WHAT'S NEXT ONTARIO?

LOCAL SHARE

Imagining a prosperous future for our communities

PROPOSED ACTION PLAN

MAY 25, 2017

Association of Municipalities Ontario

May 25, 2017

Dear Reader,

This report culminates two years of research, analysis, outreach and discussions. It looks at municipal governments' fiscal circumstances, particularly to 2025. It is not a rosy picture. In fact, we have an annual gap of $4.9 billion to continue delivering today's services to our communities and to address critical infrastructure needs more proactively. To give some context to that number, increasing property tax and user fees by the rate of inflation generates $2.9 billion more per year for municipal governments in Ontario.

Ontarians count on municipal governments every day to provide quality, round-the-clock services. Developing municipal budgets and setting property tax rates are among the toughest decisions that municipal elected officials must make each year. It can often mean cutting the services people want. While the challenge looks different from one community to the next, it is a challenge faced by all.

Much of what makes a community an attractive place to live, or to do business, is public infrastructure. While all three orders of government have ramped up infrastructure spending in recent years, there is still a great deal more to do across Ontario. Along with that, municipal service demands are also changing. For example, projections suggest that aging Ontarians will increase the cost of long-term care by 36% between 2009 and 2020.

When it comes to raising revenue, under current rules, municipal governments have three choices – ask the provincial and federal governments for more, raise user fees, or raise property taxes. Ontarians already pay the highest property taxes in the country, in part, because they also deliver the broadest range of services in the country. That is unlikely to change.

Provincial uploading of certain service costs over the last 10 years, and provincial/federal transfers are critical parts of the municipal fiscal future. These changes alone, however, will not get us to where we need to be. Neither will drastic cuts to services.

How can we diversify the way communities are funded and provide for our communities over the long term? This report looks at this challenge and possible solutions, as well as what has emerged as a leading option. A new 1% sales tax dedicated to municipal infrastructure was received favourably by a majority of Ontarians in a recent AMO/Nanos poll. Other municipal governments around the world use a local sales tax. We cannot afford to ignore the need to achieve fiscal sustainability.

The foundation of municipal funding hasn't been substantially revisited since confederation. A new path forward will take a dedicated effort. AMO invites you to be part of that journey in considering what The Local Share might mean for the future of your community.

Lynn Dollin, AMO President

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A change in demographics is putting at risk the ability to rely on property taxes. This includes an aging population with more fixed-income seniors and a lack of growth (new assessment).

From a southwestern rural municipality

Empowering municipalities and making transformational change starts and ends with long term sustainable funding, alternative revenue tools, and the accompanying authority.

From a GTA municipality

Current fiscal challenges will continue to hamper financial sustainability and exacerbate property tax affordability issues for residents and businesses.

GTA regional municipality

A municipality's success is ultimately measured by the taxpayer and the value they feel they are receiving for their tax dollar.

From a northern municipality

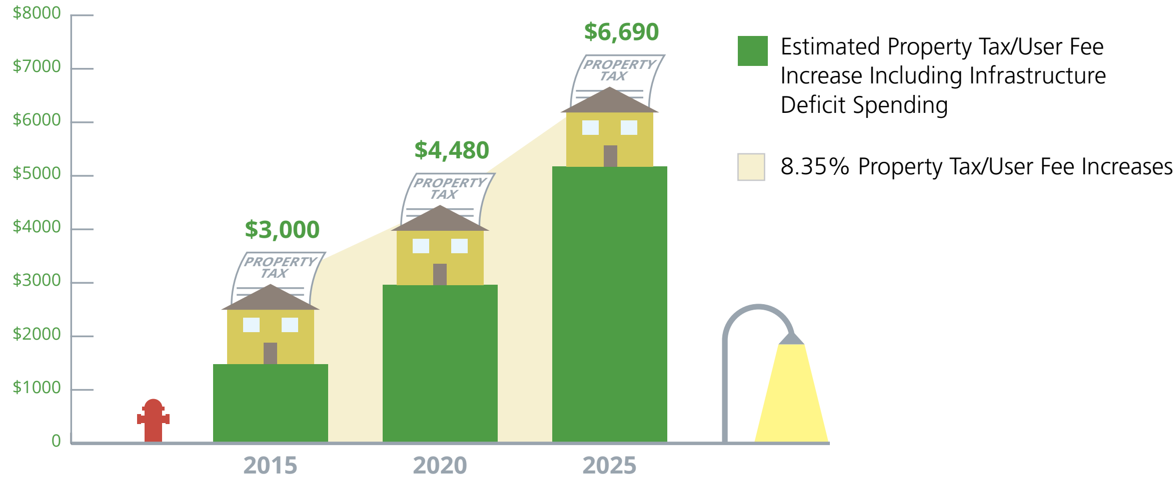
EXECUTIVE SUMMARY

Introduction

Can all municipal governments rely on property taxes to finance the needs of tomorrow? Does that reliance carry any risk? What are the alternatives?

The Association of Municipalities of Ontario has produced two previous reports which summarize the fiscal situation municipalities face now and into the future. The first report, from June 2015 provides a fiscal overview by service, discusses the merits of the existing revenues to finance local government, provides comparisons with other jurisdictions, and discusses some key considerations for the future, including changes in demographics and service growth.

In short, that report concluded that municipalities face an estimated shortfall of $4.9 billion each year for the next 10 years to maintain current service levels, not improve them, and finance infrastructure needs. If higher property taxes 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.



The second report, from August 2015 recorded some of the reflections we've heard from some municipal leaders across Ontario about the challenges they are currently experiencing and the issues they see on the horizon.

This third report is the product of additional province-wide discussions with local elected leaders and municipal staff and the well-considered analysis of all options that has pointed to a specific province-wide solution that could help the fiscal needs of all municipal governments. Combined, all three reports provide a full picture of the Ontario municipal circumstance and the long-term infrastructure funding gap.

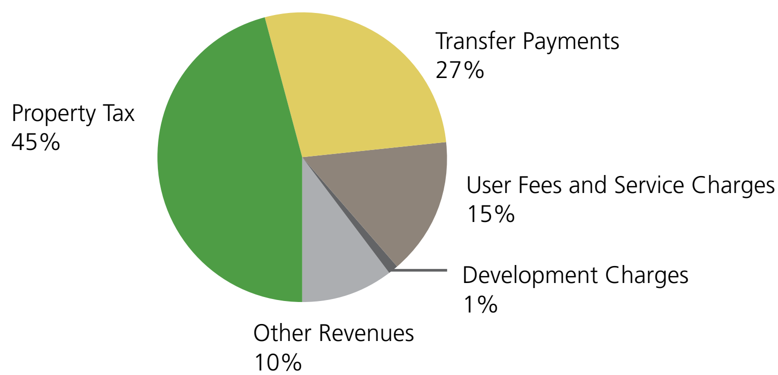
Why are property taxes not the way forward?

Property taxes have funded municipal needs for 150 years or more however, property taxes don't reflect a taxpayer's ability to pay. Millennials, seniors and families on fixed incomes cannot always afford large property tax increases. For many small, rural, or northern municipalities with limited assessment bases, the revenue raising capacity of the property tax is limited. For example, a 1% property tax increase raises less than $50,000 for more than half of Ontario's municipalities.

Relying on transfers or revenue sharing from senior governments means that municipalities remain vulnerable to the funding priorities and policy changes of other governments.

Property Taxes Represent the Largest Revenue Source for Ontario Municipalities

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



What does the future require?

Diversifying municipal revenues for all municipalities needs to be a key part of the future. A 1% municipal sales tax could help to fund critical local services like roads, bridges and transit, and community facilities including social housing. It could help reduce the upward pressure on property tax bills, and diversify the funding of local communities. To achieve the dedicated amount, it would be added to the provincial portion (8%) of existing 13% Harmonized Sales Tax (HST) rate in Ontario. It could help manage locally the upward pressure on the property tax dollar, and fix the chronic under-investment in municipal infrastructure across Ontario. This could distribute an estimated $2.5 billion annually. The revenues raised could ensure municipal governments can deliver public infrastructure services in all communities and not leave future generations stuck with a bill they can ill-afford. The future of the province depends on having vibrant communities that can afford to provide good quality services to their residents.

What is solved by a 1% HST increase dedicated to municipal governments?

After adjustments for collection, administration, and providing tax credit allowances for low income Ontarians, it could generate $2.5 billion.[1] Planned federal and provincial infrastructure spending for municipal governments would need to remain unchanged under this proposal. This sales tax revenue total would grow, or contract, with the economy. Across all municipal governments, $2.5 billion could address about half of the identified annual revenue shortfall of $4.9 billion.

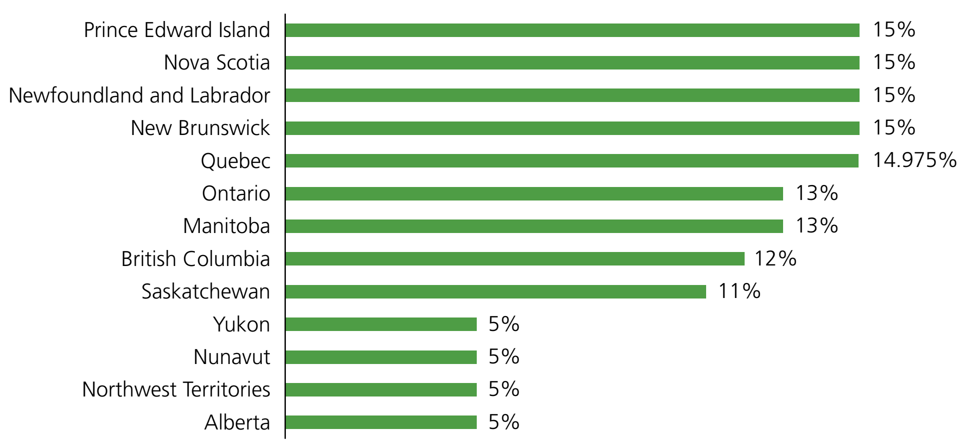
Adding a 1% increase to the provincial sales tax portion of the HST would require the provincial government's consent with the help of AMO and municipal governments. The federal government administratively collects HST revenues and distributes these dollars back to each province based on its sales tax rate, but the change in the provincial portion is not a federal decision.

Sales tax is a highly efficient method of tax collection compared to other potential municipal revenue tools such as road tolls, land transfer tax, or income tax. Collection and distribution costs would be recouped from the total proceeds as noted above.

Current sales tax rates in Canada[2]

Sales tax rates across Canada vary according to provincial taxation policies. A move to a 14% sales tax in the province does not mean Ontario becomes an outlier. Five other provinces currently have higher rates; this would not change with a new rate for Ontario. Prince Edward Island, Nova Scotia, Newfoundland and Labrador, New Brunswick and Quebec have sales tax rates of 15%.

Applicable Sales Tax in Canada

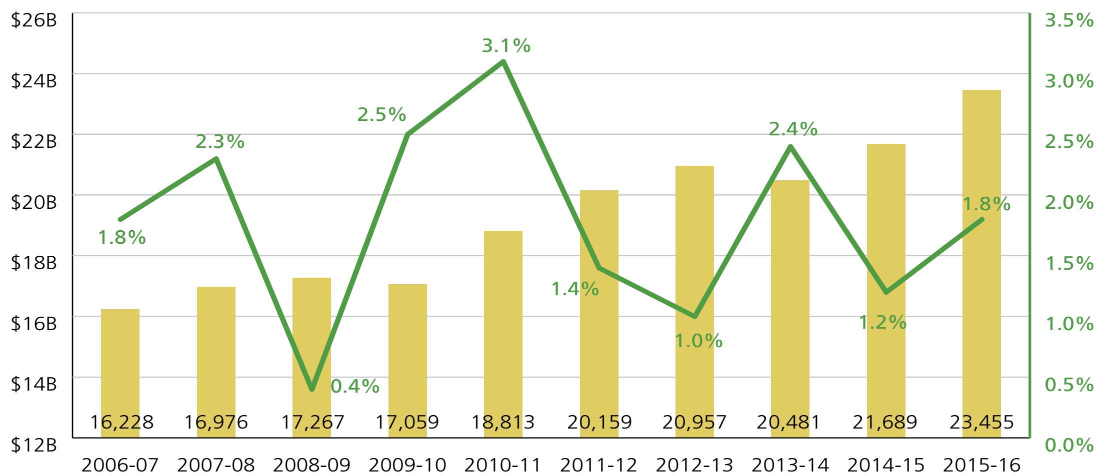


[1] A 1% increase in total is estimated to raise $2.7 billion. From this total estimate, AMO has subtracted 2% for collection and distribution costs and $166.5 million worth of sales tax credits for Ontarians with incomes under the Low Income Cut-Off (LICO). Total proceeds after these deductions are estimated at $2.47 billion annually. The sales tax credit allowance is a pro-ration of the existing low income credit program, factoring for an additional 1% HST.

[2] Some recent changes to sales tax rates include the following: **New Brunswick** HST increase from 13% to 15% on July 1, 2016; **Newfoundland and Labrador** PST increased from 8% to 10% on July 1, 2016; **Prince Edward Island** HST increase from 14% to 15% on October 1, 2016; and a **Saskatchewan** PST increased from 5% to 6% on March 23, 2017.

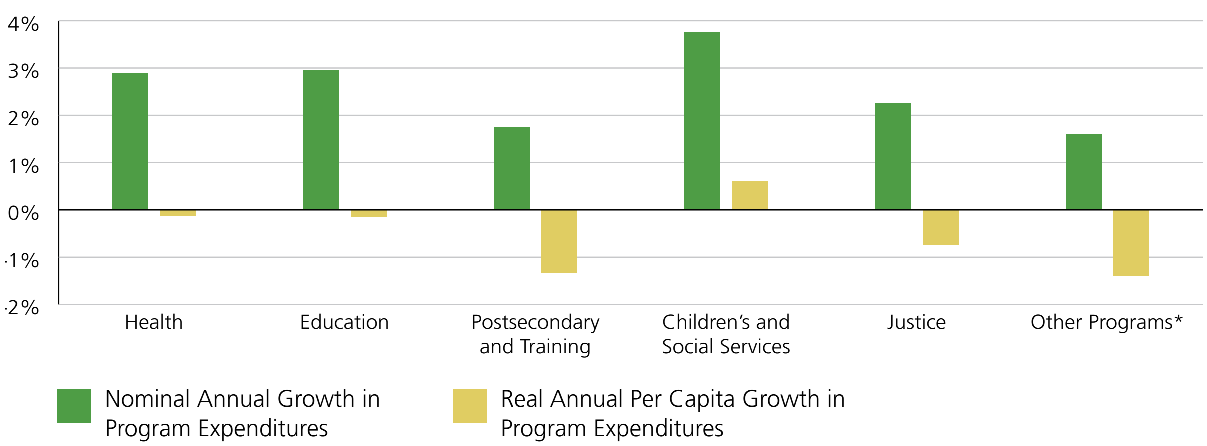
The chart below illustrates how sales tax revenues grow or contract with the economy, independent of inflation. It also puts into context what $2.5 billion looks like against the broader picture of provincial sales tax revenues that exceeded $23.4 billion in 2015-16. For comparison, provincial spending on health in the same year was approximately $51 billion.

Ontario Sales Tax Revenues Against Inflation



The chart below illustrates the extent of recent and planned provincial spending constraint by program area. Nominal growth does not adjust for inflation; real growth does adjust for inflation. In both the 2016 and 2017 Provincial Budgets,[3] the highest annual growth expense is "Interest on Debt". For comparison with the numbers below, expense growth for "Interest on Debt" in the 2016 Budget was 5.4% for the period 2014-15 to 2018-19 and 3.6% for the period 2015-16 to 2019-20.

The Challenging Provincial Fiscal Plan:
Annual Growth in Provincial Program Expenditures 2013-14 to 2019-20



Source: Ontario Budget 2015: Table 2.19. Ontario Budget 2016: Table 3.18. Ontario Budget 2017: Table 6.17 and York Region Finance Department. * Includes transportation, tourism, economic development, employment, agriculture, employee and pensioner benefits, housing and natural resources. Does not include interest on debt.

[3] Table 6.12, Page 235

What might this mean for your municipal government?

There are a multitude of allocation options some simpler, such as population and household and some with very complicated scaled formulas based on factors such as assessment, households, and tangible capital assets. To better understand the potential help a 1% increase dedicated to municipalities might mean, we've illustrated what one possible allocation could look like per household.

Allocation illustration

The following demonstrates what a sliding scale per household approach looks like and what it could achieve.

In situations where households are located within a two-tier municipality, the share of upper tier revenue was used as a proxy for service responsibilities. For example, if County X had 45% of the revenues for all municipalities in that county, it would get a 45% share of the new revenues.

The per-household amount is based on a sliding scale on a cumulative basis. In other words, every municipality would move through the "per household" ranges based on the size of each community. The methodology achieves a base line for all communities and recognizes the service role that households (both permanent and seasonal) place on municipal governments.

For illustrative purposes, every municipality in this methodology could receive $573 per household for their first 499 households, $523 per household from 500 to 4,999 households and continue until the household count for that municipality is reached. It reflects the differing economies of scale that exist across different sized municipalities.

The methodology includes a cap of 50% of municipal own property taxation. In this approach, this cap affects only half a dozen municipalities and addresses windfall anomalies. AMO's illustrative allocation uses 2014 household counts from the Financial Information Return (FIR).[4] FIR household information is based on data provided by the Municipal Property Assessment Corporation to each municipality.

Possible Rate per Household and Ranges

Households		Rate per Household
Lower Range	Upper Range	
0	499	**$573**
500	4,999	**$523**
5,000	12,499	**$483**
12,500	24,999	**$453**
25,000	49,999	**$433**
50,000+		**$423**

[4] The Financial Information Return (FIR) is a standard set of year-end reports, submitted by municipal governments to the Ministry of Municipal Affairs, collecting financial and statistical information for each municipality.

Regional distribution

Possible Regional Distribution of 1% HST

	Property Taxation Revenue (2014)	1% of HST	Federal Gas Tax Revenue (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**

Would there need to be obligations on how municipal governments use this new revenue?

If new HST revenue is for infrastructure, it needs to be spent on infrastructure. There is an infrastructure gap in every community. The asset management plans of municipal governments demonstrate this need for capital assets both new and old. A local multi-year spending and use plan could help the public to understand exactly what it should expect to see on a local level in the form of specific projects or services. It provides for public accountability and compliments asset management planning and capital budgeting.

Conclusion

Without new sustained revenue, municipal governments will continue to struggle with their fiscal well-being while trying to make their communities strong places to live, work and play. Property taxes will not solve the capital challenge.

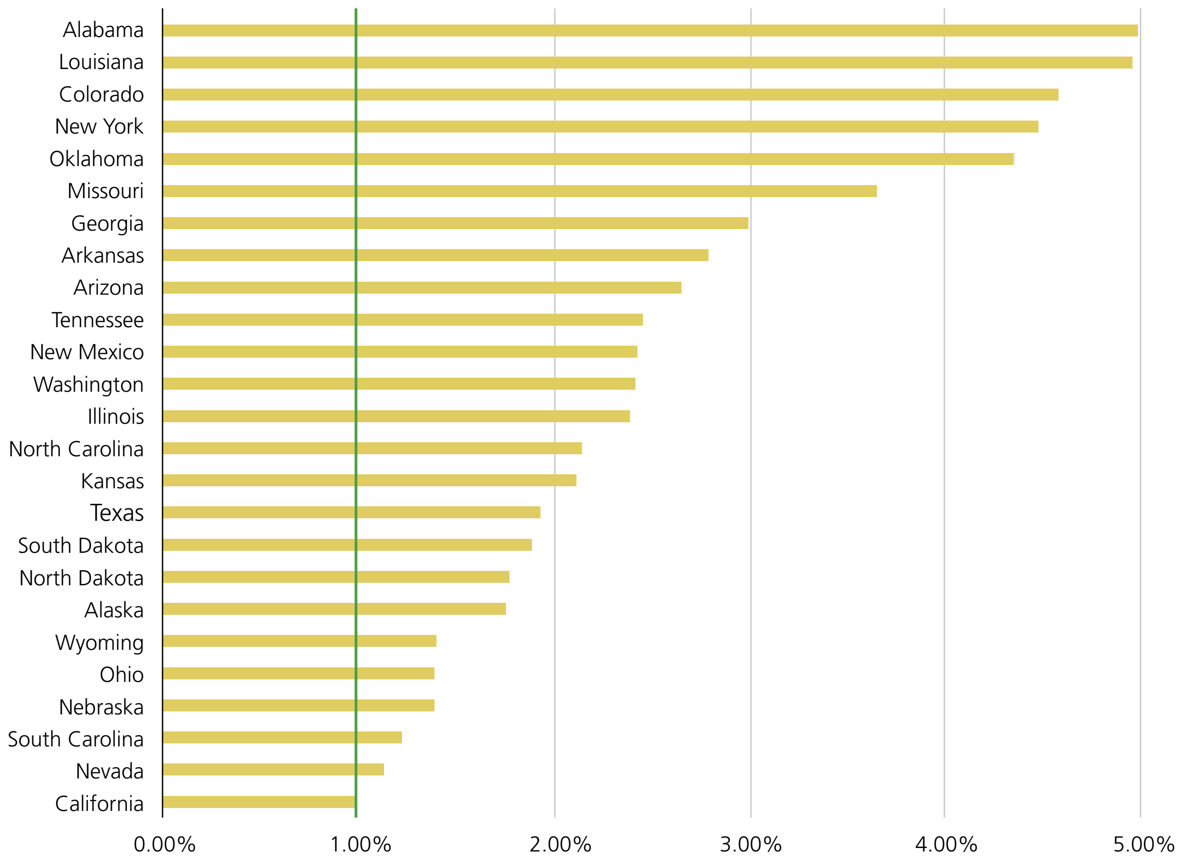
Do we want to continue to be reliant in the future on transfer payments, winning provincial grants, and competing with each other? Each of Ontario's 444 municipal governments has its unique challenges. Each deserves a better way to meet the future now.

If you want more background on how we've reached this point, the remainder of the document provides more information.

Sales tax use by other jurisdictions

Many other jurisdictions around the world permit the use of a sales tax by municipal governments. In the United States, twenty-five states permit a local sales tax of at least 1%. The average local sales tax rates are below.[5]

Average Local Sales Tax in 25 U.S. States is at Least 1%



[5] 2017 Tax Foundation Report

Internationally, many other countries use a broad mix of revenue tools to finance local services. Below is a chart which summarizes how much that varies among selected OECD countries.[6]

Relative Importance of Local Taxes in Selected OECD Countries, 2013

Countries	Tax sources as a % of total local tax revenues				Local taxes as a % of GDP	Local taxes as a % of all taxes[5]
	Income[1]	Sales[2]	Property[3]	Other[4]		
Federal						
Australia	0.0	0.0	100.0	0.0	0.9	3.4
Austria	63.9	9.1	14.8	12.2	1.3	3.2
Belgium	34.5	7.3	58.9	0.3	2.0	4.7
Canada	0.0	2.1	97.4	0.5	2.9	9.3
Germany	79.4	5.8	14.6	0.2	2.9	8.2
Mexico	0.0	3.2	75.3	21.5	0.3	1.2
Switzerland	84.9	1.5	13.6	0.0	4.2	15.2
United States	6.0	22.4	71.6	0.0	3.6	14.5
Regional country						
Spain	18.4	34.4	42.0	5.1	3.3	9.9
Unitary						
Chile	0.0	58.8	41.2	0.0	1.4	7.3
Czech Republic	0.0	44.1	55.9	0.0	0.4	1.3
Denmark	88.8	0.0	11.2	0.0	12.5	26.3
Estonia	91.4	1.4	7.2	0.0	4.2	13.3
Finland	93.3	0.0	6.6	0.1	10.2	23.4
France	0.1	24.0	51.9	24.2	5.8	12.9
Greece	0.0	3.7	96.4	0.0	2.0	5.6
Hungary	0.0	79.9	20.0	0.0	9.5	5.9
Iceland	81.9	1.1	17.0	0.0	0.9	26.6
Ireland	0.0	0.0	87.9	12.1	2.6	3.1
Israel	0.0	5.7	94.3	0.0	2.2	7.3
Italy	25.3	21.0	16.4	37.2	7.2	16.2
Japan	50.8	19.2	28.9	1.1	7.5	24.2
Korea	17.7	25.4	44.6	12.3	3.9	15.5
Luxembourg	90.9	1.5	7.5	0.2	1.3	3.5
Netherlands	0.0	46.9	53.1	0.0	0.8	3.7
New Zealand	0.0	9.5	90.5	0.0	2.1	6.7
Norway	87.7	1.3	10.9	0.0	5.4	13.1
Poland	57.0	4.7	33.8	4.5	4.1	12.9
Portugal	30.2	24.2	42.4	3.3	3.0	7.0
Slovak Republic	0.0	25.8	51.4	22.8	0.8	2.9
Slovenia	79.7	5.2	15.1	0.0	4.0	10.8
Sweden	97.4	0.0	2.6	0.0	15.8	36.9
Turkey	23.9	51.5	13.8	10.9	3.0	8.8
United Kingdom	0.0	0.0	99.3	0.7	1.6	4.9

1. Includes individual, corporate and payroll tax.
2. Includes general consumption taxes, value-added taxes, specific taxes on goods and services (fuel taxes, hotel and motel occupancy), and taxes on use of goods or on permission to use goods or perform activities.
3. Taxes on property, including recurring taxes on net wealth.
4. Includes a miscellaneous collection of local taxes.
5. Total includes central government, state government, local government, and social security funds.

Source: OECD, Revenue Statistics 1965-2014 (Paris: OECD, 2015), from tables 77, 78, 84, 86, 87 and 88.

[6] Harry Kitchen and Enid Slack, Institute on Municipal Finance and Governance, "More Tax Sources for Canada's Largest Cities: Why, What, and How?", 2016.

Backgrounder on the problem statement – why the property tax is not the path forward

The recent past

The 2008 Provincial-Municipal Fiscal and Service Delivery Review was a major milestone for municipalities. Also known as the upload agreement, it was the result of a significant advocacy push by all municipal governments.

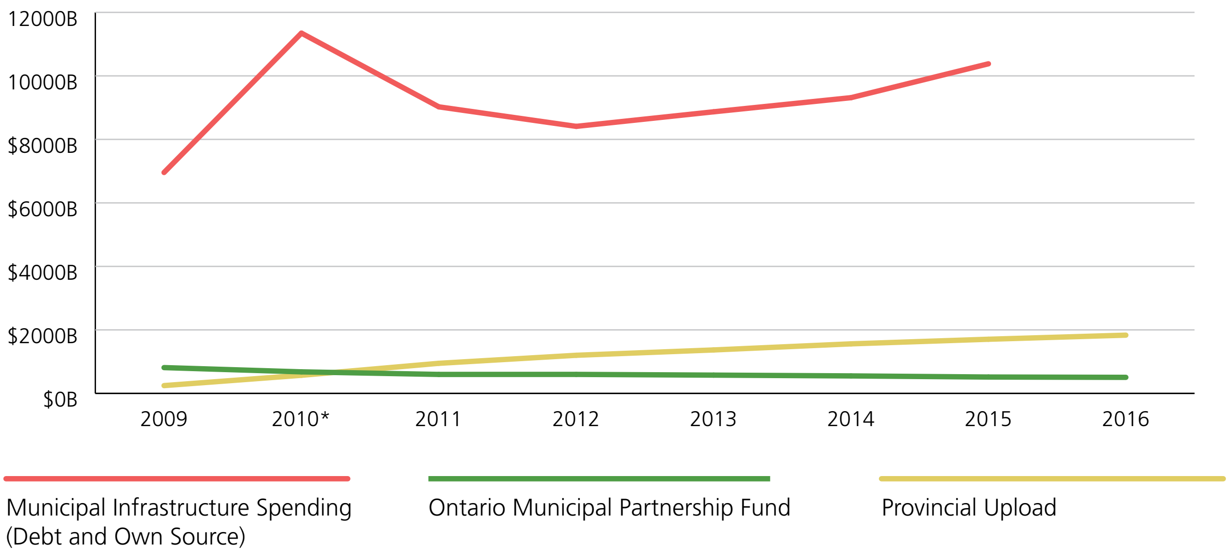
In 2005, municipalities rallied around AMO's $3 Billion Gap Campaign, which focused on the amount that municipalities were paying to subsidize provincial programs. This was the legacy of past downloading by provincial governments. They used the property tax base to finance certain provincial social programs, or income redistribution programs, which it was never designed to support. By the late 1990s, municipalities were mandated to assume social housing costs, including the unaddressed infrastructure deficit in social housing stock, half the costs of land ambulance services, a portion of public health spending, child care and also OPP municipal policing costs. In 2003, municipalities were subsidizing the provincial treasury by $3.2 billion. By 2005, it had grown to $3.9 billion.

At the time, both municipalities and economists argued that income taxes – not property taxes – should fund income redistribution. Ontarians were paying the highest property taxes in the country and were redirecting billions of dollars away from long-term infrastructure investments to finance expensive and highly variable social assistance benefits. At the same time, municipalities had little or no say in the operation of these programs since eligibility, rates and other key elements were set by the Province.

That 10-year agreement will be fully mature next year. In return for the upload, valued this year at $1.9 billion, municipalities promised to try and make up for lost time by increasing investments in infrastructure as these dollars were no longer going to the province. Did municipalities deliver? From 2003-2008, before the upload, municipal own-source spending on infrastructure, including debt, averaged $4 billion a year. After the upload, from 2008-2013, it averaged $6 billion, an increase of $2 billion annually. So yes, municipalities did as they said they would. There has also been a substantial improvement in using the right tax dollars to fund the right services. Major gains have been made to reducing the amount property taxes fund income redistribution programs. With the 2008 upload agreement nearing full maturity in 2018, municipal governments are entering a new era. The progress that has been made must be maintained.

Funding the growing infrastructure deficit remains the most pressing, long-standing challenge for municipalities. Just as economists warned about using property taxes to pay for income redistribution in the 1990s, we now have economists warning about the state of our infrastructure. On the subject of municipal infrastructure, economist Don Drummond noted in his 2012 report on public services in Ontario: "More fundamental reforms are needed for the [municipal] sector to be on a sustainable footing."

Municipal Infrastructure Investment is Picking Up



* Represents municipal matching funds for federal and provincial stimuli programs.

The problem statement

AMO is looking at municipal expenditure needs over the 10-year period – 2016 to 2025. These numbers include 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 per year in 2015 to deliver municipal services, will take $50 billion per 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 provide for what we will need to spend on roads and bridges, to treat water and wastewater, manage stormwater, 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 one-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.

The Problem Statement

Estimated Need in Next 10 Years	Amount
Increase in Operating Expenditures Annual Growth of $1 billion (trend)	**$55 billion**
Increase in Capital Expenditures $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 (HSC Estimate) Repair existing only, funds no new units	**$1.5 billion**
Social Housing 10 Year Plan to Expand Supply 1/3 of Waitlist (57,000 units, est.)	**$8 billion**
Arenas, Libraries, Recreation Facilities: (AMO) In the absence of consolidated information on municipal budgeting intentions, $750M annually based on accounting values.	**$7.5 billion**
TOTAL	**$132 billion (or $13.2 billion annually)**

As of January 26, 2017. 2015 is the base year.

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?

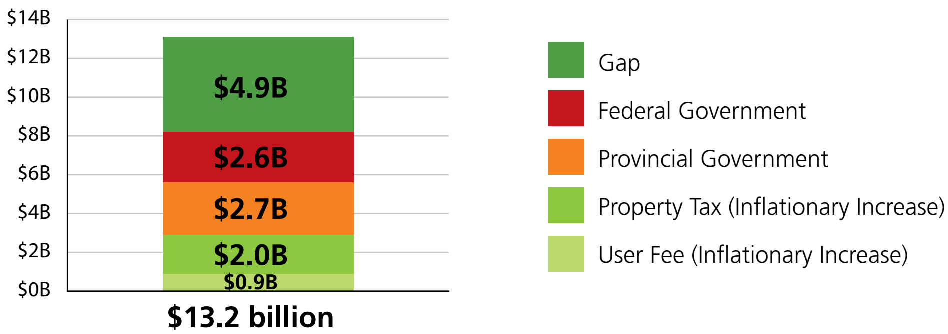
Let's start with property taxes - $20 billion was collected in 2015.[7] AMO projections assume those revenues grow at the rate of inflation, 1.8%, a Ministry of Finance estimate. As for user fees, $9 billion was collected in 2015. Projections also assume these revenues grow with 1.8% inflation over the 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 that 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, these 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 renewed commitments (of time limited programs) are made by senior governments in the next ten years.

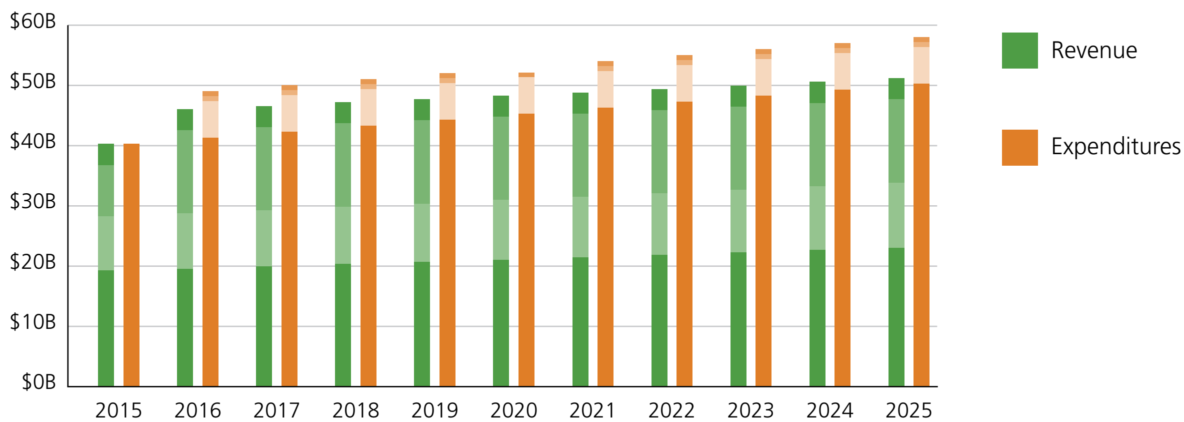
[7] Municipal Financial Information Returns, Ministry of Municipal Affairs.

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.

Average Annual Change Over 2015 (2016-25)



Expenditure Revenue Gap



Source: AMO

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 will either help or hinder the future of Ontario communities.

Between now and 2025, there will be a total of 36 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 also 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.

In the Last Half Century, there has Been a Dramatic Shift in Responsibility for Infrastructure.

Share	1961	2014
Federal	28%	15%
Provincial	36%	26%
Local	**36%**	**59%**

Sources: StatsCan, CANSIM Table 031-0005: *Flows and stocks of fixed non-residential capital, by industry and asset, Canada, provinces and territories, annual.*

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 are responsible for both the capital costs and the operating costs of all municipal infrastructure, with provincial and federal contributions. This includes not just transportation systems, but social and recreational infrastructure too. These operating dollars are a pressure locally. The problem statement accounts for the contributions of the provincial and federal governments 2017 multi-year infrastructure programs, cost share projections as well as the Ontario Municipal Partnership Fund. Removing these contributions would compound the problem for municipalities.

Property tax limits

If municipal governments are limited to current revenue tools – what happens? How will municipal governments cope 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 10 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 possible or even reasonable? 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 and helpful. 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 to pursue them. But together, they would not solve the $4.9 billion annual gap, especially if more unfunded mandates are imposed for septic inspections, new property standard responsibilities, second unit revenue limits, new Integrity Commissioner regimes – and they are funded from the property tax base.

The public policy process

AMO's Board of Directors established a rigorous and thorough public policy development process to assess the merits of various sustainability solutions. Below are the purpose, principles, and criteria which guided this work.

Overall purpose

- Consider options on how to **improve the long-term fiscal sustainability of all municipal governments.**
- Consider and recommend to the Board of Directors, suggested approaches for additional revenue sources for all municipalities, and a package of reforms to refresh provincial-municipal relations.

Guiding principles

1. **Strategic and forward-looking -** Options will focus on improvements to the fiscal and service delivery relationship that are fit for the 21st century.
2. **Flexible** – Options shall acknowledge the diversity of Ontario's municipalities (single, upper and lower-tier municipalities), areas of the province (north-south, east-west and rural-urban), and the diverse fiscal health and needs of municipalities.
3. **Accountable** – Where possible, options shall seek to avoid duplication and minimize overlap between the roles and responsibilities of each order of government in delivery and/or funding of services.
4. **Transparent** – Fiscal options should be straightforward, with well-articulated goals to build public confidence, meet local needs and the broader needs of all municipal governments.
5. **Good public and fiscal policy**– Options for fiscal and service delivery approaches must be driven by a clear public policy purpose and evidence that new arrangements will better achieve that purpose.
6. **Fair and equitable** – Options to diversify municipal revenues or service delivery arrangements should be fair and equitable to taxpayers.
7. **Sustainable** – Options should contribute to improving the long-term sustainability of both the provincial and municipal governments and improve the ability of both orders of government to manage financial risks.

Criteria – used to evaluate options and various considerations

1. **Sufficiency**
   - Total dollars generated compared with identified gap or need
   - Growth, variability (historical), forward looking
   - Risks, e.g. fuel tax revenues due to change in fuel choices/legislative risk
   - Program sustainability, tax rate stability, intergenerational equity

2. **Public Accountability**
   - Equity and fairness
   - Paying for previously "free" services, e.g. road tolls
   - User pay vs. everybody pays, e.g. income tax, property tax
   - Rationale for new tax vs. simply increasing existing tax , e.g. property tax
   - Governance/ Ease and Equity of Allocation
   - Income redistribution should be funded from income tax, need to continue the evolution from the upload

3. **Impacts: Geographic, Economic, Social**
   - Competitiveness of the province (tax, transportation, transit, provincial treasury, etc)
   - Border or tax avoidance issues, e.g. local sales tax drives out business
   - Economic impacts, e.g. land transfer tax and impacts if any on real estate
   - Social impacts, e.g. disproportionate impacts of new revenue source on lower income residents or small business
   - Impact on behaviour (e.g. change in travel mode, purchasing, etc)
   - Needs/solution based on type of municipality (growth, stable, fiscally challenged communities) and regional considerations
   - Equity and fairness

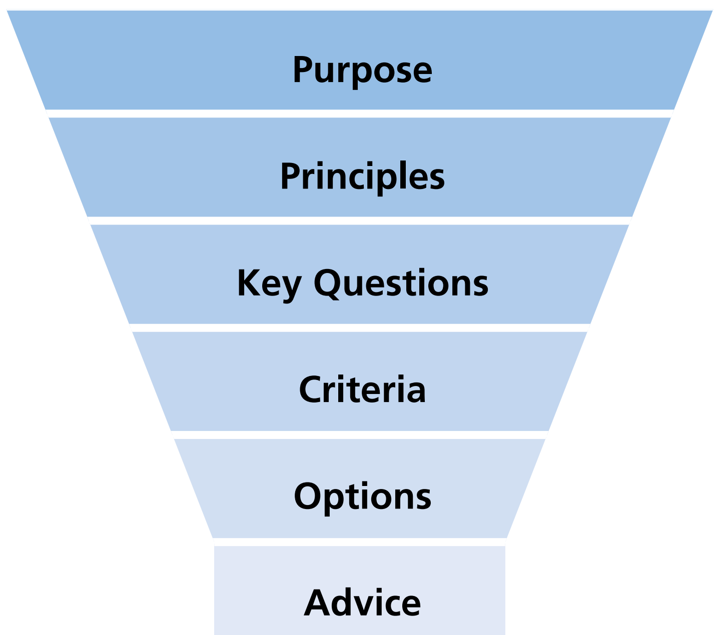
4. **Administrative Efficiency**
   - Collection costs
   - Avoiding duplication of collection, e.g. Ohio with three sets of income tax returns for three orders of government
   - Pricing incentives that promote behavioural change
   - Current prohibitions for indirection taxation by municipalities

- Could ceding municipal responsibilities to the province achieve sustainability in cost-shared programs (i.e. public health, housing, land ambulance)? Does the province have capacity to assume responsibility?

5. **Municipal Role**
   - Current and future role, vulnerability to change, autonomy, recognition as an order of government, maintaining responsiveness to the needs of Ontarians locally

6. **Political Considerations**
   - What is possible?
   - What options may or may not be acceptable to Ontarians?
   - The fiscal situation of the federal and provincial governments and must be considered. Both have been running deficits, both have significant accumulated debt.

Process filter and narrowing of options



The distillers

Overarching considerations

Through the above processes, three overarching considerations drove the overall conclusion. Sustainability is a big deal because:

1. **It is a province-wide problem**
2. **It is about providing services to people**
3. **It is about the future**

1. There is a province-wide problem

Ontario has 444 municipalities. Each community has unique challenges. Below are the three main types of municipalities and the characteristics that describe the varying economic circumstance throughout the province:

Growing or Fast Growing

- Growing population with strong economic base
- Good mixture of residential, commercial and industrial property assessment
- Generally newer infrastructure

Stable

- Stable or slight growth with mixed or service hub economic base
- Some mixture of residential, commercial and industrial property assessment
- May be mix of newer and older infrastructure

Fiscally Challenged or Declining

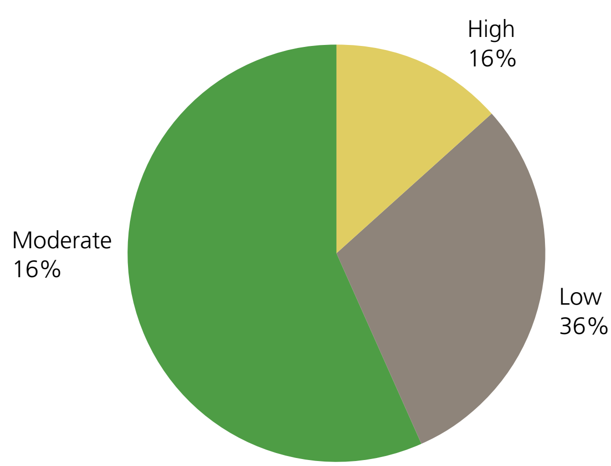
- Stable or declining population growth with limited or declining economic base (e.g. Closing of a major industry)
- Primarily residential property assessment
- Generally older infrastructure

The scattering and dispersion of population, fiscal capacity, infrastructure and the overall fiscal challenge is illustrated in the charts that follow.

Chart A below illustrates the distribution of municipalities, measured by fiscal capacity, into these groups. The fiscal capacity index measures the value of the property assessment base and taxpayers' ability to pay on a relative basis. More than half of the Ontario population lives in municipalities with high fiscal capacity. The rest of the population lives in municipalities with low or moderate fiscal capacity.[8]

The vast majority of Ontario municipalities have low or moderate fiscal capacity.

Chart A. Percentage of Municipalities by Fiscal Capacity Index

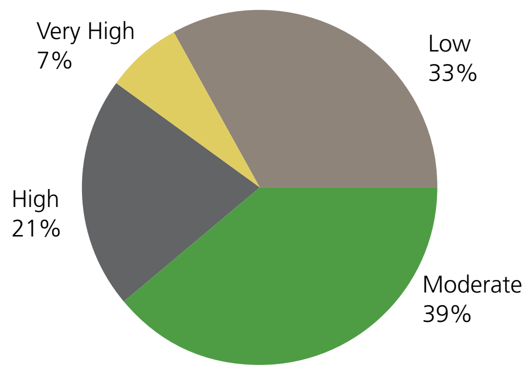


[8] Municipal Infrastructure and Financial Sustainability by the Region of York, 2016

Chart B below illustrates the distribution of infrastructure, measured by tangible capital assets per household. More than a quarter of Ontario municipalities have high or very high infrastructure intensity, in other words, they live in communities with a lot of public, local infrastructure per household. Almost three-quarters have low or moderate infrastructure intensity, on a relative basis.[9]

More than a quarter of Ontario municipalities have high or very high infrastructure intensity.

Chart B. Number of Municipalities by Infrastructure Intensity Index



Another key argument as to why a solution is needed for all municipal governments, is because the infrastructure challenge faced by municipalities matches the distribution of Ontario's population, as highlighted by the chart below.[10]

The distribution of municipal tangible capital assets matches the population distribution

Chart C. 2013 Ontario Municipal Tangible Capital Asset Distribution by Geography

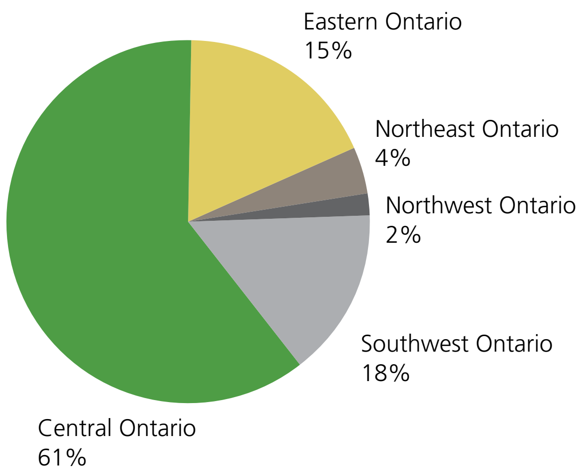
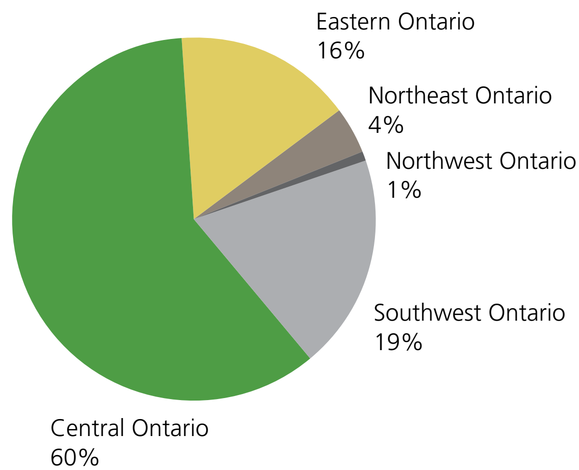


Chart D. 2013 Ontario Population Distribution by Geography



[9] Ibid.

[10] Ibid.

There is also a high degree of variance in the size of one municipality to the next. The chart below illustrates that high variance and it is notable that more than half of the all municipalities have a population of less than 10,000.

Community Population	Number of Municipalities
Under 1,000:	78
1,001- 9,999:	193
10,000- 24,999:	79
25,000- 49,999:	29
50,000- 99,999:	30
100,000- 499,999:	25
Over 500,000:	10
Total	**444**

What are some of the concluding highlights of this data?

York Region's research for AMO includes the points below.[11]

- Different municipal structures and different municipal responsibilities, means that sustainability looks different in different places.
- Ontario's population is concentrated in the urban areas, especially the GTA where household income is on average, higher comparatively.
- Municipalities outside the GTA are widely dispersed when it comes to municipal fiscal capacity and infrastructure intensity.
- Forty-five percent of growing municipalities do not sufficiently invest in their existing asset base.[12]
- Sixty-one percent of the municipalities with negative population growth do not sufficiently invest in their existing asset base.[13]

2. Sustainability is about providing service to people

A majority of Ontarians do not want municipal services scaled back to deliver property tax savings. They see the necessity of the services that are delivered locally. These services contribute to the quality of life in our communities. People rely on municipal services from the moment they wake up to the moment they go to sleep. The following helps to illustrate the broad a range of services:

- **Public Infrastructure:** Local governments provide services such as roads and bridges, water supply and sewage treatment plants which make up a community's basic infrastructure.

[11] Ibid.

[12] Ibid. Data source: 2009-2013 FIR adjusted annual amortization is estimated asset replacement cost divided by average asset useful life.

[13] Ibid.

- **Social Programs:** Local governments can be responsible for a wide range of social programs, including: day care facilities, long-term care, and affordable housing. This can also include recreation facilities, cultural facilities and libraries.

- **Planning and Development:** Land use decisions by municipalities play a major role in determining the character and prosperity of the community.

- **Emergency Services:** Fire protection, police and ambulances are municipal services that are critical to the health and safety of residents.

- **Environmental Services:** Local governments are directly responsible for providing safe drinking water, effective treatment of sewage, and garbage collection and disposal. They also operate recycling programs.[14]

Sustainability is about the capacity to deliver the above services to people.

3. Sustainability must serve our kids

AMO's first report from June of 2015 included a good definition of what sustainability means. A shorter definition below is a good refresher and is provided by the Government of Australia, with emphasis added: "… a government's ability to manage its finance so it can meet its spending commitments, both now and in the future. **It ensures future generations of taxpayers do not face an unmanageable bill** for government services provided to the current generation".

The key to financial sustainability is taking the necessary steps now to manage both short and long-term risks. Profound demographic changes will affect Ontario's municipalities into the future:

- There will be striking regional differences, with population growth concentrated in large urban centres.

- The GTA will be home to half of Ontario's population.

- An aging population will change incomes and spending patterns that will likely also impact government revenues and shift demand for public services.

Not only will the Ontario population get older, but as Bill Hughes, York Regional Treasurer pointed out in his address to the 2016 AMO Annual Conference: "The children of baby boomers will be the first generation to have lower lifetime income than their parents." Municipal governments need to invest in infrastructure to build stronger communities without incurring unreasonable debt at the expense of future generations.

Tools that help manage costs

What are municipal governments doing to help their fiscal condition? There are many things that municipalities have been doing, and will continue to do to improve their circumstances. Of course planning for long-term sustainability and strong balance sheets (capital and financial assets) is step number one for all.

[14] From AMCTO's "About Local Government" for Local Government Week.

1. Pooled investments and bulk purchasing

Local Authority Services (LAS) was created by the Association of Municipalities of Ontario (AMO) in 1992 to help municipal governments realize lower costs, obtain higher revenues, and enhance staff capacity, through co-operative procurement efforts and innovative training, programs, and services. Three hundred and seventy-nine municipalities use one or more LAS services.

LAS currently offers the following to municipal governments:

- Commodity Bulk Purchase Discount Programs (Natural Gas, Electricity, and Fuel)
- Energy Services (Billing and Settlement, Energy Planning, LED Streetlight Upgrades, and Energy Workshops)
- Investments (High Interest Savings Account (HISA), Money Market, Bond, Universe Corporate Bond, Equity)
- Administrative Services (Group Benefits, Closed Meeting Investigations, Municipal Risk Management, and Group Home & Auto Insurance)

2. User fees

The broader use of existing user fees is a frequently cited method of addressing municipal fiscal sustainability. Legislative limits and the definition of "full cost" confine the use of user fees. But increasingly, municipalities are turning to user fees to finance the delivery of certain public services. User fees also help to manage demand for services and encourage the conservation of resources. The proportion of services financed with user fees have been increasing over the past twenty years.

As an example, from 2001 to 2014, municipal water charges have doubled from $970 million in 2001 to more than $2.16 billion in 2014.[15] Achieving full cost pricing across the entire province is expected over the next 10 to 15 years. The broader expansion of stormwater charges in urban areas, where that service is often currently part of the property tax base, is an option larger municipalities are considering.

But as the case studies in the Appendix highlight, maintaining the affordability of critical services like water is an important consideration. If user fees are prohibitively expensive, it can create barriers for some Ontarians to access essential services. In other words, there are limits as to how much can be charged for some services.

3. Sharing services

The sharing of services between municipalities can deliver efficiency improvements. Generally this means creating a critical mass where the delivery of joint service like waste management or water service for example, deliver efficiency improvements. This can also include the broader use of Municipal Service Corporations.

[15] Financial Information Returns.

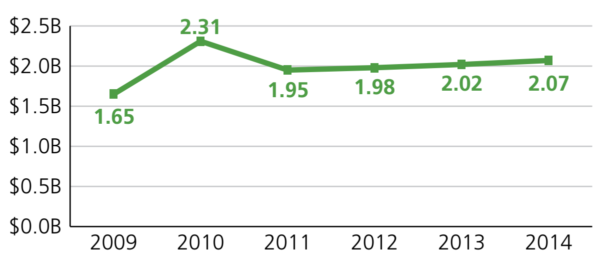
4. Public private partnerships

Public Private Partnerships (P3s) are another means of delivering public services with the use of private capital or corporate entities. There are a multitude of examples how this is being done and could be done into the future. The private sector looks for a rate of return over time, so large infrastructure projects (of at least $100 million) tend to be the focus of P3s. As a result, they are not broadly used across Ontario. But some smaller scale services, like public safety functions, can be delivered in this way. This include non-core policing, like parking ticket enforcement or building security functions outsourced to the Canadian Corps of Commissionaires, a not-for-profit company primarily composed of former military members.

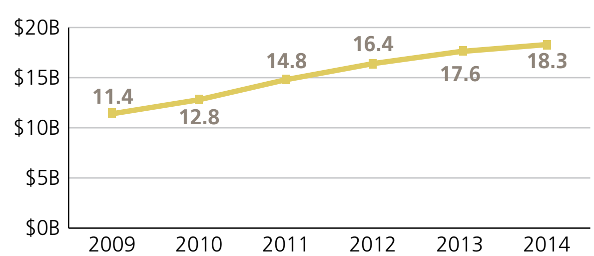
5. Debt

Municipalities are required by law to balance their operating budgets each year. However municipal debt and borrowing is another key financing tool for infrastructure or capital needs. Provincial legislation and the Ontario Municipal Board establish limits to this borrowing. Municipal borrowing and debt levels have been rising as the charts below indicate. The decision to take on more debt is limited by the capacity of property tax to repay debt. Not all municipalities, especially those with limited fiscal capacity, can take on much debt. Achieving the right balance of intergenerational equity is another key consideration.

Principal & Interest Payments are Increasing



Municipal Debt is Growing



6. Greater operational efficiency

Can greater efficiency in the operations of municipalities achieve the savings necessary to address the infrastructure deficit? There are some limitations. They include provincially mandated standards for many services like water treatment, child care, long-term care, police, fire, and Emergency Medical Service, to name just a few. Other limitations include the public's expectations regarding the services they receive. Public opinion polling indicates that nearly two-thirds of Ontarians oppose cutting services to freeze property taxes.

Nonetheless, continuous improvement in service delivery and best practice development will continue to be a critical part of how municipal governments operate.

Conclusion

All of these tools and operational efficiencies are important. But they cannot, on their own, close the $4.9 billion annual gap municipal governments will face for the next ten years.

What the province could do

Municipal governments, various municipal associations and the Association of Municipalities of Ontario all engage in a regular and ongoing dialogue with the provincial government to advance the interests of municipal governments and communities across Ontario. At any one time, discussions are taking place on a long list of policy areas and projects including fiscal impacts and legislation.

Below are a few examples of long-held municipal advocacy positions and their estimated value to property taxpayers.

Estimated Value of Advocacy

Position (long standing multi-year efforts)	Value (annual)	Where the dollars comes from?
Prudent investor status	$20 million	Improved Municipal Revenue from Investment
Joint and Several Liability	$27 million	Reduce Municipal Insurance Costs
OMPF payment increase	$11 million	Provincial Treasury
Photo Radar	$50 million	Reduce Municipal Policing Costs
SUBTOTAL	**$108 million**	
Outstanding Gap	$4.79 billion	

There has been significant movement with only one of these aims in recent years, photo radar. Greater photo radar use will now be permitted in municipally designated community safety and school zones. Given these limitations, the estimated value of $50 million is unlikely to be achieved. Nonetheless, it is a more efficient method of traffic enforcement than using an armed police officer in a cruiser. Measures such as this will be needed if increasing policing costs are to be addressed.

Another key issue is interest arbitration. The simple municipal request is to require arbitrators to seriously look at municipal capacity to pay rather than replication from one fire service to another. At a local level, it's challenging to see how the public interest is served. For example, in 2014, Fort Frances cut two firefighting positions in response to an arbitrator's award of a 16% increase over four years, more benefits and recognition pay.

Here's a province-wide number to illustrate that point: if fire and police had received the same increase that other municipal unions did between 2010 and 2014, it could have meant $485 million in savings to municipal governments. That could build a lot of infrastructure. It is the equivalent to building about 1,750 kilometres of road - that's a road from Windsor to Montreal and back. It is more than four times the size of the 2016 Ontario Community Infrastructure Fund.[16] This missed opportunity cannot be reclaimed, but it highlights how some provincial policies drive and determine key municipal costs.

[16] The Ontario Community Infrastructure Fund (OCIF) provides steady, long-term funding for small, rural and northern communities to develop their infrastructure. In 2015-16 OCIF funding was $100 million. In 2018-19 it will increase to $300 million.

If police and fire employees had received the same wage increases as other municipal employees from 2010-2014, it would have resulted in $485 million in savings.

$485 million builds a road from Windsor to Montreal and back.

The provincial government could take action in legislation and regulation to help municipalities manage costs.

New revenue options

When considering new revenue alternatives, they can generally be divided into two categories: a local/regional approach, or a province-wide approach.

AMO has considered over 40 revenue options (included as Appendix A) and assessed those options according to the criteria outlined on page 22. Those criteria included sufficiency, public accountability, geographic, economic, and social impacts, administrative efficiency, and assessing the municipal role (which includes vulnerability to provincial policy change).

Possible local or regional revenue tools included the special tools provided to the City of Toronto in the *City of Toronto Act*. These include: entertainment, alcohol, tobacco, motor vehicle ownership, land transfer, parking and billboard taxes, and road pricing/tolling. Province wide tools included the sales tax and income tax.

A key consideration for AMO was the issue of sufficiency. How much of the revenue problem would any one of these tools solve for all municipalities?

Revenue estimates were prepared for each of these. The estimates made the following three key assumptions:

1. There is provincial consent to use all tools;
2. Every municipal council choosing to implement their use; and,
3. The local capacity to pay and administer these taxes exists in all communities.

Keeping in mind that the problem statement identifies a $4.9 billion annual gap each year for 10 years and the above assumptions, below are the revenue estimates for the tools, which exclude the City of Toronto, except as noted.

Toronto Tax Tools

Tool	Estimated Revenue	Note
Entertainment	$276 million	Based on a 5% tax on movie admissions, live sporting events and live performing arts.
Alcoholic beverages	$375 million	5% tax – in addition to HST
Tobacco	$236 million	5% tax, based on total 2013 Ontario cigarette sales
Motor Vehicle Ownership	$409 or $819 million	Based a new $50 or $100 flat fee per registration
Land Transfer Tax	$480 million or $1.3 billion	Based on charging 50% or 100% of the provincial land tax rates currently in place
Parking tax	$310-$410 million	GTHA estimate only – based on a $0.25 per space daily fee
Road pricing/congestion charging	$300-$500 million	GTHA region only – based on a fixed rate of 5 cents per km on highways
Billboard	Provincial total undetermined	For comparison, City of Toronto billboard revenues are estimated at $10 million
SUMMARY		The cumulative geographic impact of these measures are assessed as highly variable or insufficient. The economic and social impacts of using multiple tools are assessed to specific population segment(s).

The advantages and disadvantages of these tools are summarized on the table below:

On the one hand	On the other hand
• Improves fiscal autonomy at a local level • Adaptable to local circumstance • Diversifies municipal revenue stream for some municipalities	• Is not an option for communities with moderate or poor fiscal health • Service users or constituents may object to increase burdens or selected tools • Promotes jurisdiction shopping/ inter-municipal patchwork taxation

A sales tax increase could support all communities and it is a revenue tool that has an administrative simplicity across the province. But imagine the boundary challenges associated with a sub-regional or locally based sales tax approach? Do you go to the jewelry store on the east or west side of the street? Does a business location avoid a regional based tax? What about online transactions? A patchwork solution is a highly problematic piece to weave into the fabric of the economy between municipal governments and the province as a whole. It would mean constructing competitive disadvantages from one region to the next.

In addition, Canada Revenue Agency and statistical agencies are not currently equipped to handle the required data for taxable consumption based on a sub-regional or local sales tax approach. In a 2016 report by Harry Kitchen and Enid Slack from the Munk School of Global Affairs, entitled "More Tax Sources for Canada's Largest Cities: Why, What, and How?" the authors comment on the feasibility of a regionally administered municipal sales tax. Specifically, they note that:

"GST and HST revenues collected in each province are not tracked by the federal government and remitted to that province. Rather, all GST/HST revenues are collected annually by the federal government and the entitlement for each province is calculated by a formula that estimates the consumption expenditure base in that province and then applies the tax rate for that province to the calculated share of the base."

Province-wide approach

The two leading options for a province-wide approach include a municipal sales tax or a municipal income tax. Either would be levied across the entire province, centrally collected, and redistributed to all 444 municipal governments.

Details regarding a municipal sales tax approach have already been addressed. As for an increase to income taxes dedicated to municipalities, this option could be levied in additional to the existing income tax rates (provincial and federal). The dollars raised by an income tax depends on the rate increase. For example, a 5% increase to income tax revenues could generate $1.4 billion. An increase of 10% to income tax revenues could generate $2.9 billion.

Increase transfers from the provincial government

Another obvious source of potential revenue for municipalities is to press for an increase in unconditional or conditional transfers from the provincial government. The provincial government has very broad revenue raising capacity, in addition to its already significant infrastructure funding to municipalities through grants and formula-based transfers to municipalities for transit and OCIF for example.

However the fiscal health of municipalities cannot be considered independently of the provincial government's fiscal health. After all, provincial-municipal cost share programs and unconditional and conditional transfer payments rely on provincial government revenues. What's Next Ontario discussions have been premised on forecasts which suggested the return to a balanced provincial budget may be short-lived. These were some of the forecasts provided by the Financial Accountability Office of Ontario at various points in the last two years. There is also the matter of Ontario's accumulated debt. The latest provincial budget shows total debt of $341 billion for 2017-18.

The reality is that one-off transfers or application-based grants do not address the inherent vulnerability municipal governments face when it comes to financing the future at a local level. Any fluctuation in provincial or federal transfers will either help or hinder the future of Ontario communities. When municipalities faced this level of uncertainty in the past, they pulled back on infrastructure spending to focus on immediate operational needs. This uncertainty contributed to the current infrastructure gap.

Long-term, multi-year, predictable transfers or uploads are highly beneficial to municipalities. The Provincial-Municipal Fiscal and Service Delivery Review delivered a 10-year period of improving fiscal relations. It has helped to make up for lost time and the infrastructure situation has improved as a result.

Whether the long-term sustainability needs of municipalities are addressed with new municipal revenues like a dedicated sales tax source, or with increased provincial transfers or other measures, a long-term agreement must be the foundation upon which to build for the future. Addressing the inherent vulnerability municipalities face fiscally is a core issue.

The priorities of Ontarians

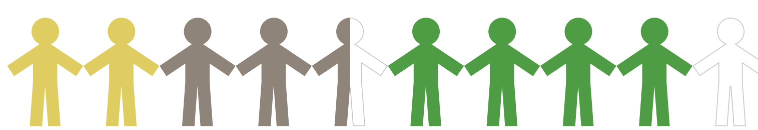
If representing the public interest is job number one for any elected official, it seemed only fitting that we would ask the public to weight in. We made a point of asking Ontarians in all regions of the province what they think.

AMO commissioned Nanos Research to survey 1,000 Ontarians in May of 2016. The May 2016 results were presented to the AMO Annual Conference in August of 2016.[17]

The survey had three broad themes:

1. How close Ontarians feel towards their local government;
2. Their priorities for services and investments; and,
3. The potential use of different new revenue sources.

When asked which level of government is the most responsive to their needs, two in ten pick the federal government, two and a half in ten pick the provincial government, and about four in ten pick municipalities as the level of government that is the most responsive to their needs.



[17] The survey has a margin of error of plus or minus 3.1%, 19 times out of 20. Nik Nanos' presentation to the 2016 AMO Conference is available at the AMO website and here: https://www.youtube.com/watch?v=Bgvpm--U5p8

Almost twice as many pick the municipal order of government. The citizens, who elected their local leaders, feel close to their local leaders. Municipal elected officials without a doubt, represent the order of government that matters the most to the everyday lives of Ontarians. From the moment people wake up – to the moment they go to sleep, people rely on municipal services.

Quoting Nik Nanos, "municipalities in Ontario are currently the hands down winner when it comes to people saying which level of government is the most responsive."

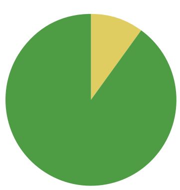
Priorities

About 64% oppose or strongly oppose municipal governments cutting services to freeze property taxes. Almost two-thirds of the Ontarians surveyed like the services they are currently receiving from their municipality and do not want to see those services reduced or eliminated.

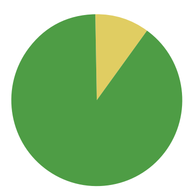
Local infrastructure and municipal services are the building blocks of hundreds of local communities and local economies. Ontarians look to elected officials to offer solutions on how to provide for good public services. Many have expressed strong opinions about what's important to them at a local level.

In other words, infrastructure is 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.

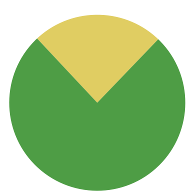
What do the polls say about the priorities of the public? Some 90% of the Ontarians polled agree that maintaining safe infrastructure is an important priority for their community. Some 89% agree that the services municipalities provide are important to their daily lives. As the same time, three in four do not believe property taxes can cover future costs.



90% of Ontarians agree that safe infrastructure is a priority



89% of Ontarians agree municipal services are important to their daily lives

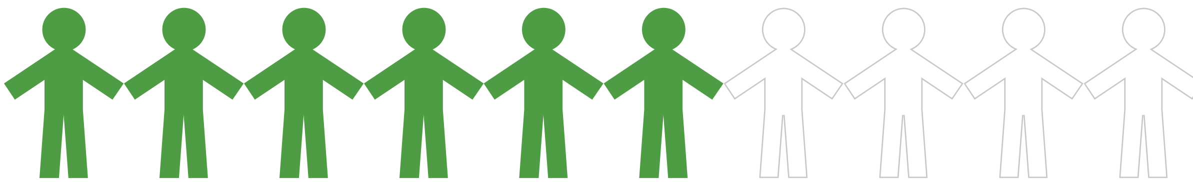


76% of Ontarians are concerned that property tax will not cover the future cost of infrastructure

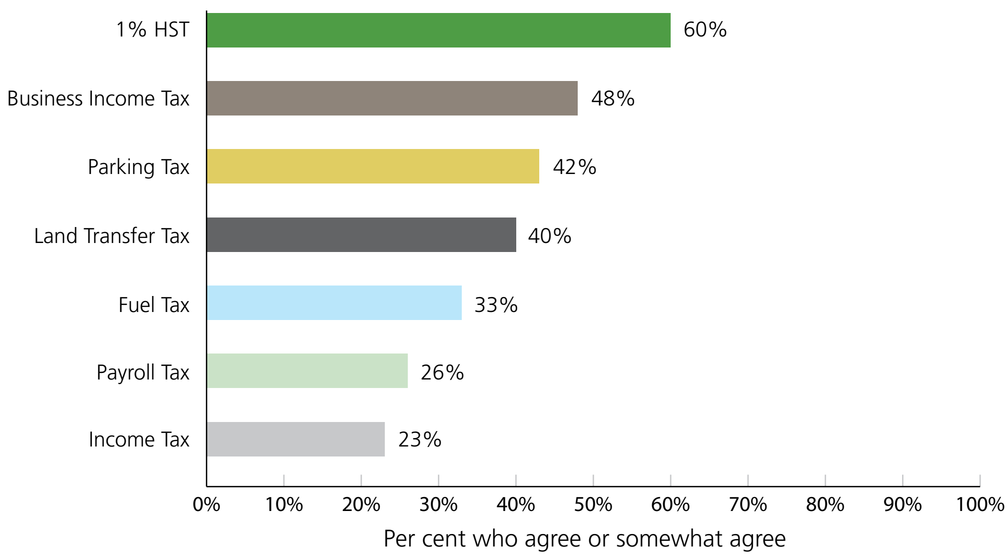
New revenue sources

The survey asked the public about seven revenue tools which included some of the City of Toronto revenue tools, such as land transfer tax, parking tax, fuel tax, and others like an increase in income tax or a sales tax for municipal governments. Only one option received a majority level of support from Ontarians.

Sixty percent of Ontarians are in favour of municipal governments having a 1% increase in sales tax to fix municipal infrastructure and hold property tax increases at the rate of inflation.



What about the results for other revenue tools?



LOCAL SHARE

Sustainability Assessment Worksheet for Councils

Filling your municipality's share of the sector's $4.9 billion annual gap

Answering the following questions will help local elected officials and councils to determine the best fiscal options available to close the fiscal gap.

Local efforts

1. Does my municipality have long-term sustainability and strong balance sheets? Are asset management plans sufficiently funded?

2. Have inflationary user fee increases been a part of my municipality's budgeting? Is that likely to continue?

3. What services in my municipality are currently funded by the property tax base which could be funded by user fees instead? (e.g. waste, stormwater, recreation, etc.)

4. If my municipality is not yet at full cost recovery for water, is it on track to achieve it in the future?

5. Has my municipality partnered with neighbouring municipalities to deliver a public service at a savings to taxpayers? Could further partnerships on other services achieve further savings?

6. Is establishing a municipal services corporation, possibly with a neighbouring community, an option for my municipality which might deliver savings?

7. Are Public-Private Partnerships ($100M or more) an option to deliver savings for my community?

8. Does my municipality have higher levels of debt today than it did five years ago?

Advocacy efforts

9. Has my municipality undertaken advocacy efforts with the provincial government that could deliver savings to local taxpayers? Were those efforts successful?

10. If my municipality receives an unconditional grant through the Ontario Municipal Partnership Fund (OMPF), has the grant has been increasing to meet inflationary pressures? Am I confident it will continue to increase in the future?

11. How much of my municipality's gap could successful grant applications to the provincial or federal governments fulfill? And if unsuccessful?

12. If my municipality receives Ontario Community Infrastructure Fund (OCIF) grants, are they sufficient to close the local infrastructure gap?

New revenue

13. Has my municipality raised property taxes above inflation or implemented an infrastructure levy in the last five years?

14. Are future property tax increases beyond inflation on the horizon for my community?

15. If I wanted to reduce the upward pressure on the property tax dollar, and the alternatives existed, I would urge my council colleagues to adopt one or more of the following: entertainment, alcohol, tobacco, vehicle registration, land transfer, parking tax, road pricing, or billboard taxes?

16. Would the use of one or more of these tools close the gap in my municipality?

17. If I wanted to reduce the upward pressure on the property tax dollar, and the option existed, would I advocate for an increase of 1% to the HST or a share of income tax, with pooled revenue allocated to all municipalities?

18. Would I be prepared to join with others and publicly support the use of a new revenue tool for all municipalities?

Appendix A: Options and Selected Criteria

OPTION	SUFFICIENCY (Classified as high, limited, or unknown)	CAN MUNICIPALITIES DO THIS ON THEIR OWN? (Yes or No)
OMPF Equalization Payments	Limited envelope to assist municipalities with operating revenue	No, dependent on the province
OCIF Infrastructure	Limited - assists qualifying municipalities with some infrastructure costs	No, dependent on the province
Broader use of existing municipal tools and user fees	Limited	Yes
Interest Arbitration Reform	High	No, dependent on the province
Cap and Trade Revenue	High	No
1% HST Increase	High	No
Income Tax	High	No
Municipal Fuel Tax	High	No
Upload: Social Housing	High	No, dependent on the province
Upload of Specific Services or Infrastructure Assets in Selected Municipalities	Limited	No, dependent on the province
Increase Investment Revenues (Prudent Investor Status)	Limited	No, dependent on the province
Carbon Tax	High	No
Corporate Income Tax	Limited	No
Development Charges	Limited (to growth areas)	Yes
Driver's License Tax	High	No
Employer Payroll Tax	Limited (to growth areas)	No
Hotel and Accommodation Tax	Limited	Yes
Land Transfer Tax	Limited	No - Only City of Toronto
New Vehicle Sales Tax	Limited	No
Parking Sales Tax	Limited (to urban areas)	No
Parking Space Levy	Limited (to urban areas)	No - Only City of Toronto
Utility Levy	Limited	No
Vehicle Registration Fee	High	No - Only City of Toronto
Alcoholic Beverages Tax	Limited	No - Only City of Toronto
Billboard Tax	Limited	No - Only City of Toronto
Entertainment Tax	Limited	No - Only City of Toronto
Tobacco Tax	Limited	No - Only City of Toronto
Cordon Charge	Limited – GTA only	No
Fare Increases (Public Transit User Fee)	Limited – only communities with transit	Yes

OPTION	SUFFICIENCY (Classified as high, limited, or unknown)	CAN MUNICIPALITIES DO THIS ON THEIR OWN? (Yes or No)
High Occupancy Tolls	Limited – GTA only	No
Highway Tolls	Limited – likely GTA only	No
Land Value Capture	Unknown	Very Limited
Tax Increment Financing	Unknown	Very Limited
Vehicles Kilometres Travelled Fee	Limited – poor impact in remote regions	No
Railway Levy (PIL)	Limited – for affected communities	No
Heads and Beds Levy on Institutions (PIL)	Limited – for affected communities	No
Power Dams (PIL)	Limited – for affected communities	No
Crown Lands/Unorganized Areas (PIL)	Unknown	No
Revenue Sharing: Aggregates	Limited – for affected communities	No
Revenue Sharing: Mining	Limited – for affected communities	No
Revenue Sharing: Water	Limited – for affected communities	Maybe

Appendix B: Case Studies

There are many examples of how municipalities are rising to the challenge of achieving greater levels of sustainability on their own. Below are some relevant examples and best practices.

Lambton County – Finance and IT shared services

The County of Lambton in Southwestern Ontario has been a leader in innovative municipal service delivery for many years. Twenty years ago, the County of Lambton was a founding partner with Chatham-Kent of a purchasing collective. It developed a “group” banking arrangement still in effect that allows its members to borrow at reduced cost and receive higher than market rates of returns on all of its deposits.

The County is also innovative in the area of inter-municipal co-operation. Beyond the City of Sarnia, the other 10 area municipalities in the County are all small with limited staff. This means that their ability to undertake complex tasks such as assessment appeals, human resources and the administration of computerized systems are restricted. As a result, the County makes its “specialist” resources and expertise readily available to lower-tiers.

The County has done this in two primary ways. The first is service contracts, an example of which is the provision of Information Technology services. These contracts cover such things as networking, internet connectivity, software support and hardware, as need be. They are based on cost recovery only and support the administration of lower tier municipalities through shared services.

The second way the County supports its area-municipalities is by negotiating access to software programs. This includes the program used by the County for its Asset Management Plan. The County’s system allows for the tracking of all Tangible Capital Assets plus the analysis of this data using the County’s Tangible Capital Asset Policies to perform detailed modelling and projections. The result is that even the County’s smallest municipality has access to a sophisticated analytical tool that they may not otherwise be able to afford, configure and effectively use.

Ultimately, the County of Lambton shows the benefits of municipalities working together through the upper-tier municipality. This example demonstrates how smaller municipalities can and do work together to achieve greater efficiencies for property taxpayers.

Innisfil – Establishing a municipal services corporation

The Town of Innisfil is looking to attract more jobs but needs about $100 million to build the infrastructure necessary to service designated employment lands and attract new businesses. Development charge and property tax revenues are not enough to allow the Town to invest in infrastructure related to growth. Further, provincial regulations limit the amount the Town can borrow to approximately $60 million. What could this lower-tier municipality about 80 km north of Toronto do?

In 2015, Council voted to establish a municipal services corporation called "InnServices Utilities Inc." to manage its water and wastewater infrastructure. Municipal services corporations follow different provincial rules when it comes to debt capacity. Therefore, the municipal services corporation model will enable the desired investment in water and wastewater infrastructure without additional municipal debt. Prospective water rates will be maintained at or below current levels, and this will enhance the Town's development competitiveness.

When it established InnServices, the Town of Innisfil retained 100% of the shares of the corporation and then transferred all of these shares to a holding company with Innisfil Council as the Board of Directors. Therefore, Council continues to be accountable and responsible for oversight and rate increases.

The municipal services corporation is an innovative service delivery model that can expand municipal financial capacity. Municipalities like Innisfil are exploring opportunities like these to be able to better address their goals and priorities and make investments in their communities.

West Perth and Perth East - Sharing fire services

The Municipality of West Perth and the Township of Perth East entered into a three-year shared fire administration services agreement in April 2014. After negotiations, the two municipalities agreed to share one fire chief, one fire prevention officer, and one administrative officer across four fire stations in the two municipalities.

Sharing services across and between municipalities is one way to address financial challenges – a means to stretch each dollar of revenue a little further than if municipalities provided services on their own. In addition to cost savings, the shared fire services model also allows the two municipalities to develop a new focus on fire prevention.

Municipalities across Ontario are looking into sharing services as a means to save costs and improve the safety of their residents. The example of West Perth and Perth East shows that these arrangements can result in efficient service provision and allow municipalities to remain fiscally responsible.

Paying for Mississauga's stormwater infrastructure

Managing stormwater means controlling runoff from rain and melted snow in a way that supports flood prevention, maintenance of water quality, and the reduction of downstream erosion. Due to rapid growth, the City of Mississauga began to experience accelerated wear and tear on its stormwater infrastructure and regulations required the system to be improved. As available land for development rapidly decreased and development charge revenue diminished, how would the city pay for the maintenance of this infrastructure?

In 2011, Mississauga City Council authorized staff to undertake a Stormwater Financing Study to investigate new ways to finance current and future stormwater management needs. Using the examples of other Ontario municipalities, Mississauga implemented stormwater management user charges in 2015.

The service is priced according to the roofprint area of the property and whether the property is single residential, multi-residential, or non-residential (which includes commercial, industrial, and institutional properties). Properties are assigned a fixed number of billing units and charged accordingly.

Mississauga has also implemented a credit system for multi-residential and non-residential properties to reward property owners for proactively managing stormwater on their properties before it reaches the municipal system. For single residential properties, the City uses outreach and education to promote household-level initiatives.

Climate change continues to strain municipal stormwater management systems. Through effective financing systems, municipalities can improve stormwater infrastructure that protects the health and safety of the public and the environment. This helps to relieve pressure on the property tax system and build better communities.

Hornepayne – Facing the limits of full cost recovery for water

Hornepayne is a community of 1,000 residents about 500 km northeast from Thunder Bay. In 2010 the Hallmark Centre, the heart of the community closed for good. The Hallmark Centre was a large complex that included critical amenities for the town including recreation facilities, a library, restaurants, shops, and apartments. This closing initiated a gradual decline in the municipality's finances. Since 2010, the Township has lost upwards of $500,000 per year in revenue from water, sewer and property taxes from that building alone.

Since 2010 the municipality has constantly reviewed user fees and increased them to keep pace with inflation. But there are limits to what residents can afford. With a flat rate of $1,630 per household per year, Hornepayne has one of the highest water and sewer user fees in the province. Yet it is still unable to attain full cost-recovery for water and wastewater services. By comparison, a typical home in Toronto pays about $500 annually.

Almost 40% of Hornepayne's population is seniors and many are single income households surviving on a pension. The average pension in Canada amounts to $8,000 – thus, water and waste water charges alone represents 20% of a typical Hornpayne pensioner's income. People are beginning to leave the community, as they can't afford to stay. Thus, the burden on those who remain continues to grow.

The Township has explored the opportunity to form service agreements with surrounding municipalities, but the isolated location and long distances between communities are time and cost prohibitive. Additionally, Hornepayne has taken steps not to significantly increase its debt level, but this has had consequences. Many projects and upgrades have been postponed or cancelled, staff is cut to a minimum, and no reserves have been set aside. With Hornepayne's aging infrastructure, it is inevitable that unscheduled repairs will occur. One-time funding from the province would help, but often only if the municipality can come up with its portion of the funding.

Small municipalities with such difficult financial circumstances require support from the provincial government to address their infrastructure and service needs. Municipalities like Hornepayne require long-term, sustainable funding, with a fair allocation model to address such diverse circumstances.