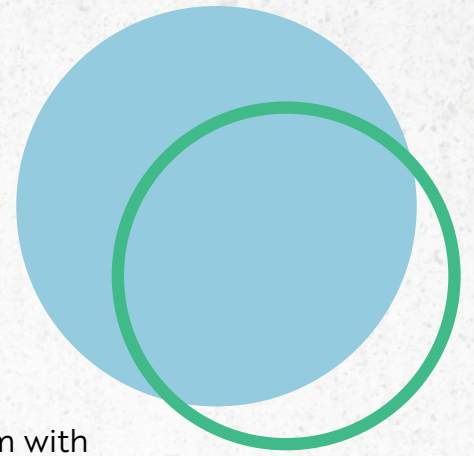


Social and Economic Prosperity Review



Association of
Municipalities
of Ontario



Executive Summary

Concern about the financial sustainability of municipal government in Ontario is nothing new. It's a systemic problem with a direct line to decisions made in the 1990s when the province downloaded a big portion of its budget deficit onto the shoulders of property taxpayers, including homeowners with fixed incomes and small businesses. In 2008, new arrangements bought some time for the province and municipalities, but time has now run out. The predictable consequences of the 1990s downloading, mixed with historic growth pressures and inflation, are playing out in municipal budgets across the province in 2024 and beyond.

These fiscal arrangements are not working for communities or the businesses and industries at the foundation of local economies. They are not working for property taxpayers during an affordability crisis. They are not working for the people experiencing homelessness, gridlock and declining infrastructure. They are not working for communities stepping up to prepare for the massive impacts of climate change. The province has recognized the unsustainable nature of current arrangements with its New Deal for Toronto. But these structural challenges extend well beyond Toronto's borders and impact every municipality – big and small – across the province.

That is why AMO wants to undertake a Social and Economic Prosperity Review. We are proposing a detailed and objective analysis of the current fiscal arrangements for services and infrastructure investment that is affordable for both orders of government and for taxpayers.

The current provincial government did not create this problem, but it has the resources and the wherewithal to solve it. People expect all orders of government to work together to tackle complex problems, make tough decisions and to provide the services people and businesses rely on. AMO is calling on the province to make this commitment in its 2024 Budget.

Ontario's municipalities are critical to economy and quality of life

A strong relationship between the Government of Ontario and its 444 municipal governments is the foundation for our collective prosperity. Municipal governments are a key partner in a resilient economy, investing revenues of almost \$65 billion in important public services and infrastructure each year. These investments in Ontario are equivalent to roughly one third of annual provincial spending.

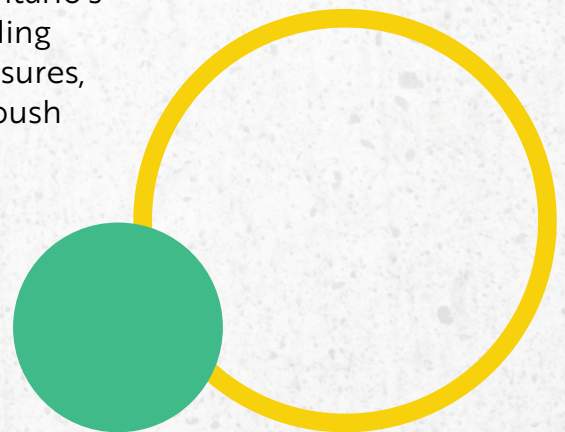
Ontario's municipalities own and operate nearly half a trillion dollars of infrastructure – more than both the provincial and federal governments – that is foundational to Ontario's economy and quality of life. Engaging in long-term processes to make the best possible decisions to manage these assets is a core municipal focus. Municipalities are constantly looking to the future to understand what infrastructure will be needed to support residents and the economy, and planning and investing to meet evolving needs.

Municipal governments provide critical services that Ontario's residents and businesses rely on most every day. They are responsible for land-use planning and development to build safe and complete communities with sound environmental management. They oversee important energy distribution and conservation activities that power communities. They fund the emergency services that keep residents and businesses safe.

As the level of government closest to the people, municipalities respond to increasing social pressures by delivering programs and services to support their residents at all ages and stages of life, including public health, long-term care, childcare and parks and recreation. These critical services drive inclusive growth and build the vibrant communities that make Ontario a great place to live, work and invest.

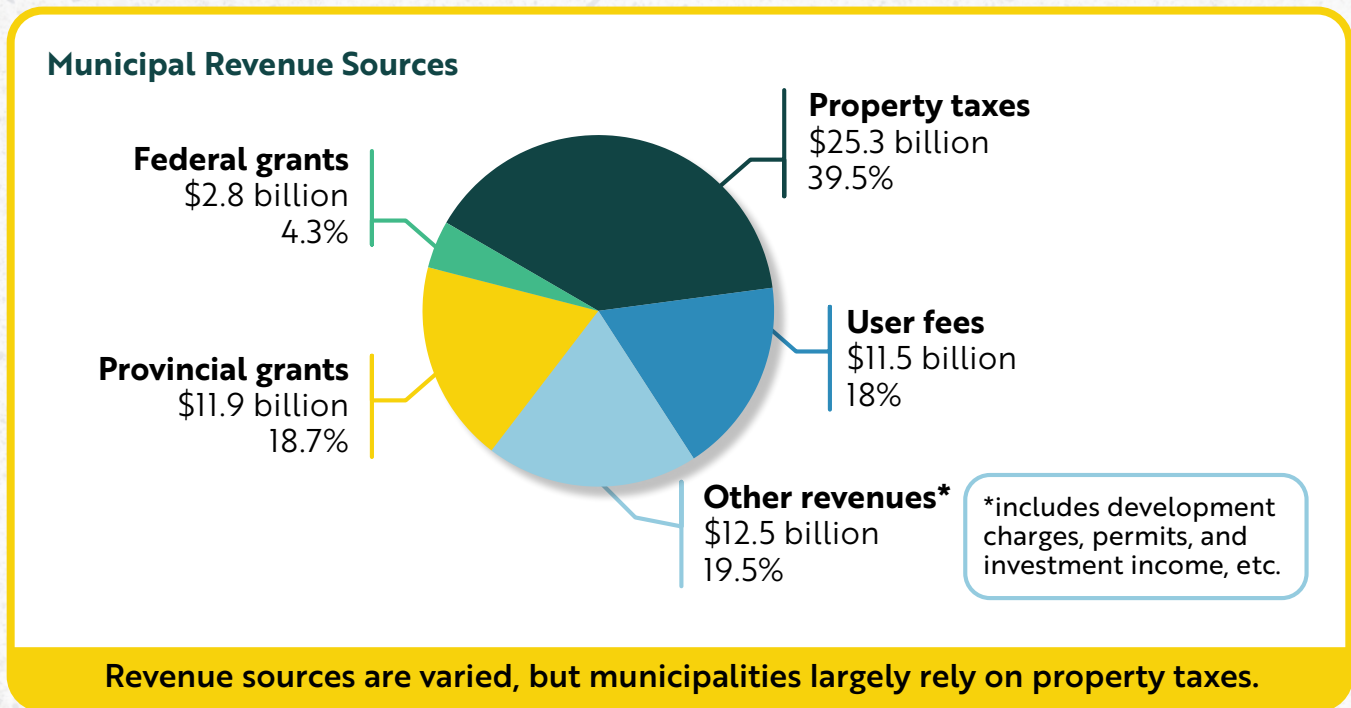
Ontario's municipal fiscal framework is failing residents, businesses and major industry

The fiscal framework that underpins municipalities' ability to deliver the infrastructure and services critical to Ontario's economic and social prosperity is broken. Long-standing structural problems have combined with growth pressures, economic factors, and provincial policy decisions to push municipalities to the brink.



Municipal revenues do not grow with the economy or inflation

Municipalities rely primarily on property taxes and user fees to generate the revenues needed to pay for important infrastructure and services.



Unlike income or sales taxes, property taxes don't grow with the economy or nominally with inflation. In 2022, annual average inflation was a historical 6.8%. While federal and provincial governments saw record revenue growth in 2022 driven by inflation and economic activity, municipalities were left to contend with the rising costs of labour, construction materials, and interest rates without a corresponding increase in revenues.

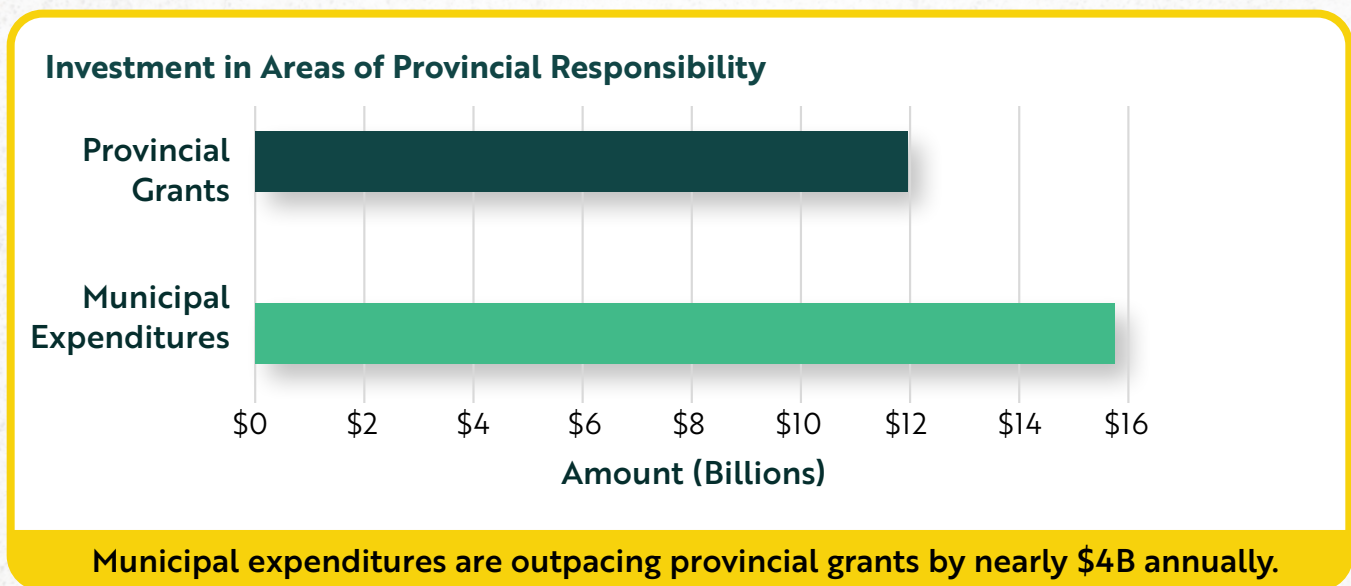
Most federal and provincial grants to municipalities don't grow with inflation either. Provincial funding for programs like the Ontario Municipal Partnership Fund (OMPF) help to support stronger, more resilient communities across Ontario. Since 2019, OMPF funding has remained stagnant at \$500 million a year and has not kept pace with inflationary pressures.

Municipalities subsidize the provincial treasury by almost \$4 billion a year

Almost one third of municipal annual expenditures pay for services that typically fall under provincial jurisdiction in other provinces.

Service	Municipal Expenditures (2022)
Housing	\$2.7 billion
Health services	\$3.3 billion
Social services	\$9.7 billion

Provincial contributions offset these costs – but only in part. As a result, in 2022, municipal expenditures in these areas outpaced provincial grants by \$3.8 billion *and growing*.



Municipal subsidies continue to accumulate. For example, communities in Ontario must cover 10% of hospital capital construction costs, and 100% of the costs of furniture, fixtures and equipment for new hospitals. AMO estimates that municipalities and property taxpayers are currently on the hook for more than \$400 million in hospital capital and equipment costs that should rightfully be funded by the provincial treasury.

Major investments from all orders of government are needed to fund unprecedented growth

Ontario's population is surging and will continue to grow as the federal government targets 500,000 new immigrants per year by 2025. To support this growth, municipalities are committed to doing everything they can to help the province's goal of building 1.5 million homes by 2031. This ambitious housing target depends on essential municipal infrastructure and the public investment to support it – from water systems to sewers, roads and transit systems, emergency service stations, waste management facilities, parks and community centres.

Municipalities across Ontario are working to plan what infrastructure is needed to support this growth and how to pay for it. Ontario's municipalities are planning for \$250 - \$290 billion in capital expenditures over the next decade – with around \$100 billion of that investment being connected to growth.

In the fall of 2022, Bill 23 fundamentally undermined municipal tools to finance growth, creating a \$1 billion annual hole in municipal balance sheets. In November 2022, the government committed to "keep municipalities whole" from the fiscal impacts of the bill. Unless fully offset, this will result in property tax increases, user fee hikes, and/or service reductions.

York Region's 2024 budget illustrates how growing needs and provincial policies are squeezing municipalities:

- **2024 Capital Budget: \$1 billion**
- **10-Year Capital Plan: \$11.6 billion**
- **Impact of Bill 23: \$700 million decrease in revenues over 10 years**
- **Impact of provincial housing targets: \$1.7 billion growth in 10-year capital plan to meet 60% of targets**
- **Unfunded capital to meet 100% of provincial housing targets: \$2.6 billion**

Growth is not the only infrastructure pressure that municipalities across the province face. In 2021, the Financial Accountability Office estimated that the cost to bring *existing* municipal assets to a state of good repair was approximately \$52 billion.¹ Municipalities have worked hard to make significant progress in the way that existing infrastructure assets are managed. The pressure to support growth cannot undermine the sound long-term management of existing assets.



¹Financial Accountability Office, Municipal Infrastructure (2021)

Municipalities can't – and shouldn't – fix Ontario's fraying social safety net on the backs of property taxpayers

Increasing demands on finances have not stopped municipalities from stepping up to address challenges as the government closest to the people. However, the financial tools available to municipalities were never intended to support income redistribution, resulting in growing unmet needs that are undermining Ontario's economic and social prosperity.

Homelessness has reached disastrous proportions in Ontario, with devastating impacts on people, communities, and businesses across the province. The challenge continues to grow in the face of skyrocketing food and shelter costs and a reluctance to reverse the policy choices of successive provincial governments over the past three decades that have contributed to the current crisis. Homelessness remains a challenge felt most by municipal governments, where municipalities are left to manage the symptoms of systemic challenges without the means to address root causes. This approach is both costly and ineffective.

While municipalities continue to spend approximately \$1 billion each year on community housing, there is existing – and growing – unmet needs for additional community housing stock. The Canadian Housing and Renewal Association recently determined that approximately 140,000 new deeply affordable units are needed in Ontario to approach the OECD average.² Investing in community housing is just that, an investment that pays returns in the form of economic productivity – but municipalities cannot do it alone.

Property tax is not an appropriate or sufficient revenue tool to generate funds for income redistribution programs such as social housing. Property taxpayers, including people on fixed incomes and struggling small businesses cannot afford to subsidize income redistribution for those most in need.

Demand outpaces housing options for our most vulnerable Ontarians. There are now nearly

1,400 encampments in municipalities across Ontario.

In the last five years, property taxpayers have seen a

200% increase in costs to support homelessness services in their communities.

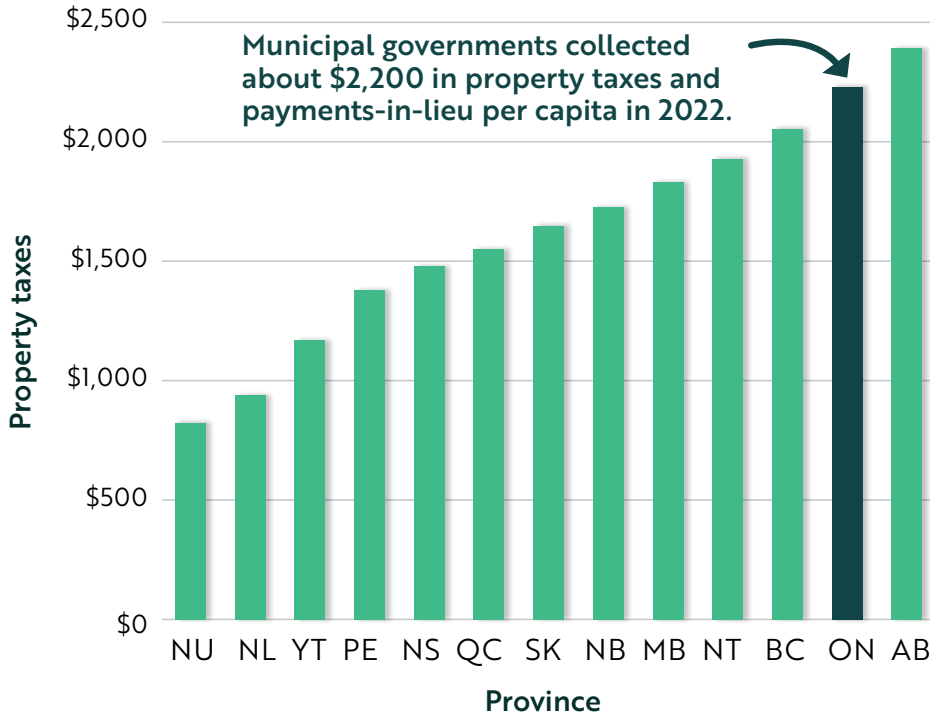


²The Impact of Community Housing on Productivity, Canadian Housing and Renewal Association (2023)

The time to update the provincial-municipal fiscal relationship is long overdue

As of 2022, property taxes in Ontario were already amongst the highest in the country at \$2,200 per capita.

Property Taxes Across Canada



Ontario's property tax rates already stand out amongst other provinces.

In 2024, many municipalities will be compelled to raise property taxes to address a “perfect storm” of factors – including inflation, interest rates, growth, ongoing subsidies to provincial responsibilities, and revenue gaps created by provincial policies. These increases will feed housing affordability challenges and will not be sufficient to put municipalities on a sustainable path.

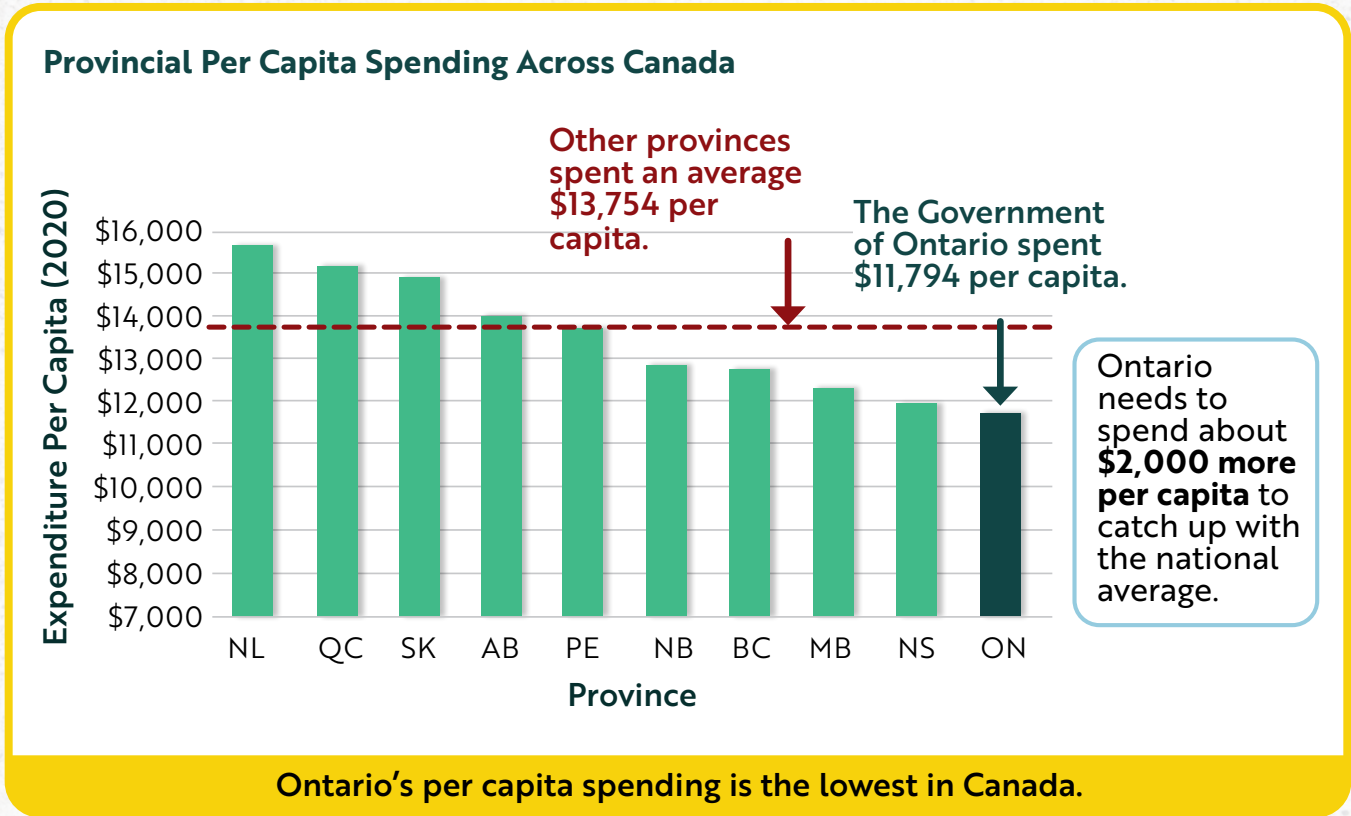
The province has suggested that municipalities are sitting on billions of dollars of reserve funds that can be exhausted to address pressures. The province knows this is false. Municipal reserves are mostly regulated by legislation and help ensure that municipalities can build and sustain critical infrastructure over the long term without significant fluctuations to property taxes. They are an important factor that enable municipalities to maintain overall fiscal health and access the limited borrowing that is allowable when appropriate. They cannot sustainably cover current commitments, new investments and ongoing fiscal needs.

The system is broken and needs to be fixed, or Ontario risks undermining the foundations of its prosperity.

The province can – and should – invest more in Ontario's prosperity.

Ontario has been under-investing in programs for years

Ontario's program spending is already the lowest in Canada at \$11,974 per capita. This is nearly \$2,000 lower than what other provinces are spending on average. In areas like post-secondary education, children and social services, and education – the foundations of economic competitiveness in a knowledge economy – the province's real per capita spending have all declined by over 10% since 2018.



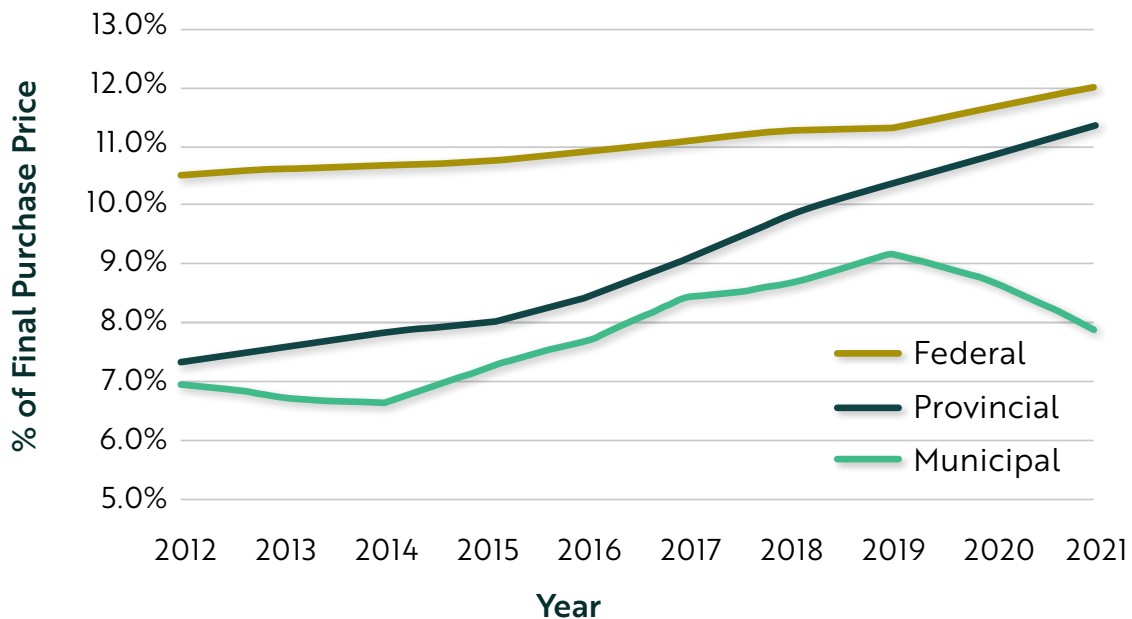
The 2021 Ontario Fall Economic Statement projected a 3% increase in year-over-year program expense growth. By contrast, Ontario's municipalities saw an 8% increase in operating expenses year-over-year over the same period, from 2021 to 2022.

Despite projected deficits, Ontario fiscal fundamentals remain strong

The Ontario government continues to maintain a strong fiscal position. For 2023-2024, the projected \$5.6 billion deficit includes a \$5.4 billion contingency fund and \$1 billion in reserves. According to the Canadian Centre for Policy Alternatives, deficit, debt-to-GDP ratios and the percent of revenues going towards interest payments are all at 10-year lows.³ Unlike municipalities, the province benefits from strong year-over-year revenue growth that grows with the economy.

The province continues to be a key beneficiary of housing market growth. For each new home built in Ontario, the federal and provincial governments take a share of 39% and 37% respectively of total taxes, compared to local governments' 24%.⁴ This includes the \$4.48 billion in provincial revenues from Land Transfer Taxes alone in 2022. As illustrated in the graph below, the provincial government's share of the purchase price of a new home has climbed steeply over the past 10 years – increasing by 55% compared to local governments' 13%.

Total Government Taxes in New Build Purchase Price



Municipalities in Ontario retain the lowest share of the total purchase price of a home.

³Canadian Centre for Policy Alternatives, Fall Update: Ontario's Projected Deficit is an Accounting Fiction (2023)

⁴Canadian Centre for Economic Analysis, An Uncomfortable Contradiction: Taxation of Ontario Housing (2023)

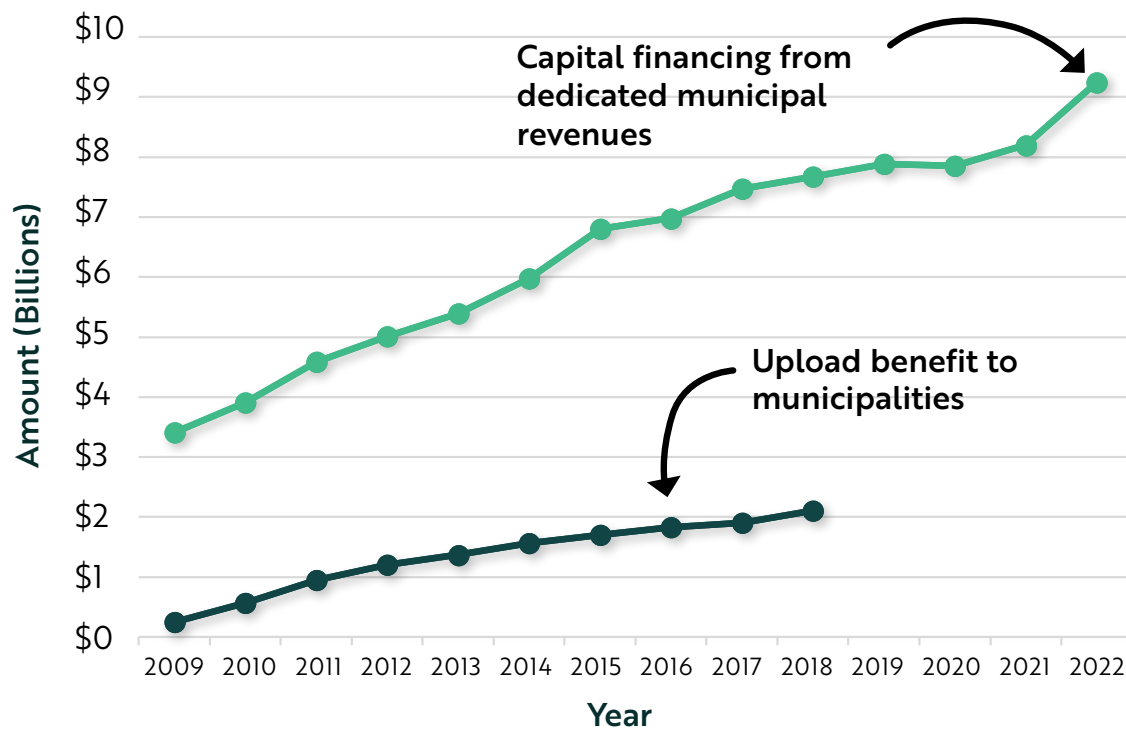
A Social and Economic Prosperity Review will put Ontario on a sustainable path

Ontario's provincial and municipal governments have a strong history of collaboration.

Municipalities and the provincial government have a strong history of working together to solve complex challenges and develop sound public policy. Throughout the COVID-19 pandemic, the provincial-municipal partnership saved lives and stabilized the provincial economy during unprecedented times.

In 2008, the province and municipalities listened and learned from one another as a part of the Provincial-Municipal Fiscal and Service Delivery Review to develop a shared vision to help rebalance roles, responsibilities and finances. Following the upload of \$2 billion in annual expenditures to the province, municipalities increased investments in infrastructure and put assets on a more sustainable path.

Municipal Investments in Infrastructure



Municipalities have invested upload savings into infrastructure.

A Social and Economic Prosperity Review

In October 2023, AMO asked the Premier, the Minister of Finance, and the Minister of Municipal Affairs and Housing to sit down with municipalities and work together on a social and economic prosperity review: a joint review of revenues, costs and financial risks and a detailed analysis of Ontario's infrastructure investment and service delivery needs.

This process would have the goal of updating the provincial-municipal fiscal relationship to support strong economic foundations, sustainable communities, and quality of life. It would be guided by the principles of:

- Fiscal sustainability for both orders of government
- Fairness and affordability for taxpayers and equity for communities
- Coordinated and timely infrastructure investment resilient to climate realities
- Increased housing supply and affordability
- Robust health and social services supporting increased economic participation
- Long term economic development and prosperity for Ontario and its communities
- Modern, effective and streamlined service delivery

The AMO vision would see provincial and municipal governments coming together to guide robust, joint analysis that considers evidence, balances different perspectives, and ultimately generates consensus on a path forward. AMO's Memorandum of Understanding with the provincial government provides an ideal framework under which this collaboration can occur.

AMO is calling on the provincial government to commit to this review as part of Budget 2024, with a view to developing a consensus report with recommendations by 2025. This review would build on the success of the Ontario-Toronto New Deal that recognized the unsustainability of current municipal-provincial relationships grounded in the downloading of the 1990s.

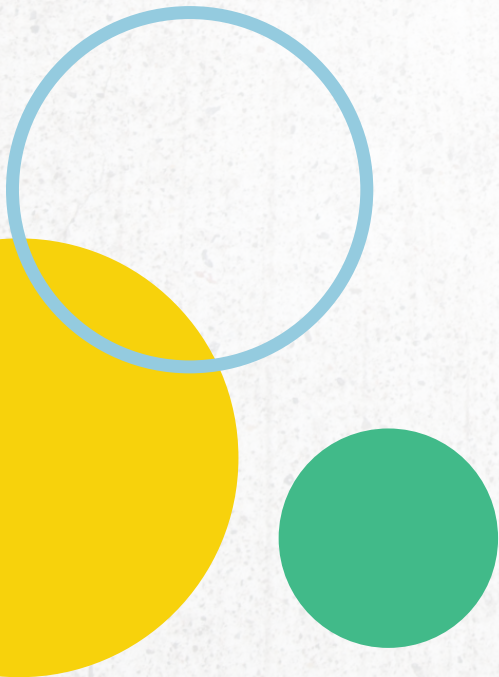
Conclusion

The municipal fiscal sustainability challenge is urgent, province-wide, and central to Ontario's ability to solve the housing and affordability crisis.

In the context of long-standing structural issues, current economic factors, and investments needed for growth, this conversation is overdue.

It will take leadership and resources from the province and municipalities to do this important work. But the benefits for sustainable communities, stronger economic foundations, and a better quality of life for all Ontarians are indisputable.

Join Ontario's municipalities in this important initiative. Working together, we can build a better Ontario.





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