housing, libraries, arenas, and recreation facilities. AMO estimate those needs at an additional $900 million annually based on accounting values and the existing social housing unit repairs needed. A rough cost estimate to expand affordable housing supply for a third of those on the wait list, is $800 million a year for ten years.

To sum up, total estimated needs to fund operating growth beyond 2015 spending and to close the infrastructure gap over the next ten years, is $132 billion, or $13.2 billion annually.

Long-term revenue problem

If that is the expenditure picture for the next 10 years, how can municipal governments pay for this using existing revenue sources – property taxes, user fees, fines, charges, and transfers from senior governments.

Let's start with property taxes - $20 billion was collected in 2015. AMO projections assume those revenues grow at the rate of inflation, 1.8%, a Ministry of Finance estimate. As for user fees - $9 billion was collected in 2015. Projections also assume these revenues grow with 1.8% inflation over the next ten years. Other revenue includes fines, development charges, etc. There is no growth modelled into any of these revenue categories at present, including *Provincial Offences Act* revenue. It is too early to tell the impact recent legislative change and administrative practice may have on these revenues at this time.

As for transfers from the provincial and federal governments, as best as possible, AMO has accounted for every single provincial and federal dollar it possibly can. In simple terms, the totals amount to the provincial and federal governments continuing to do what both have been doing, and delivering what both said they'd deliver in the future. It assumes existing infrastructure commitments from election platforms are fulfilled, and re-newed commitments are made by senior governments in the next ten years.

How do these revenue estimates line up with the $13.2 billion annual need noted above? Beyond 2015, the average annual contribution for the next ten years breaks down this way: $2.9 billion from municipal property tax and user fee increases, $2.7 billion from the provincial government, and $2.6 billion from the federal government. The remaining gap is $4.9 billion.

Keen observers will note this is a higher gap than was presented at the AMO Conference in August 2016. What has changed? A modest, but potentially expensive expansion of social housing is one part. The other relates to an updated estimate of the federal share of future commitments based on Ottawa's 2016 Fall Economic Statement. It provided some additional detail and clarity of long-term federal spending intentions from 2016-2025. Estimating the Ontario municipal share over that timeframe is in itself, a process filled with assumptions. Predicting the future is not a refined science, especially when it comes to transfer payment forecasts.

Revenue risks for municipalities

All of this underscores the inherent vulnerability municipalities face when it comes to financing the future at a local level. Any fluctuation in provincial or federal transfers, either up or down, will either help or hinder, contribute to, or take away from, the future of Ontario communities.

Between now and 2025, there will be a total of thirty-six provincial and federal budgets and fall economic statements at which current commitments to municipalities would need to be reaffirmed. Between now and 2025, there will be three provincial elections and three federal elections at which current commitments to municipalities would need to be reaffirmed. And yet even if all of these funding commitments are maintained, municipalities are still facing a $4.9 billion annual unfunded challenge. This is the heart of the matter.

This analysis hasn't considered the new challenges municipalities might face in the future. Its focus is simply about how to finance what is known today to be needed for the long-term. This need, the gap, has been talked about for many years.

Municipal governments have no control over transfers from the other governments. Only through advocacy can there be any hope that new mandates come with new revenues. AMO seeks the maintenance of the province's current municipal infrastructure spending plan. Any move to back-end the existing 10-year investment plan would considerably delay closing the gap. Such a move would be to the detriment of local communities.

Municipalities have responsibility for both the capital costs and the operating costs of all municipal infrastructure. These operating dollars are a pressure locally. This is why the provincial government should keep the provincial 1/3 contribution for cost-shared infrastructure funding, even if the federal government contributes a greater amount. Recognition for these municipal operating costs helps to keep infrastructure affordable for communities across Ontario.

Property tax limits

So if municipal governments are limited to current revenue tools – what happens? What will municipal governments be coping with if there are absolutely NO increases in transfers, or no new sources of revenue?

As far as revenue goes, an alternative looks something like this - property tax and user fee increases that could exceed 8% each year for ten years.

What does an increase like this mean for a typical homeowner? If the property tax alone financed the future, a homeowner currently paying $3,000 a year would be paying almost $6,700 by 2025. Let's not forget, Ontarians already pay the highest property taxes in the country. How much higher is too high? Can families in all communities afford to pay these increases? Can seniors? Can millennials? Is this the best way forward?

Ontario municipal governments will continue to bring innovations and efficiencies to the table. AMO has highlighted a number of such initiatives including shared service agreements between municipalities that deliver efficiencies. Those advancements are continuous and ongoing. But there remain a number of areas where provincial programs and legislative changes can be improved. This includes provincial action on existing municipal advocacy efforts such as joint and several liability reform, inflationary OMPF increases, and interest arbitration reform. Changes in these areas are good public policy, they are in the public interest, and AMO will continue pursuing them.

Yet even if municipalities achieved success in every single one of these areas, issues that have been pursued for many years, they do not add up to the significant need: $4.9 billion annually.

New revenue

This raises the issue of new revenue to address the problem. This includes the existing *City of Toronto Act* special revenue tools which only the City of Toronto can use. They include: land transfer tax, parking tax, billboards, motor vehicle ownership, alcohol, tobacco, and entertainment.

As a matter of principle, all municipal governments should have the same authority, and councils can determine if any of these tools are the right fit locally. But we know they are not choices for all communities and we know none alone can deliver anything close to $4.9 billion for all municipalities, province-wide.

The recent long-term revenue discussions at the City of Toronto reflects the types of discussions that take place in council chambers across Ontario. One big difference however, is that no other municipal council in Ontario has a suite of additional revenue tools like Toronto does. What is the government’s response to the 2,800 local elected officials in all corners of the province, who face with the same fiscal challenge?

From large to small, from urban, rural, or northern, from growing, stable or fiscally challenged municipalities; in one way or another, every community faces different versions of the same test – providing services and programs for the future. Having a

19^{th} century revenue tool kit, to deliver 21^{st} century services, is not a successful recipe for the future.

Municipal governments from all corners of the province will be looking to the 2017 Provincial Budget to signal provincial interest in addressing the long-term financial needs of the entire municipal sector, through a bolder revenue framework developed together.

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