WHAT'S NEXT ONTARIO?

Imagining a prosperous future for our communities

A FISCAL OVERVIEW

JUNE 2, 2015 (Revised)

AMO Association of Municipalities Ontario

Contents

Executive Summary

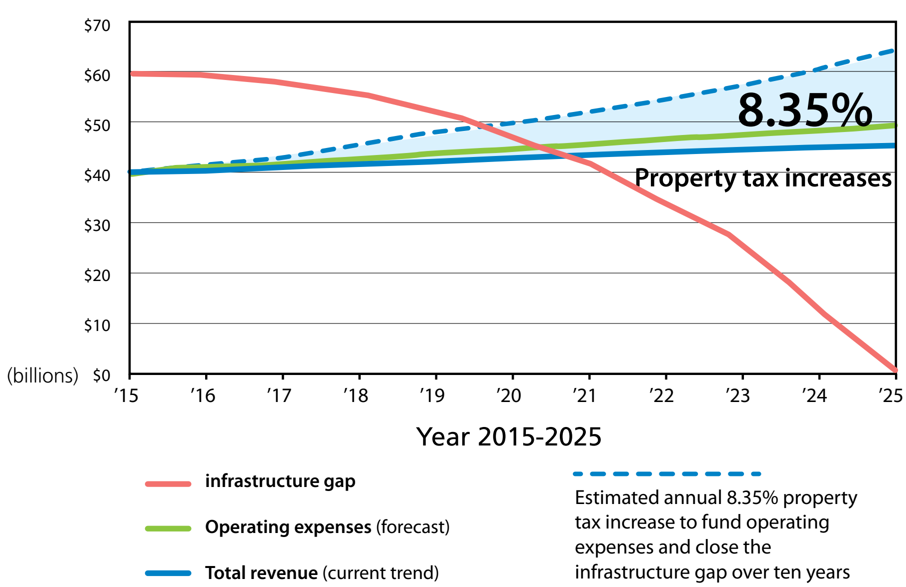
Most municipal governments have forward-looking strategic plans. But what is the strategic plan for our community of communities? This document provides the foundation for a municipal government conversation about the future.

We are focused on the shared challenges and opportunities that connect our diverse communities, and finding a common path towards long-term municipal fiscal sustainability. All municipalities need a firm financial foundation to meet our responsibilities today and over the long term, without compromising future generations.

If current trends continue, we expect municipal operating expenditures to grow significantly over the next ten years. Property taxes are the main source of municipal revenue. Assuming all other revenues remain stable, we project property taxes will need to increase by 4.51% per year for the next ten years just to meet current service levels and standards.

In addition, municipalities are facing an estimated $60 billion infrastructure investment gap. If property tax revenues alone were to close this gap, it will require an additional increase of 3.84% each year, for a combined 8.35% increase in property taxes annually to 2025.

Revenue Needed to Fund Operating Expenses & Infrastructure Gap*



Source: AMO

*The April 29, 2015 version of this document projected a higher annual property tax increase. This previous calculation was based on total property tax revenue dependence by 2025 and eliminated all other revenues. The new percentage increase noted above assumes all non-property tax revenue remains stable at $21 billion annually to 2025.

This is the nature of the financial challenge facing all municipalities in Ontario. But are property tax increases of this magnitude the best way to finance the anticipated future needs of our communities?

The pages that follow are designed to help you explore the entire municipal sector - its expenditures, revenues, and what other jurisdictions are doing. AMO is undertaking this project to get a sense from its membership of common priorities and possible tools and solutions. But first and foremost, this is an open-ended invitation to imagine. Imagine Ontario's future – what do you want to see? What are your priorities to improve fiscal sustainability?

AMO is inviting Ontario's municipal governments to come together and develop a shared vision for a more prosperous future with a plan to achieve it together.

What's next Ontario? Please share your ideas with us.

How to use this document

If you're a newly elected municipal official or have recently become senior municipal staff, we would suggest reading the entire document. It will help you better understand the entire municipal sector and some of the challenges that are on the horizon.

If you've been an elected official for some time, or are an experienced senior municipal staff member, we'd also suggest reading the entire document. However, you could focus your reading on sections 2, 3, and 4.

Regardless of how long you have been serving your communities in a municipal capacity, we want to hear from you. An additional Discussion Guide has been developed for municipal officials and senior staff. This Guide has been distributed separately and includes a series of questions for you to consider. We welcome your input in any format up to Wednesday, July 15, 2015. Please see the end of this document for more details on how you can have input and make your voice heard.

Introduction

This document provides a comprehensive overview of the history of municipal finance, our current situation and our best understanding of our future needs.

We've come a long way

Historical context regarding the provincial-municipal relationship is key to understanding what might be next.

In 2005, the municipal sector 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 the Harris years, when the property tax base was called upon to finance social programs, or income redistribution programs, which it was never designed to support. Municipalities were mandated to assume social housing costs, including the unaddressed infrastructure deficit in social housing stock, half the costs of land ambulance services, and also OPP municipal policing costs, among other things. In 2003 the fiscal gap was $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.

The provincial government under then Premier McGuinty agreed to take a serious look at the issue. The result was the Provincial-Municipal Fiscal and Service Delivery Review (PMFSDR) and the upload of many social assistance costs off the property tax base from 2008 to 2018. The municipal sector continues to realize value from this long-term, predictable, program funding plan, which will be worth $1.8 billion in 2016 alone.

How did Ontarians and the provincial government benefit from the upload? Municipalities redirected dollars to begin addressing the longstanding infrastructure investment deficit. From 2009 to 2012, municipal infrastructure investment increased by $1.2 billion. That trend continues. It has reduced the upward pressure on the property tax dollar, which had been stretched too far for too long. By 2018, the vast majority of income redistribution program expenses will be funded by the provincial government, as they are in every other Canadian province. The upload was achieved because of a committed provincial government and a united municipal sector.

With the 2008 upload agreement nearing completion in 2018, municipal governments are entering a new era. Some problems have been solved. Some new ones have developed and some longstanding problems remain.

Funding the growing infrastructure deficit remains the most pressing, long-standing challenge. 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 in 2015. On the subject of municipal infrastructure, economist Don Drummond noted in his report on public services in Ontario, "More fundamental reforms are needed for the [municipal] sector to be on a sustainable footing."

What’s next?

There are no easy answers. But through province-wide municipal dialogue, we can establish our shared aspirations for the future. From there, together we’ll build a provincial-municipal action plan.

This document provides us with the foundation for the municipal conversation. It provides a comprehensive description of the entire municipal sector. These challenges will have a different flavour and focus from one municipality to the next. We also understand that each region has its own unique features, challenges, and opportunities.

Our discussion needs to be based on a common understanding of where we are now, and some of the challenges we anticipate in the future. To delve into this discussion, AMO will outline the following:

1. **Costs** – An overview of which municipal services are the key cost drivers, and how they may change over the next five years.
2. **Revenue and Financing** – An assessment of municipal revenues including property tax assessment, provincial grants, development charges, debt, and user fees, including how each impacts long-term financial sustainability for the municipal sector.
3. **On the horizon** – Future issues with regard to the economy, infrastructure, demographics, future roles, responsibilities and revenues.
4. **What could change?** – Ways to improve municipal financial sustainability, ranging from actions municipalities can take unilaterally to those requiring provincial input or authority.
5. **How do we compare?** – A comparison of what municipalities outside of Ontario are doing and how they raise their revenue.

Your priorities: How do we get there?

First and foremost though, this is an open-ended invitation to imagine. Imagine Ontario’s future – what do you want to see? What are your priorities to improve fiscal sustainability? In short, what’s next Ontario?

What is fiscal sustainability?

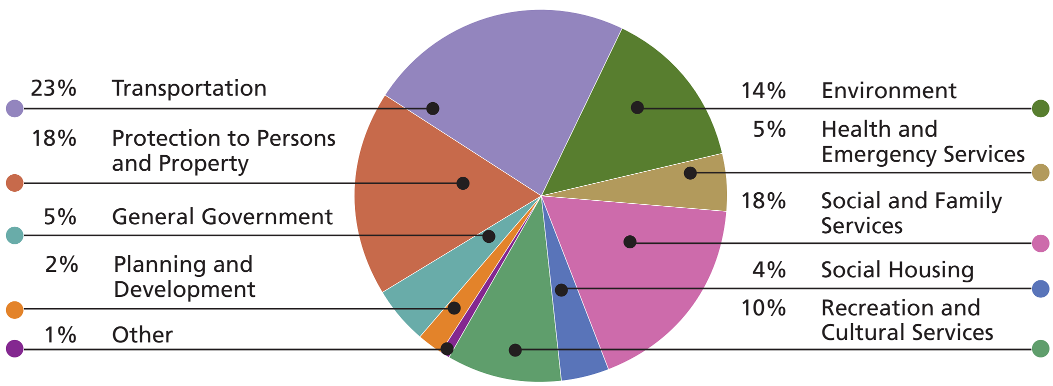
A financial system that can adequately cover operating costs, maintain in good repair existing assets, replace assets where appropriate, fund future growth and service improvements, anticipate inflation and changes in standards and technology, all financed over an appropriate period of time.

WHAT’S NEXT ONTARIO?

1 Costs: The Lay of the Land

The chart below shows total municipal operating expenses at a glance. Emergency services, transportation and social and family services comprise nearly two-thirds of municipal spending in Ontario. Total municipal operating expenses in 2013 were $38.9 billion.

Municipal Expenses, Ontario 2013



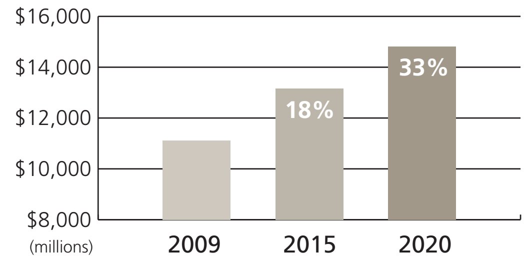
Source: Ministry of Municipal Affairs and Housing, Financial Information Returns

An important note about projection methodology

The section that follows explores in detail some of municipalities' main spending areas, based on types of service in the recent past, the present, and the future. Present and future spending to 2020 are projections, based on existing annual data from 2009 to 2013 using the Municipal Financial Information Return (note: three individual municipal FIRs are still outstanding for 2013). Municipal Financial Information Returns are completed annually by all municipalities and are submitted to and compiled by the Ministry of Municipal Affairs and Housing.

Except where noted, expenses are province-wide and reflect existing FIR expense categories. The projections assume that all other variables remain the same: service levels and standards, provincial funding, a stable assessment base, etc. In addition, cost projections assume that the inflation trend between 2009 and 2013 municipal expenses continues to be relevant.

"Infrastructure services" highlighted on the following pages are based on those functions identified in the 2008 Provincial-Municipal Fiscal and Service Delivery Review. It includes reported operating and maintenance expenses for roads, transit, water, wastewater, stormwater, conservation authorities and waste. It does not include the $60 billion infrastructure deficit, which represents the added capital expenses needed to build or replace infrastructure, which is covered in a separate section on page 23. In addition, for the purposes of this document, the $60 billion infrastructure deficit does not account for inflation.



Infrastructure

(Operating expenses, excluding capital)

Service[1]	2009	2015	2020
Infrastructure Services[2]	$11,117,258,462	$13,161,530,570 **18% projected cost growth (2009-2015)**	$14,820,403,734 **33% projected cost growth (2009-2020)**

Infrastructure is fundamental to economic productivity and competitiveness. Ontario municipalities manage billions of dollars of infrastructure spending. We provide roads and bridges, water and sewer infrastructure, transit, housing, parks and recreation facilities, libraries and community centres. Much of what makes Ontario an attractive place to live, start a family and locate a business is public infrastructure.

The projected growth in the chart above reflects what is needed just to maintain what we have now. It does not include any new or replaced infrastructure (i.e. the infrastructure deficit). The projected costs growths from 2015 to 2020 covers what it will take to run the systems and keep them within a state of good repair, factoring in no growth and no replacements. The total above includes: roads, transit, water, wastewater, stormwater, conservation authorities, and waste.

Investment programs run by the federal and provincial governments help. These programs have begun to narrow the funding gap and represent a commitment to integrated cooperation. But they aren't enough.

Asset management makes sense. It helps municipalities understand the challenge. Paired with long-term financial plans, asset management plans set out funding priorities and identify funding streams for essential works and gaps that will need to be filled from each available source. Asset management plans are becoming part of our basic municipal functions and culture.

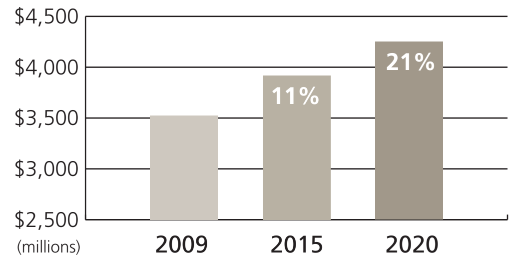
What follows is a breakdown of specific services within the total infrastructure envelope listed above. Those services include transit, roads, water, wastewater, and waste.

[1] 2009 data based on provincial FIR summary; 2015 and 2020 data based on an Excel forecasting trend.

[2] Infrastructure services are based on those services identified in the PMFSDR. It represents operation and maintenance of roads, transit, water, wastewater, stormwater, conservation authorities, and waste, as reported to FIR. Expenditures for infrastructure services do not include the $60 billion infrastructure gap, which would build new or replace old infrastructure.

Transit

(Operating expenses, excluding capital)



Service	2009	2015	2020
Transit[3]	$3,525,290,446	$3,919,422,353 **11% projected cost growth (2009-2015)**	$4,250,613,844 **21% projected cost growth (2009-2020)**

Municipalities are responsible for local transit systems in the province of Ontario. These systems are vital to our communities. Ministry of Transportation documents indicate that municipalities operate 63 conventional systems and 81 specialized transit services.

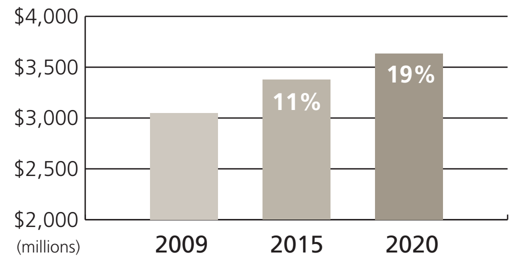
Programs like Ontario's Gas Tax for Transit help municipalities to invest in these services. Beginning in 2004, the Ontario Gas Tax provided two cents per litre of gas sold in the province to support municipal transit programs. In 2014 this totalled $321.5 million.

In the Greater Toronto and Hamilton Area (GTHA) major population growth has increased density and the population is projected to increase to 8.6 million people by 2031. Traffic in the area is said to cost the economy $6 billion per year in lost productivity.

In 2008, Metrolinx created the Big Move, a plan to improve and increase transit within the GTHA both within municipalities and across them. It proposes strategies to increase active transportation and to improve highways and goods movement for more efficient and effective transportation.

In its 2014 budget, the Ontario Government proposed a $29 billion transit and transportation fund that will dedicate $15 billion within the GTHA over the next ten years and $14 billion of investment outside the GTHA. Additional details are not available at this time as this was written before the release of the 2015 Ontario Budget.

[3] Transit services include: conventional, disabled and special needs.



Roads and bridges

(Operating expenses, excluding capital)

Service	2009	2015	2020
Roads[4]	$3,049,091,473	$3,377,530,303 **11% projected cost growth (2009-2015)**	$3,634,256,129 **19% projected cost growth (2009-2020)**

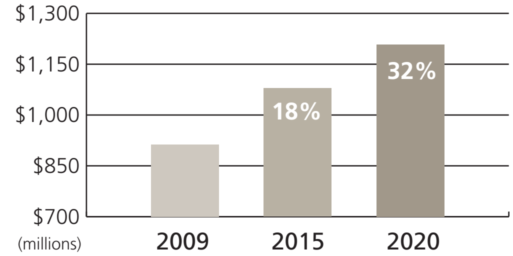
Roads and bridges are the municipal sector's largest asset. They are the first building block in connecting communities and local economies with provincial, regional, national and international markets. They are as important to farmers as they are to cottagers, manufacturers and the forestry sector.

But our roads and bridges are badly in need of investment. In 2008 the Provincial-Municipal Fiscal and Service Delivery Review estimated that roads and bridges account for nearly half ($2.8 billion) of the $6 billion annual infrastructure gap. Municipalities are responsible for more than 15,000 bridges and large culverts and over 140,000 kilometres of roads - enough to circle the globe three and a half times.

[4] Roads services include: paved and unpaved roads, bridges, culverts, traffic operations, maintenance.

Waste management

(Operating expenses, excluding capital)



Service	2009	2015	2020
Waste Management[5]	$913,803,074	$1,079,500,192 **18% projected cost growth (2009-2015)**	$1,208,074,413 **32% projected cost growth (2009-2020)**

Ontario produces an estimated 12 million tonnes of solid waste per year, primarily from the industrial, commercial and institutional sectors (ICI). Statistics Canada data indicates that the ICI sector produces 56% of Ontario's waste with a diversion rate of only 11%.

The municipal sector is responsible for residential waste. According to Waste Diversion Ontario, in 2012, 4.8 million tonnes of residential waste were generated, of which about 48% was diverted. The residential diversion programs include the Blue Box for printed paper and packaging, household hazardous waste, tires and electronics.

Currently property taxes and municipal user fees pay for more than 50% of the actual Blue Box program costs, subsidize most of the Household Hazardous waste programs, and pay 100% of the costs for litter control, garbage collection and disposal (including Green Bin programs for residential compostable waste). For the 2014 program year, municipalities were paid $115.2 million by the producers for their share of the Blue Box program. This figure is based on 2012 service costs and followed an arbitration process with producers.

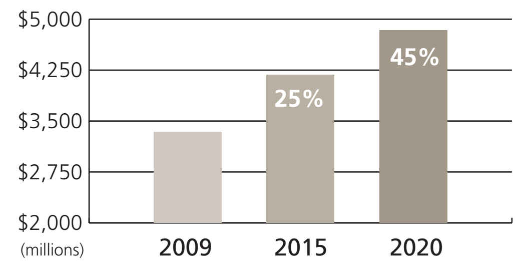
Waste diversion makes sense so that landfills, with limited capacity, can be used longer without the need to find new hosts. Changing producer and product consumer behaviour will be important to achieving this.

[5] Waste management services include: solid waste collection, solid waste disposal, and waste diversion e.g. Blue Box program. Projections exclude reported FIR expenses from the City of Toronto because of accounting methodology changes and special circumstance.

Emergency services

(Operating expenses, excluding capital)

Since 2002, the average annual rate of cost growth for emergency services has been three times the rate of inflation. The wage gap between emergency service workers and other municipal employees continues to grow. Many communities are concerned about the long-term affordability of emergency service costs.



Police

Service	2009	2015	2020
Police	$3,339,745,513	$4,178,775,749 **25% projected cost growth (2009-2015)**	$4,836,328,332 **45% projected cost growth (2009-2020)**

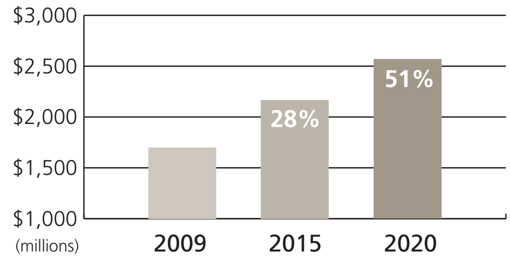
Ontarians pay the highest policing costs in the country. This includes both provincial and municipal policing expenses (the figure above represents municipal expenses only). In 2014, Ontario Provincial Police (OPP) wage settlements cost 324 rural and northern municipalities an extra $25 million through both salary and retirement benefit improvements. The OPP billing model, introduced in 2015, is beneficial for some municipalities and extremely costly for others.

For the Ontario Provincial Police, 86% of operating expenses are staffing costs. This percentage is similar for municipal own-force services. It is important to know that when we talk about the cost of policing, we are predominantly talking about the cost of labour.

At the same time, Canada's crime rate continues to fall. The homicide rate is at its lowest level since 1966. Statistics Canada notes the police-reported Crime Severity Index fell by 9% in 2013, the tenth consecutive annual decline. Demographics are a big part of this decline and no doubt good police work is as well. For a majority of the time, officers are responding to non-criminal circumstances.

Our current policing model in this province is built, among other things, on a demographic and crime rate profile that is at least 20 years out of date. Municipal elected officials across Ontario are hearing from their constituents that we must find a way to deliver policing services that reflects current realities and needs. Police services, like all other public services, must adapt to changing circumstances and meet new challenges.

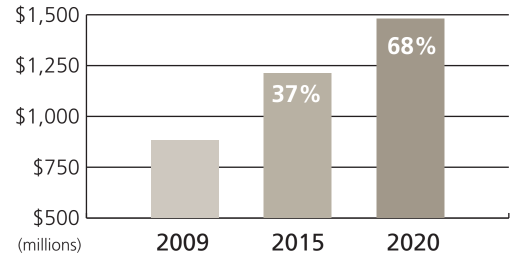
Fire



Service	2009	2015	2020
Fire	$1,699,033,659	$2,167,654,549 **28% projected cost growth (2009-2015)**	$2,569,450,621 **51% projected cost growth (2009-2020)**

Funding for fire services is expected to grow significantly in the next five years. Similar to policing costs, these increases are mostly due to increases in wages and benefits. Also, in 2014, the Ontario Government expanded the list of diseases presumed to be work-related for firefighters under the *Workplace Safety and Insurance Act*. As a result, WSIB premiums for some municipalities will increase by 28% in 2015.

Demand for fire suppression has been declining for many years across Ontario, despite a growing population. This reflects the reality of better building standards, sprinklers, and alarms. Enhancing fire prevention and education efforts may reduce demand for fire suppression even further over the long term.

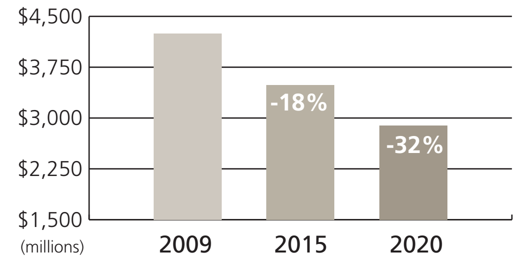


Emergency Medical Service

Service	2009	2015	2020
Ambulance Services and Dispatch	$883,000,846	$1,213,859,057 **37% projected cost growth (2009-2015)**	$1,480,155,300 **68% projected cost growth (2009-2020)**

In contrast to the demand for fire suppression services, according to the Ontario Association of Paramedic Chiefs, call volume for paramedic services is increasing. This reflects our growing and aging population. New community paramedicine pilot projects use the existing capacity of paramedic services to deliver primary care to residents when services are not responding to emergencies or calls for service.

The health care system is a provincial responsibility and provincial dollars cover half of the cost of municipal ambulance services. Ambulance services remain provincially regulated, and for the most part, are dispatched using provincial employees. This creates a disconnect in terms of the management and organization of ambulance services. Some municipalities would prefer to have the responsibility for dispatching their own services (at provincial expense). Other municipalities presently do not have the interest and capacity to assume that responsibility.



Social assistance

(Operating expenses, excluding capital)

Service	2009	2015	2020
General Assistance[6]	$4,247,734,928	$3,487,003,521 **18% projected cost decrease (2009-2015)**	$2,890,910,448 **32% projected cost decrease (2009-2020)**

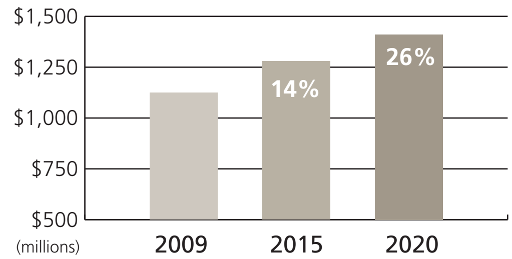
The upload of social assistance benefit costs will be completed by 2018. Still, municipalities and District Social Service Administration Boards (DSSABs) will retain significant 'skin in the game' as administrative costs will continue to be shared 50/50 with the province. The municipal share of the administration cost in 2013 was 50/50.

The municipal sector is looking to the government's plan for Social Assistance Transformation. There is much at stake, given the crucial role that income and employment support programs play in labour development, promoting community health, reducing poverty and enhancing economic competitiveness. There is the opportunity to forge new approaches to improve the lives of vulnerable, low-income Ontarians. At the same time, there may also be an opportunity to reduce administrative costs for municipalities and DSSABs. As long as municipalities share administrative costs, they remain vulnerable to provincial changes. The recent workload and related cost impacts of the Social Assistance Management System – the Province's new IT system – is an example of financial exposure.

[6] General Assistance includes: administration and direct overhead; aid to incapacitated persons (homemaking and nursing); aid to indigents (emergency dental treatment and burial); aid to unemployed and unemployable persons (living allowances, care of dependents, transportation and rehabilitation); domiciliary hostels; Ontario dental benefits; Ontario Disability Support Program; Ontario Works B municipal contributions including former Family Benefits Assistance; requisitions of District Social Service Administration Boards; supportive housing; other general assistance expenses.

Child care

(Operating expenses, excluding capital)



Service	2009	2015	2020
Child Care[7]	$1,124,199,794	$1,279,095,727 **14% projected cost growth (2009-2015)**	$1,411,306,228 **26% projected cost growth (2009-2020)**

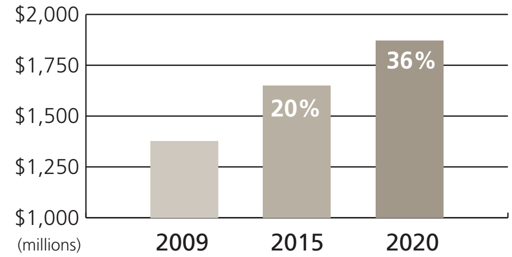
Municipalities and District Social Service Administration Boards (DSSABs) play a significant role in funding, planning, managing and in some cases, also directly delivering child care programs. Program delivery is shared on an 80% provincial and 20% municipal basis.

While incremental funding increases to the child care system have occurred, the current system is still underfunded. In 2005, the federal government announced the creation of a national child care system to enhance and expand early learning and childcare in the provinces and territories. However, following the 2006 election, the federal government cancelled the plan and with it eliminated the possibility of greater child care funding for municipalities. Child care services allow greater participation in the labour market which helps the economy and benefits provincial and federal treasuries with income taxed earnings.

[7] Child care includes: administration; contributions to privately operated day nurseries; day nurseries; grants to voluntary organizations; requisitions of District Social Services Administration Boards; other expenses for assistance to children.

Long-term care

(Operating expenses, excluding capital)



Service	2009	2015	2020
Assistance to Aged Persons[8]	$1,378,625,814	$1,650,217,693 **20% projected cost growth (2009-2015)**	$1,872,814,454 **36% projected cost growth (2009-2020)**

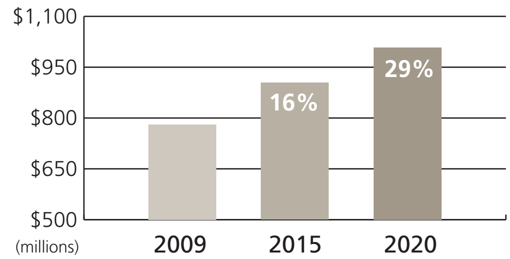
Long-term care homes are designed for people who require 24-hour nursing care and supervision within a secure setting. Each municipality is required by law to establish and maintain a long-term care facility, either directly or jointly with another municipality. The province is responsible for legislative, regulatory and program requirements. Under the *Local Health System Integration Act, 2006*, Long-Term Care Homes must have a Service Accountability Agreement with their Local Health Integration Network (LHIN).

In long-term care homes, the Ministry of Health and Long-Term Care pays directly for the costs of nursing and personal care through a funding formula determined by the Province. Residents are required to pay an accommodation fee that is set by the Province, though in many cases, the fees do not fully cover the expense. Municipalities often find it necessary to top up the funding over and above the resident fees and provincial per diem amounts just to provide the basic level of services required by residents. Most municipalities have seen their service costs increase over the past 10 years. This is due to residents' increasingly complex health care needs and increased regulatory requirements.

The rising costs, coupled with fact that many areas are well served by private and non-profit long-term care operators, has some municipalities questioning their need to remain in the long-term care business, but rather seeking to invest in other areas of senior's services that better meet local needs.

Some municipalities are creating "campus" models that combine a range of housing options in addition to long-term care beds in recognition that housing with supports can be a less costly alternative and often more appropriate alternative to long-term care.

[8] Assistance for the Aged includes: administration; grants to voluntary organizations assisting the aged; grants under the *Municipal Elderly Residents' Assistance Act*; homes for the aged; housing for elderly persons; seniors' drop-in centres; social and recreational activities; transit subsidies for elderly persons; other expenses for assistance to the aged.



Public health

(Operating expenses, excluding capital)

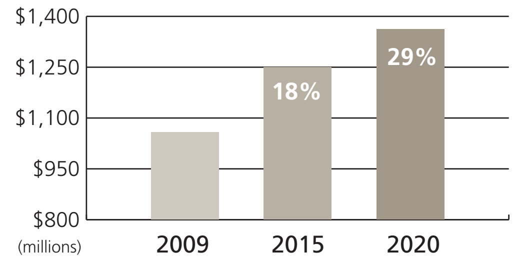
Service	2009	2015	2020
Public Health Services	$781,668,370	$904,959,217 **16% projected cost growth (2009-2015)**	$1,008,126,233 **29% projected cost growth (2009-2020)**

Public health services, including both disease prevention and health promotion, are an essential part of Ontario's health services continuum. Municipalities play a major role, often as the employer, and have significant responsibilities in delivering public health services.

Ontarians are served by 36 local boards of health that are responsible for populations within their geographic borders. Most boards are autonomous entities, while some have the municipal council serving as the board of health. Among other requirements mandated by the province, local boards of health are responsible for implementing the provincially mandated 2008 Ontario Public Health Standards.

Public health services are now cost shared as a 75% provincial and 25% municipal responsibility. This has fluctuated over the years. In 1998, under the *Services Improvement Act*, municipalities became responsible for 100% funding of all public health units and services. This was quickly amended in 1999, when 50/50 cost sharing arrangement between the municipal and the provincial governments was re-introduced. It stayed at this level throughout the 2000 Walkerton tragedy and the 2003 SARS outbreak. In 2004, the provincial government launched Operational Health Protection to address long-standing public health system capacity issues, which included phased-in increases to the provincial share of public health funding to 75% by 2007.

Under the *Health Protection and Promotion Act, 1990*, the Province may provide discretionary grants to municipalities to assist with public health costs. However municipalities are legislatively responsible for public health funding. There is ongoing tension in the public health system as it is generally understood that the current funding envelope is just not enough to ensure full compliance with the Ontario Public Health Standards. Any new provincial public health requirements without accompanying investments would result in even more financial pressure for boards of health and property taxpayers.



Affordable housing

(Operating expenses, excluding capital)

Service	2009	2015	2020
Social Housing[9]	$1,058,916,483	$1,250,860,385 **18% projected cost growth (2009-2015)**	$1,362,535,847 **29% projected cost growth (2009-2020)**

Affordable housing is essential for families in need and for strong and prosperous communities. Ontario is the only province where social housing is a municipal responsibility. In other provinces, housing programs are fully funded and delivered by the provincial or territorial government.

This responsibility has become increasingly challenging as demand for social housing rises to record levels, housing stock ages, and maintenance costs increase. As well, Ontario's aging population has more complex health needs, increasing demand for special residential care.

It is estimated that the capital repair backlog for the social housing sector stands at $1.5 billion (Source: Housing Services Corporation, 2014). Current capital reserves cannot meet this requirement for repairs. The end of the federal operating agreements for social housing looms large and will further erode the ability to address the capital repair backlog. Many social housing projects in Ontario will be at risk and as a result, there may be less affordable housing stock available across the Province.

The current system of funding and delivering housing programs on its own is not sustainable. The municipal property tax base cannot cover costs for necessary capital repairs, operations, administration, and the development of much-needed new housing.

[9] Social housing expenses include: public housing; non-profit/cooperative housing; rent supplement programs. Projections exclude reported FIR expenses from the City of Toronto. Because of accounting methodology changes and special circumstances.

Total estimated operating needs by 2020

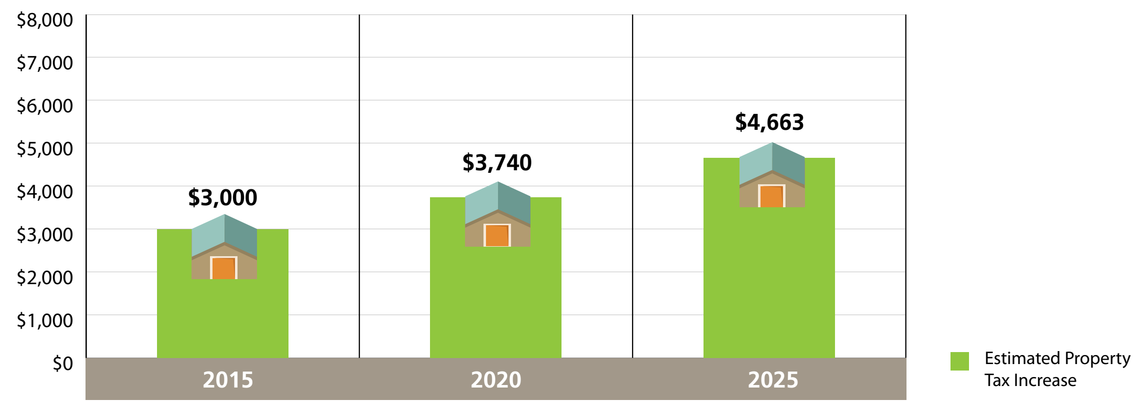
Let's recap the services and expenses from the previous pages. Below is a chart with all of those expenses and what we think they will be by 2020 based on prior trends.

Service	2009 (Actual)	2015 (Projected)	2020 (Projected)
Infrastructure Services (Roads, transit, water, wastewater, stormwater, conservation authorities, waste management) (City of Toronto waste management expenses are excluded.)	$11,117,258,462	$13,161,530,570 18% projected cost growth (2009-2015)	$14,820,403,734 33% projected cost growth (2009-2020)
Police	$3,339,745,513	$4,178,775,749 25% projected cost growth (2009-2015)	$4,836,328,332 45% projected cost growth (2009-2020)
Fire	$1,699,033,659	$2,167,654,549 28% projected cost growth (2009-2015)	$2,569,450,621 51% projected cost growth (2009-2020)
Emergency Medical Services	$883,000,846	1,213,859,057 37% projected cost growth (2009-2015)	$1,480155,300 68% projected cost growth (2009-2020)
General (Social) Assistance	$4,247,734,928	$3,487,003,521 18% projected cost decrease (2009-2015)	$2,890,910,448 32% projected cost decrease (2009-2020)
Child Care	$1,124,199,794	$1,279,095,727 14% projected cost growth (2009-2015)	$1,411,306,228 26% projected cost growth (2009-2020)
Long-term Care	$1,378,625,814	$1,650,217,693 20% projected cost growth (2009-2015)	$1,872,814,454 36% projected cost growth (2009-2020)
Public Health Services	$781,668,370	$904,959,217 16% projected cost growth (2009-2015)	$1,008,126,233 29% projected cost growth (2009-2020)
Social Housing (excluding the City of Toronto)	$1,058,916,483	$1,250,860,385 18% projected cost growth (2009-2015)	$1,362,535,847 29% projected cost growth (2009-2020)
All other municipal services (General government, winter control, street-lighting, recreation, culture, libraries, etc.)	$8,338,791,664	$11,035,954,143 32% projected cost growth (2009-2015)	$13,066,491,295 57% projected cost growth (2009-2020)
TOTAL	**$33,968,975,533**	**$40,329,910,612**	**$45,318,522,492**

How will the growth and the demand for services be financed? If all else remains the same, with the above tally, property tax increases of 4.51% annually will be required for the next ten years to meet existing service levels and standards. When you consider that the vast majority of municipal expenditures are devoted to meeting provincially imposed mandates, what are the future risks and exposure to changing and increasing regulation and new programs?

What does this operational cost growth mean for a typical property taxpayer? Let's assume a household has an annual property tax bill of $3,000 in 2015. To meet existing service levels, this amount will increase to $3,740 by 2020 and will reach $4,663 by 2025.

Estimated Property Tax Increase for Typical Homeowner



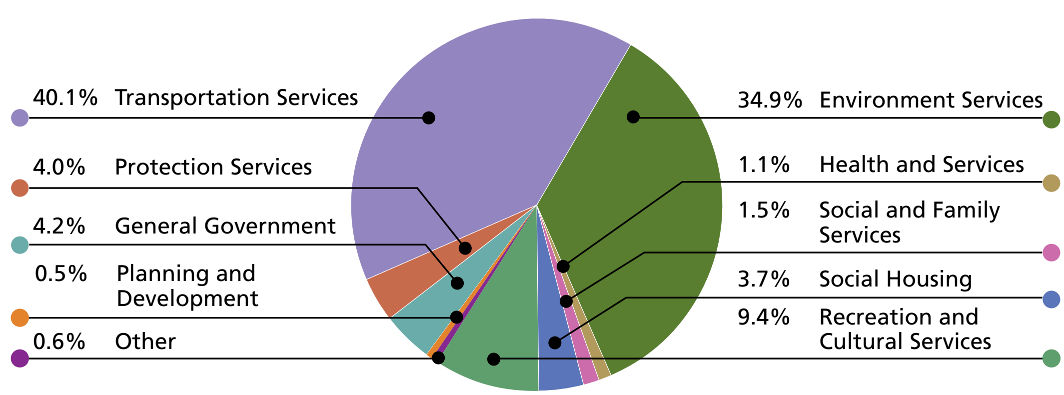
Source: AMO

It begs the question, are property taxes the best way for municipal governments to raise the funds required? While user fees can help with some cost recovery of services, the burden will still fall to the property tax base.

Infrastructure (Capital expenditures)

The chart below illustrates in broad categories, how municipalities spend capital dollars. The two biggest categories are transportation (which includes transit and roads) and environment (which includes water, wastewater, and waste management among others). These two spending functions make up 75% of municipal capital budgets.

Ontario Municipal Capital Investments by Function 2013

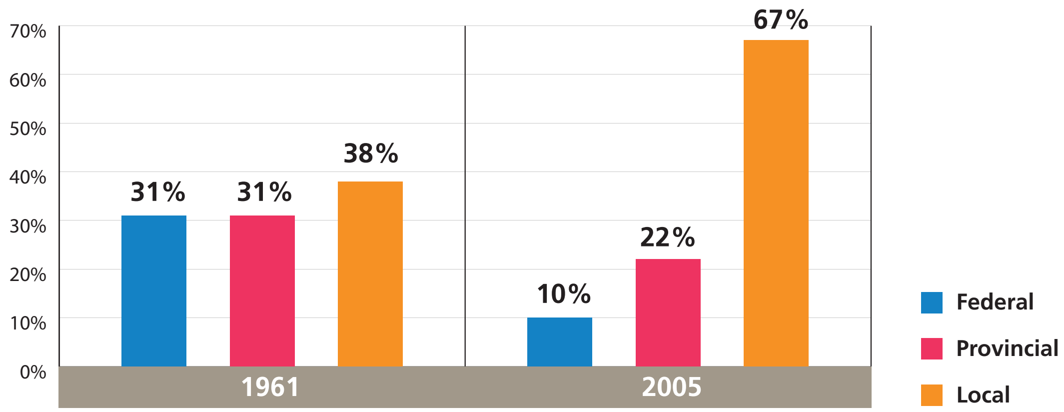


Source: Ministry of Municipal Affairs and Housing, FIRs.

The infrastructure deficit

The municipal share of asset ownership in Ontario has significantly increased since the 1960s. While the chart below excludes provincial infrastructure dedicated to education and healthcare, it illustrates the profound change of responsibilities for the municipal sector with respect to public infrastructure.

Asset Ownership[10]



Municipalities do not just have to manage current service levels. Municipalities are also having difficulty keeping up with community needs, in terms of building, replacing or upgrading infrastructure.

In 2008, the Provincial-Municipal Fiscal and Service Delivery Review Report estimated that municipalities required an extra $6 billion each year for ten years to meet the need for deferred investments and growth, despite additional upload and infrastructure focused funding. It noted, "the gap includes a backlog of needed upkeep to bring systems into a state of good repair."

Infrastructure Gap Estimates for Ontario Municipalities

	Total Investment Needs ($ Millions)				
	For life cycle investment	To eliminate deficit in 10 years	For growth	Average spending, past 5 years ($ millions)	**Investment gap**
TOTAL	$5,261.4	$2,244.5	$2,355.1	$3,942.2	**$5,918.8**

Source: Ministry of Energy and Infrastructure, Page 43, Provincial-Municipal Fiscal and Service Delivery Review Report, 2008.

Notes:
- The infrastructure gap estimate was calculated using average annual estimates from 2006 to 2045, in 2006 dollars.
- Does not include an analysis of other municipal infrastructure such as libraries, parks and recreational facilities and other public buildings.

[10] Source: Bill Hughes, York Region, March 25, 2015, "Financial Sustainability and Asset Management" presentation to the LAS/MFOA Asset Management Symposium.

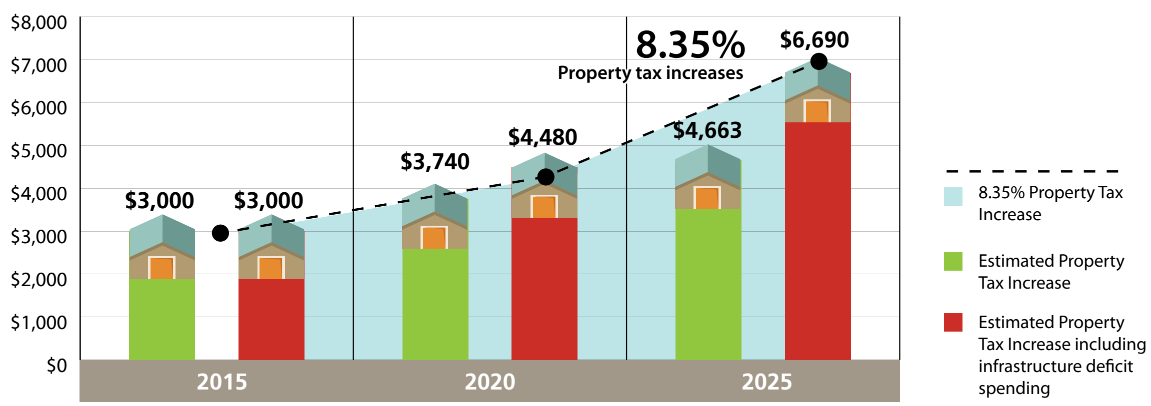
This $60 billion shortfall didn’t happen overnight. Most of Ontario’s infrastructure was built in the 1950s and 1960s. However, in the 1970s and 1980s, other programs took priority. In the 1990s, municipal fiscal capacity was limited by downloading. Much of the existing infrastructure in Ontario needs to be replaced or upgraded. At the same time, the need for new systems such as transit, roads and broadband facilities is growing.

How should we close the infrastructure investment gap? Let’s assume a commitment to eliminate the $60 billion infrastructure deficit over ten years. (NB: This deficit includes roads and bridges, water and wastewater, stormwater, transit, conservation authorities, and solid waste management. It excludes the capital needs of social housing and other assets listed in the chart note above.) If property taxes alone were to fund this deficit, it would represent an annual total property tax increase of 3.84% for the next ten years.

This is in addition to the 4.51% annual increase for the next ten years highlighted earlier for municipal operating expenses on Page 21. If we combine the projected capital needs and operating needs, it would take an annual property tax increases of 8.35% for the next ten years to solve the challenge.

What does this mean for a typical property taxpayer? Again, let’s assume a household with an annual property tax bill of $3,000 in 2015. With a 8.35% increase every year, this amount will increase to $4,480 by 2020 and $6,690 by 2025. These increases would eliminate the infrastructure deficit and maintain existing services. And again, it assumes everything else remains the same.

Estimated Property Tax Increase for Typical Homeowner (including infrastructure deficit spending)

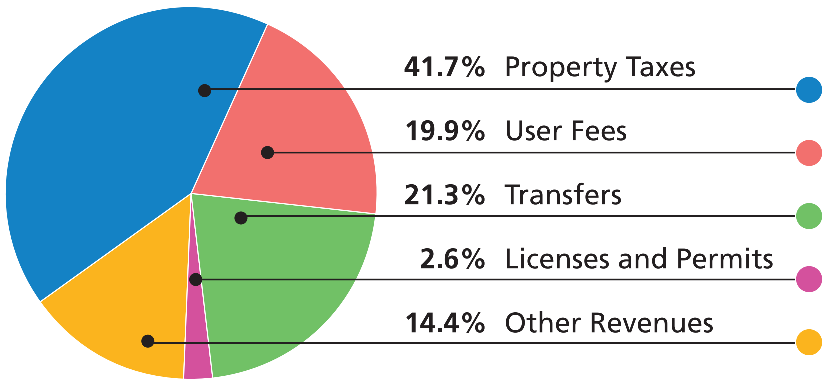


Source: AMO

Would property taxpayers in your community accept these property tax increases? Is there the capacity to pay these amounts? Does capacity look different from one municipality or region to the next? Debt capacity and the capacity to pay are important matters.

2 Revenues and Financing: Evaluating the Existing System

Municipal Revenues, Ontario 2013



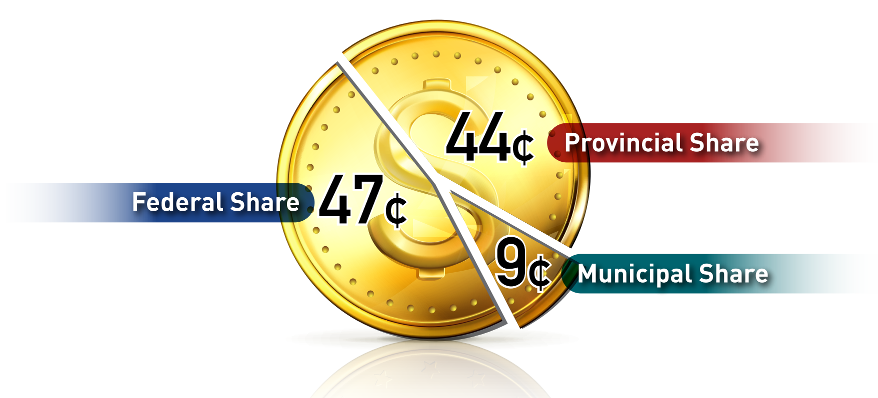
Source: Ministry of Municipal Affairs and Housing, Financial Information Returns.

Property taxes are the main source of municipal revenue. Tax rates are determined locally as part of the municipal budgeting process. For 2015, property tax revenues will be about $19 billion. Transfers from the provincial and federal governments are the second highest source of revenue at just over $9 billion annually. These transfers include unconditional grants (i.e. the Ontario Municipal Partnership Fund) and conditional grants (i.e. land ambulance) and other grants, including infrastructure funding programs. About three-quarters of these transfers come from the provincial government, the remainder from the federal government. Almost $9 billion is raised from user fees (i.e. water, waste management). Total revenues in 2013 for the municipal sector were $43.4 billion.

Reliance on property tax

Of every household tax dollar paid by Ontarians, municipalities collect just 9 cents. Most of these dollars are collected through property tax and to a lesser extent, user fees.

Where does your tax dollar go?



Property tax is the number one source of revenue for municipalities. Rates are set locally and reflect local needs for services and the community's fiscal capacity. Historically, property taxes across the province vary considerably by region.

In Northern Ontario, residential tax rates are among the lowest in the province while commercial and industrial rates are among the highest. Generally the north has experienced very little assessment growth. These communities, many of which are "one-industry towns," are highly vulnerable to economic conditions because of resource-based industries. Previous studies have shown almost one-third of northern municipalities rank at or near the bottom of the relative municipal fiscal health scale, about half of the provincial total.[11]

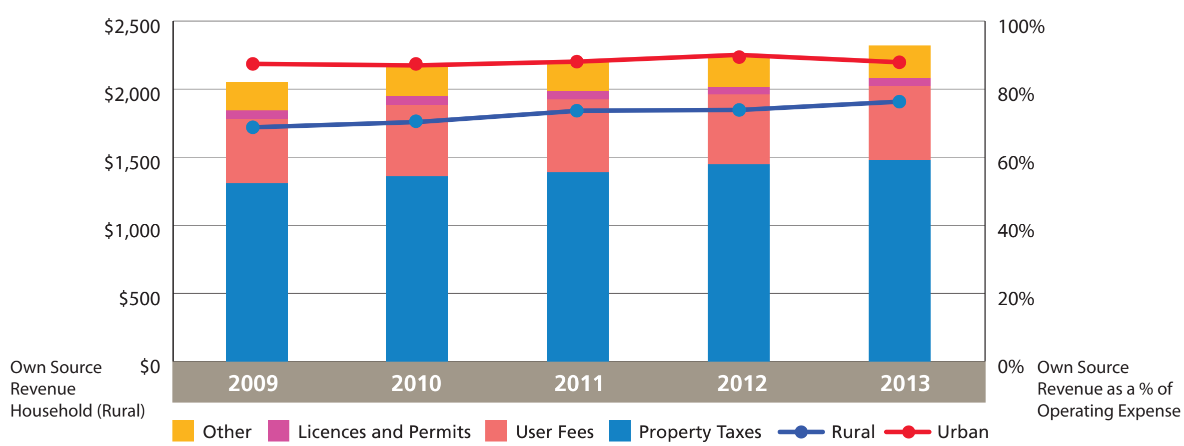
Property taxes in Southwestern and Eastern Ontario are higher than in the north. Higher percentages of farmland and managed forests factor into municipal revenues in these areas because such lands are taxed at a discounted rate. Assessment growth has been higher in the southwest than in the east which has been very modest.

Central Ontario property taxes are on par with the provincial average. Assessment growth has been very strong while debt levels are higher than in the above regions.

Municipal residents in the Greater Toronto Area (GTA) pay the highest property taxes in the province. Assessment growth has been exceptional, double the growth rate of Central Ontario. Municipal debt levels in the GTA are nearly double the debt levels of the surrounding areas of the province.

In the last few years, property taxes have increased at a higher rate in northern and rural municipalities. Analysis by the Ministry of Municipal Affairs and Housing illustrates that point.

Rural Municipal Own Source Revenue Trends
(Charts source: Ministry of Municipal Affairs and Housing)[12]



[11] Source: Report of the Provincial-Municipal Fiscal and Service Delivery Review, 2008, Appendix F.

[12] For the purposes of this analysis, the Rural and Small Community Measure (RSCM) define a municipality as "rural". The RSCM represents the proportion of a municipality's population residing in rural areas or small communities. This approach recognizes that some municipalities include a mix of rural and non-rural areas. The measure is based on Statistics Canada data from the 2011 Census. Municipalities with an RSCM of 25% or greater are classified as rural.

The impact of this change is exacerbated by the fact that incomes per household in rural and northern areas are lower than in urban areas. This situation is likely the result of several factors in combination.

First, the benefit of the social services upload has been greater in urban communities where the tax base is high enough that OMPF is not "earned" based on social program spending. The upload has thus generally been available in urban areas to assist in needed infrastructure investments.

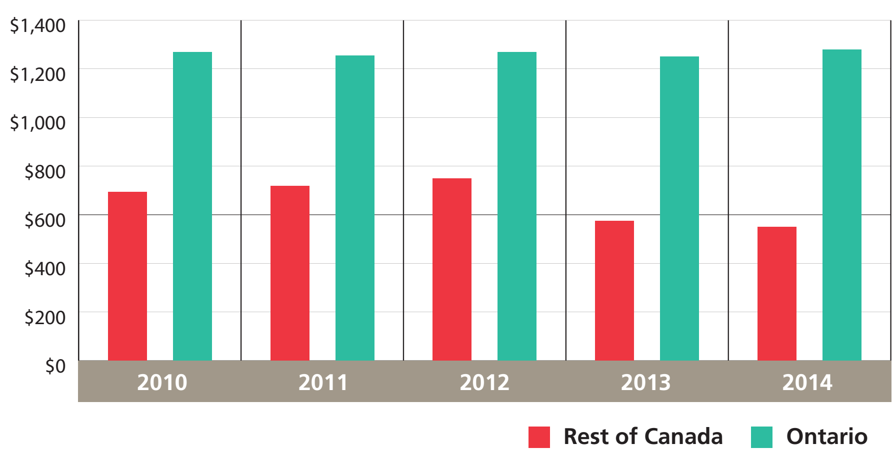
In rural and northern municipalities with social program offsets in their OMPF calculation, the net impact of the upload has often been much less, as the grant is equally reduced. However, these municipalities have had the same or greater proportional investment needs for infrastructure over the same period of time.

Secondly, growth in the tax base has been greater in the urban south, particularly in the GTA, while in the north and rural south it has been less than CPI growth. In some cases, particularly in the north, the tax base has shrunk.

Comparing Ontario to the rest of Canada

The chart below illustrates the difference between the property tax revenue in Ontario, versus the property tax revenue in the rest of provinces and territories in Canada. Despite the uploads, Ontarians still pay the highest property taxes in the country. At the same time, Ontarians also pay for services that are paid for by provinces in other parts of the country.

Ontario Property Tax Revenue Per Capita versus Rest of Canada (Constant Dollars)[13]



Statistics Canada Table 385-0037: Property tax revenue of municipalities and other local public administrations.

[13] We have used Statistics Canada data on consumer price index, population, and aggregate property tax revenue for municipalities and other local public administrations that include regional service commission and boards, regional hospital districts, regional library districts, housing corporations, improvement districts, recreation boards, conservation authorities, and irrigation districts.

The limits of property tax

The revenue raising capacity of property tax is extremely limited for many communities. For half of Ontario municipalities, a 1% property tax increase generates less than $50,000. In addition, a million dollar bridge is a million dollar bridge, no matter where it is located in the province. Many smaller municipalities have many such bridges.

While it is generally considered to be a stable source of revenue, it is less responsive to economic growth when compared to sales tax. It can also be a volatile tax for an individual property, given its reliance on market values. If a property's assessed value increases at a rate that is greater than the average for the whole municipality, property taxes for that property will increase without a total municipal levy increase (and vice versa).

It is also considered to be a regressive form of taxation. How much you pay is not necessarily determined by how much you earn or your ability to pay. It is determined by the value of your property. As one example, a retiree on a fixed income who has lived in a home for decades that has increased in value will direct more of their income toward property taxes each year, even though their income has not increased. As residential values increase, and more residents move into the lower senior income category, more pressure will be placed on property tax setting, as well as the provincial senior's property tax credit.

Property tax is also highly visible because it is paid, not deducted at source like income or sales tax. This visibility increases taxpayer scrutiny considerably.

The property tax system is based on the current value assessment system. The value of a property is determined by the Municipal Property Assessment Corporation and the tax rate that is applied to each property class is determined by the municipality. While growth in residential assessment remains strong province-wide, not all communities experience this growth. In fact, some communities have experienced assessment-related challenges especially with special business properties such as paper and saw mills and golf courses, to name a few. Appeals launched by businesses continue to put the stability of the assessment system at risk and could have serious fiscal impacts for communities with limited non-residential assessment.

Infrastructure funding programs

Another main source of revenue for municipalities is dependence on the provincial and federal government for infrastructure. There is growing dependence on funding programs to deal with the large need to replace and expand these public assets. Most infrastructure funding programs do not fund maintenance.

Funding for infrastructure programs from the federal and provincial government since 2008 has been significant, however many of these grant application-based programs have been relatively short term. The 2009 Building Canada Fund – Communities Component Top Up and the Infrastructure Stimulus Fund provided over $2 billion for short term, 'shovel ready' stimulus projects. While these programs are appreciated and helpful, sustained funding that allows municipalities to plan expenditures over multiple years is a top priority. Two such permanent programs are the federal Gas Tax Fund and the Provincial Transit Fund. Both offer some formulaic approach that improves predictability. The Ontario Community Infrastructure Fund is a recent addition. More information about these programs can be found below.

Municipalities have used revenues and debt to match provincial and federal funding requirements. In addition, they make investments of their own in many cases. Municipal investments have been increasing. From 2003-2008, infrastructure spending averaged almost $4 billion annually. From 2008-2012 it averaged above $6 billion annually. This included municipal contributions to 2010 stimulus programs. This spending peaked that year at $8 billion.

Below are some examples of provincial and federal programs.

Provincial/Federal Investments in Municipal Infrastructure since 2008[14]

PROGRAM	AMOUNT
Provincial Funding	
Investing in Ontario Act Fund (2008)	$1.1 billion
Municipal Infrastructure Investment Initiative (2008)	$450 million
Ontario Recreation Program (2009)	$195 million
Municipal Infrastructure Investment Initiative (2012)	$100 million • Includes $8.5 million to support asset management planning in 350 communities
Small, Rural and Northern Municipal Infrastructure Fund (2013)	$100 million
Gas Tax Program (made permanent 2013)	$2.1 billion*
Ontario Community Infrastructure Investment Fund (2014)	$100 million • $50 million application based + $50 million stable funding
	Total Provincial: $4.1 Billion**

PROGRAM	AMOUNT
Federal Funding * **	
Federal Gas Tax (2008-2014; made permanent 2011)****	$4.85 billion
Building Canada Fund Major Infrastructure Component (2008)	$2.58 billion
Building Canada Fund Communities Component (2008)	$343.2 million
Building Canada Fund Communities Component Top Up (2009)	$190.1 million
Infrastructure Stimulus Fund (2009)	$1.9 billion
Investment in Affordable Housing (2009)	$1.2 billion
Recreational Infrastructure Canada Program (2009)	$195 million
Small Communities Fund (2014)	$272 million
	Total Federal: $11.53 Billion

Note: At the time of writing, the 2015 federal and provincial budgets had not been released and could result in additional funds, programs, or policies regarding infrastructure funding. It is anticipated that grant processes will prevail.

[14] *The Ontario Gas Tax Program has provided $3.1 billion since 2004.
**Budget 2014 committed $29 billion to transit. Funding has not yet been allocated.
***Federal infrastructure funding programs are matched with provincial and municipal contributions, except the federal Gas Tax Fund.
****The federal Gas Tax Fund has provided over $6.3 billion between 2005 and 2015.

OMPF and provincial operating assistance to municipalities

The Ontario Municipal Partnership Fund (OMPF) is the operating grant transfer payment to municipal governments. Its intent is to address challenges in rural and northern communities through an equalization approach and using various community fiscal health indicators to determine operating assistance to municipalities. Over time, it has changed. Today it has been adjusted to reflect the upload of social assistance, among other changes.

Historical OMPF Allocation by Grant (in millions of $)

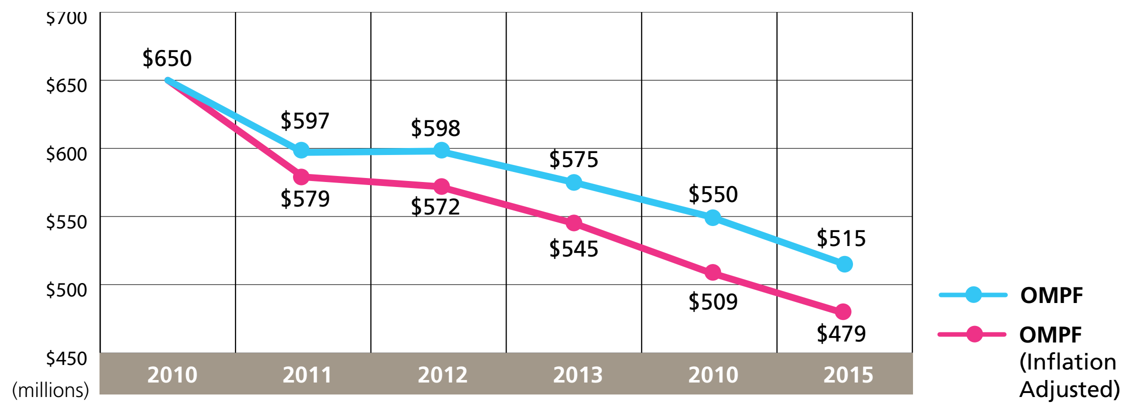
Component	2010	2011	2012	2013	2014	2015	2016
Social Services Grant	84	25	25	0	0	0	0
Policing Grant	82	92	94	0	0	0	0
Farmland and Managed Forests Grant	47	47	46	0	0	0	0
Assessment Equalization Grant	150	147	147	0	149	149	tbd
Northern Communities Grant	84	85	86	0	79	79	tbd
Rural Communities Grant	158	159	162	0	138	138	tbd
Northern and Rural Fiscal Circumstances Grant	0	0	0	0	50	55	tbd
Transitional and Stabilization Grants (incl. Northern & Rural Social Program)	45	42	38	0	134	94	tbd
TOTAL OMPF	650	597	598	575	550	515	500

The total envelope for the OMPF continues to decrease. A $35 million cut is occurring in 2015 dropping the total Fund to $515 million. It was previously $550 million in 2014 and $575 million in 2013. An additional cut of $15 million is projected for 2016[15]. While it is a scheduled reduction, it must be recognized that events subsequent to the 2008 Upload Agreement have shifted the expenditures landscape for municipalities in ways not anticipated.

The OMPF has become much less responsive to changing municipal costs.

[15] In its 2015 pre-budget submission, AMO urged a halt to any further OMPF declines.

Decrease in OMPF (Inflation Adjusted)



Source: AMO

The above chart shows the value of the OMPF, adjusted for inflation. In addition to the envelope declines described above, municipalities have also been shouldering inflation related declines in the value of grant transfers over time. In 2015 the value of this inflation-adjusted decline is estimated at $36 million. The provincial government's fiscal plan for the OMPF beyond 2016, if there is one, has not yet been discussed. In the future, it will be important for the grant to account for local spending needs and locally available resources.

Borrowing and debt

Work is underway to examine municipal capabilities to finance assets identified in their asset management plans through revenues, reserves and by debt. This project will be completed by August 2016.

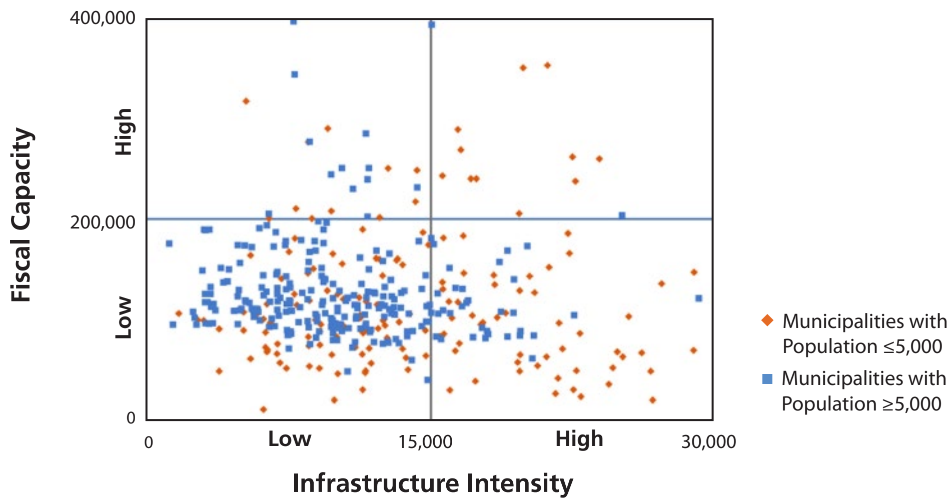
A municipality's overall financial strategy will be affected by both its fiscal capacity, as well as by the amount of infrastructure it owns per capita. For example, rural communities with extensive road ways, but small populations to support those roads, are considered high in "infrastructure intensity." Municipal financial strategy is also impacted by the absolute level of investment needs and their urgency.

The following chart illustrates the different fiscal and infrastructure circumstances of municipalities. It helps to illustrate why some municipalities can take on debt and why others cannot. It largely depends on their fiscal capacity and the infrastructure intensity per capita.

There are a fortunate few municipalities with low infrastructure intensity and high fiscal capacity. Those with high infrastructure intensity and local fiscal capacity are at risk of asset deterioration. In most cases, a comprehensive fiscal strategy will be needed, consisting of an interplay between the long-term capital plan, debt management, reserve management and budget revenues.

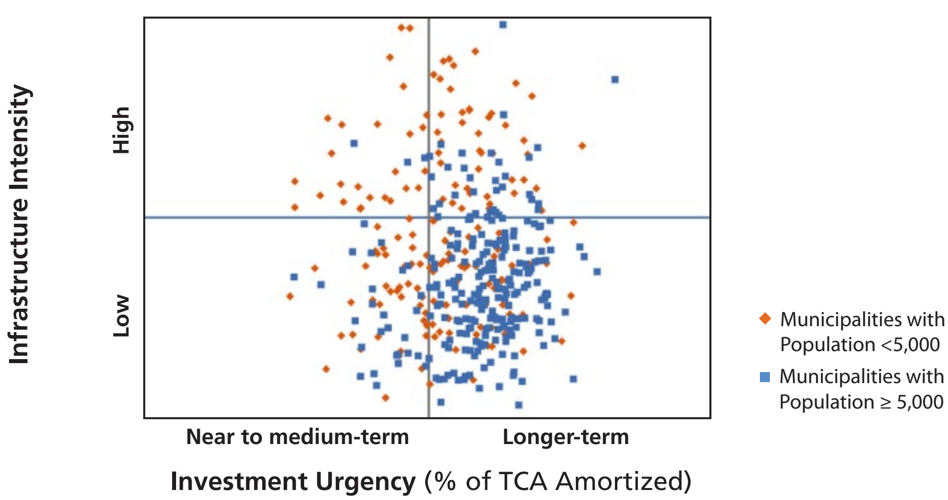
The capacity of household income, considerations related to intergenerational equity, and the role of debt in addressing our shared infrastructure deficit are crucial considerations for municipalities. The on-going work will help municipalities have an informed conversation about debt's role in addressing the infrastructure deficit.

Infrastructure intensity is highly variable[16]



The above chart cross references fiscal capacity and infrastructure intensity. Infrastructure intensity is determined by tangible capital assets per capita. Fiscal capacity is determined by weighted average assessment per capita. It illustrates that most municipalities with populations over 5,000 (blue squares) have low infrastructure intensity but also low fiscal capacity (bottom left square). Many smaller municipalities with populations under 5,000 (orange diamonds) also have low fiscal capacity but also high infrastructure intensity (bottom right square). For those in the high intensity/low fiscal quadrant, the pressure is real. The real objective is to prevent more municipal governments from moving to this quandrant

Most municipalities appear to have time[17]



The above chart illustrates that the nature of the infrastructure challenge is mainly a long-term issue for most larger municipalities (bottom right square). However, it also demonstrates quite a few small municipalities have high intensity and near-term investment needs (top left square).

[16,17] Source: Bill Hughes, York Region, March 25, 2015, "Financial Sustainability and Asset Management" presentation to the LAS/MFOA Asset Management Symposium.

Development charges

Growing communities across Ontario are struggling to finance the full cost of new development especially while they are trying to keep existing infrastructure in a good state of repair.

Municipalities levy development charges to recover the capital costs of providing municipal services to new housing subdivisions and developments. This includes roads, sidewalks, sewers and waterlines. However, in 1997, the Province set strict limits on the funds municipalities could recover through development charges.

The changes reduced the developers' contribution to services such as transit and other key services. It eliminated any responsibility for the costs of additional waste management capacity to meet the demands of growth and provided for no contributions for parklands acquisition.

It also meant that new growth would no longer be required to contribute to services that are critically important to the quality of life in our communities, including hospitals and cultural facilities. The results have been costly to municipalities and unfair to property taxpayers.

According to the Municipal Finance Officers Association, development charges represent only about 15% of total municipal capital funding for most communities and 32% of total capital funding in the high-growth GTA municipalities. It is not nearly enough to cover the capital costs generated by growth. New households generate far more in tax revenue for the provincial and federal governments than they do in property taxes or development charges for local government.

The Province has released changes. Bill 73, currently before the Legislature, would help to address some issues regarding the calculation of transit, and some waste related growth related costs on a limited scale but service levels and service discounts remain outstanding issues.

User fees

Between 2009 and 2013, many municipal user fees have increased. In rural areas, they have increased from 12.5 to 19.4% of municipal revenue. In urban areas, user fees, as a percentage of municipal revenue have increased from 19.6% in 2009 to 20.7% in 2013. What appears as a slight increase to user fees in urban areas actually represents a change of over $1 billion.

User fees must reflect the actual cost of providing a municipal service. They cannot be used to subsidize the delivery of other services. Using a full cost recovery model for additional services is one way to increase revenue.

A good example of this is the use of waste management fees. In some municipalities, waste related costs are charged directly to property owners separate from property taxes. In other circumstances, municipalities also operate "bag-tag" programs which require the payment of fees for waste disposal.

Stormwater charges are also being used in some communities. These charges reflect the area of land (e.g. land paved for parking) and determine a charge based on the water flowing off that land that will require stormwater treatment.

The utility of user fees has limitations. For one thing, collection and administration costs are a consideration. Another consequence might be to unintentionally discourage the public's use of a service which has many benefits – such as charging higher recreational fees for youth.

Federal Gas Tax Fund

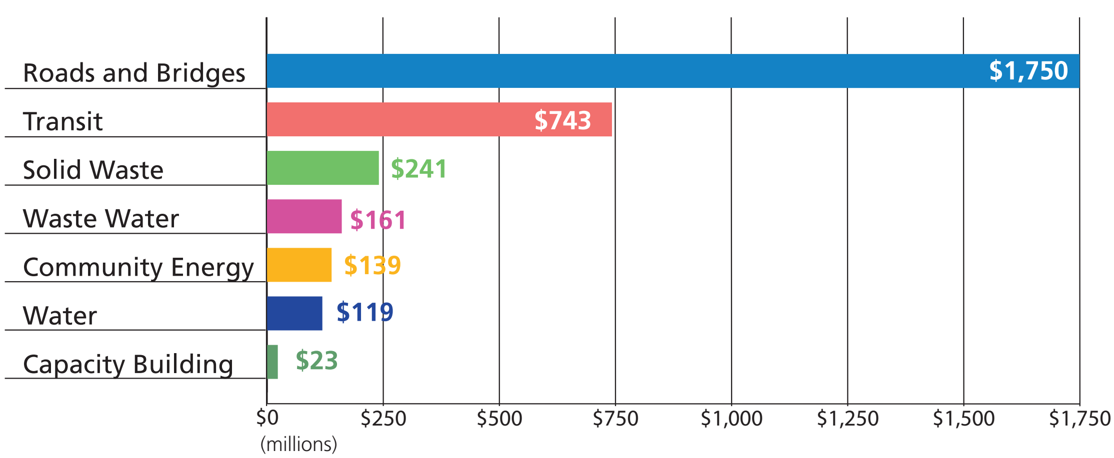
The federal Gas Tax Program was launched in 2005. It is a permanent source of funding for municipal infrastructure in Ontario. Funds are distributed twice a year, on a per capita basis, without the need to fill out an application. In 2015, Ontario municipalities will receive around $745 million dollars (including Toronto) based on population data from the 2011 census. In total, they will receive approximately $3.9 billion dollars from 2014 to 2018. Once the 2016 census is completed, there will be a new national allocation formula for the years 2019 to 2023 based on the updated population data. Ontario's population growth was less than several other provinces, so it received less. Within the province, the shift in allocations away from rural communities will continue, although their infrastructure needs will not change.

The federal Gas Tax is the only long-term, stable and predictable source of funding for municipal infrastructure. Ontario's municipalities know in advance the exact amount they will receive in the future, so they can match the revenue with the highest infrastructure priorities identified in their asset management plans. Predictable funding means that municipalities can identify and plan to address upcoming priority projects.

So far since 2005, municipalities in Ontario, excluding the City of Toronto, have received $3.8 billion out of which $3.2 billion has been invested in over 5,400 eligible projects.

Unsurprisingly, the biggest investment category was roads and bridges, the greatest share of assets of a municipality. The Municipal Funding Agreement for the transfer of federal Gas Tax funds allows municipalities to carry over their allocations for up to five years. This gives municipalities the option of accumulating their Gas Tax Funds to plan for large infrastructure projects (such as a water treatment plant) in the future. Since 2009, an average of $544 million in Gas Tax funds have been carried forward.

Impact of Gas Tax Fund since 2005



Source: AMO

3 The Future

Demographics

A 2010 report from the Ministry of Finance called "Ontario's Long-Term Report on the Economy" notes the profound demographic changes which 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.

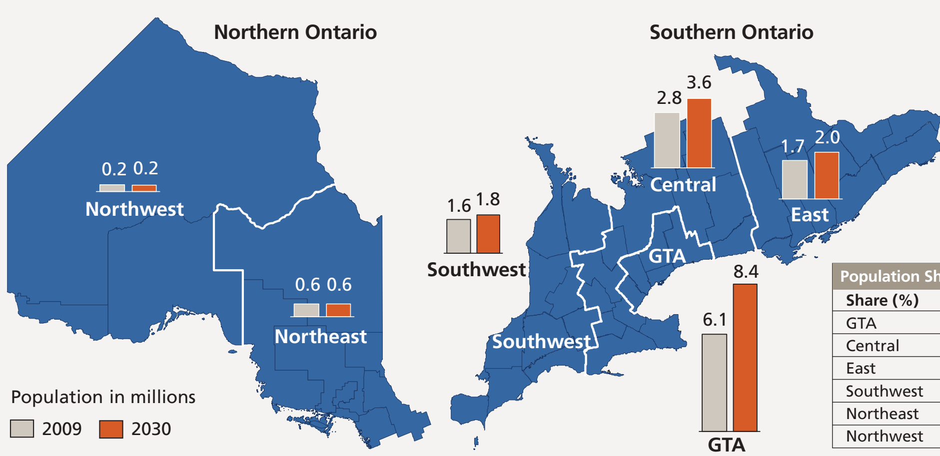
Excerpt from the Ministry of Finance's 2010 Report: Ontario's Long-Term Report on the Economy

The GTA is projected to be the fastest-growing region by far, accounting for almost two-thirds of Ontario's population growth over the next 20 years. The GTA's population is expected to increase by almost 38 %, or 2.3 million people, between 2009 and 2030. Its share of Ontario's population will rise from 46.7 % in 2009 to 50.4 % by 2030.

The population of Central Ontario is projected to reach 3.62 million by 2030, an increase of 27 % from 2.85 million in 2009. In Eastern Ontario, growth of 19 % is projected over the same period, raising the region's population from 1.70 million in 2009 to 2.03 million in 2030. Southwestern Ontario is projected to be home to 1.83 million people in 2030, a 14 % increase from 1.60 million in 2009.

The population of Northern Ontario is projected to be relatively stable to 2030, increasing 0.8 %, from 807,100 in 2009 to 813,300. Population growth will vary within the North, with the Northeast projected to see measured growth and the Northwest continuing to experience slow population decline.

Population of Ontario Regions, 2009-2030



Population Shares of Ontario Regions		
Share (%)	**2009**	**2030**
GTA	46.7	50.4
Central	21.8	21.6
East	13.0	12.2
Southwest	12.2	11.0
Northeast	4.4	3.5
Northwest	1.8	1.4

Sources: Ontario Ministry of Finance projections (Fall 2009).

Regional Differences in Population Growth and Age Structure Will Require Targeted Government Response

Population growth increases demand for infrastructure

Ontario's projected population growth of almost 3.7 million people by 2030 will result in significant demand for all types of infrastructure, including transportation, education, health care, power generation, water management and the environment.

Regional differences in the pace of population growth will create challenges for government service delivery.

In communities of the Greater Golden Horseshoe (GGH), which encompasses the GTA and a large part of Central Ontario, population is growing at a rapid pace and the demand for urban infrastructure, especially transit, will be significant. There will be a continuing need for policy responses that help manage this growth.

In some remote and rural communities of the province, long-term population decline is occurring. Government efforts to attract economic development and job opportunities in these regions will remain important. Maintaining a balanced level of government services in such communities will become a key policy issue.

Moreover, population aging will not occur at the same pace in all regions. For example, the greatest pressures on health care spending will likely be in suburban municipalities, particularly in the GTA. In suburban areas, the number of seniors is projected to rise much faster than in rural and remote regions where proportions of seniors are already higher than average.

Population aging may affect government revenues

The rapid aging of Ontario's population will affect the composition of personal income and result in changing patterns of personal consumption expenditures, both of which could influence government taxation revenues.

As people age, their consumption patterns also change, with a generally higher demand for services (such as health care or travel) and less demand for consumer goods (such as new housing or clothing). These changes might also have a negative impact on government tax revenues.

Climate change

When it comes to investing in infrastructure, municipal governments are having difficulty meeting yesterday's needs. However, the situation becomes even more challenging as we look to the needs of today and tomorrow.

It is generally agreed by the scientific community that human activity, specifically the use of fossil fuels for energy, is releasing greenhouse gases and trapping heat in the atmosphere. This is raising temperatures, warming areas where ice and snow has been trapped for millennia, raising ocean temperatures and affecting life on our planet.

In Ontario, we can most readily see these impacts through the onset of more severe and extreme weather. And our communities feel the strain. Floods overwhelm our sewer and stormwater systems, backing up drains, flooding basements and washing out roads and bridges. Changes to lake levels and temperatures, as well as intensity of human activity, overwhelm our Great Lakes systems leading to unsightly and potentially dangerous algae as well as affecting fish stocks. Ice storms and severe cold temperatures can cause havoc on our roads, our water pipes, our electricity distribution systems, increase demand on our emergency service workers and stress our most vulnerable populations.

It's clear that much of Ontario's infrastructure, particularly our stormwater systems were not built for today's weather events. They must be upgraded and upsized to protect residents and businesses and to allow us to live in the new normal.

As well, the Province has announced in it will pursue a cap and trade system to reduce greenhouse gas emissions. We are awaiting the design phase of the system to better understand implications for municipal government. That being said, the need to reduce fossil fuels will increase need for some municipal services. Transit systems will need to be extended to reduce personal vehicle use and make the use of gas and diesel more efficient, energy systems in public facilities will have to be converted to low or no carbon, and communities will have to become denser to allow for alternate modes of transportation. In addition, municipalities will have a role to play in helping to plan communities for vehicles powered by alternate fuels and to convert our building stock to more efficient facilities. Our rural areas will also need to be safeguarded to ensure that we secure the ability of rural communities to supply high quality food and other resource-based economies.

Recent Initiatives

Social Assistance Rate Increases

The 2015 Provincial Budget revealed that social assistance rates will increase by 1% effective January 2016. This will present some cost pressure on the delivery of social assistance for municipalities.

Collective Agreement with Ontario Provincial Police Association (OPPA)

Municipalities await the outcome of current contract negotiations being undertaken by the Provincial Government and the OPPA. Its outcome can also affect the cost of policing among municipal own-forces given historical wage patterns and settlements.

Ontario Retirement Pension Plan (ORPP) Impacts

The Government is following through on its election platform commitment to a stronger and more secure retirement income system for Ontarians, specifically those approximately 66% of Ontario workers that do not belong to a pension plan. Bill 56, the *Ontario Retirement Pension Act, 2014*, which establishes the framework and timing of January 1, 2017 for the implementation of the proposed Ontario Retirement Pension Plan (ORPP), received Royal Assent on May 5, 2015. Consultations are underway on the ORPP design and while the Government has recognized that comparable defined pension plans, like the OMERS Plan, provide more than adequate benefits and should be exempted, there have been recent indications that the proposed ORPP could be universal. The OMERS Plan which has a complex governance structure, would then need to negotiate plan changes to offset the ORPP benefit. If this cannot be achieved, both OMERS employers and employees will likely face higher costs, beyond the current 21.3% blended contribution rate. There would also be impacts on OMERS administration costs and uncertainty about inclusion of OMERS part-time employees and employees yet to qualify, as OMERS plan members. Provincial annual transfers to cover employer costs of OMERS and other public sector pension plans could also increase."

Provincial-municipal financial relationship

Given the current fiscal challenges faced by the provincial treasury, or even with a fiscally healthy treasury, it is highly improbable to expect it to fund the myriad of challenges faced by the municipal sector as a whole. This does not mean that additional operating assistance will not be required to meet the needs of some municipalities that face considerable fiscal challenges due to poor fiscal health. Targeting of this assistance is important. The inflation-related declines to the OMPF envelope magnify this challenge. So what of the future?

4 What Could Change?

We must consider all possible options to improve municipal fiscal sustainability and weigh the risks and long-term benefits of each one. Some possible approaches to improve fiscal sustainability could include some or all of the following:

- Even more property tax increases at or above the rate of inflation;
- Service level reductions;
- Continued municipal advocacy for more provincial and federal dollars including unconditional operating grants, and specific grants (i.e. housing, infrastructure);
- New permanent taxation for municipal governments (i.e. sales tax percentage, new or expanded fuel surcharges, federal and/or provincial income taxes percentage). Note that this would require agreement from the other orders of government;
- Look at more uploading of costs (i.e. housing);
- Streamlined provincial-municipal roles to increase the efficiency and effectiveness of government so that regulatory overlap and duplication between orders of government could be altered;
- Broaden the use of shared service agreements, sub-regional service delivery options;
- Further Development Charge reform for high growth communities;
- Extend City of Toronto Act tax tools (any tax other than provincial income tax or sales tax), including:
  - Entertainment;
  - Alcoholic beverages;
  - Tobacco;
  - Motor Vehicle Ownership tax;
  - Land Transfer tax;
  - Parking tax;
  - Road pricing/congestion;
  - Billboard tax.

5 Comparing Ontario with Other Jurisdictions

Municipal associations in other jurisdictions are also reviewing the provincial-municipal relationship in the context of meeting the current and future needs of municipal governments. Below are a few Canadian examples.

- Last year, in **British Columbia**, the Union of British Columbia Municipalities launched *Strong Fiscal Futures: A Blueprint for Strengthening BC Local Governments' Finance System.* Its main theme is "a local government system financed through smarter expenditures and fairer more economically responsive revenue tools" with the goal to "eliminate the infrastructure deficit while maintaining the lowest property tax and debt levels in Canada."

- In 2012, the Government of **Saskatchewan** reached an agreement with the Saskatchewan Urban Municipalities Association on revenue sharing. The plan is the equivalent of one point of PST tax (based on PST revenues from two years prior). In 2013-14, this represented a total allocation of $264 million. This was the realization of a campaign launched by the municipal association in 2008-2009 for a long-term, predictable, sustainable and unconditional provincial funding for municipalities. This revenue sharing arrangement was reaffirmed in the 2015 provincial budget delivered in March. There is no operating grant for municipalities per se and the Province is using federal infrastructure dollars for more provincial rather than municipal assets.

- A broader engagement and renewal effort is currently underway in **Nova Scotia**. Launched in the fall of 2014, the Provincial-Municipal Fiscal Review has released a consultation document which, among other issues, focuses on 'regionalization' and amalgamations when the municipal fiscal health of a community is below set benchmarks. It is also considering a redesign of unconditional operating grants, improving revenue systems and greater collaboration between provincial and municipal governments.

- The **Newfoundland and Labrador** Municipal Association (NLMA) has released a report on its comprehensive review of the municipal fiscal framework, identifying a $6 billion plus operating and capital need for the next ten years. It notes that its local government taxation system is too fragmented and too weak to manage a significant number of new tax tools. Unless the structure of the system is to be significantly enhanced, there is no way most of the small communities in the province could manage a new toolkit of local tax tools. Many have a hard time managing the few they already have so NLMA is putting forward several revenue-sharing options.

- Similarly, the Association of **Manitoba** Municipalities has been seeking an alternative revenue source in the form of a share of the existing Provincial Sales Tax for several years. Public opinion polling commissioned as part of this effort showed that 69% of Manitobans "were disposed to having new tax-generated revenues put in the hands of local governments." The municipal infrastructure deficit in Manitoba is $11 billion.

The recent activity in other jurisdictions to re-evaluate the municipal structures, roles and responsibilities, revenue sources and intergovernmental cooperation suggests a broader movement, much larger than provincial-municipal relations in Ontario, to modernize and improve what municipalities do.

When compared with other local governments across Canada, Ontario's municipalities appear to "be both responsible for funding a broader suite of services and subject to more specific service mandates."[18]

Municipal Expenditure Responsibilities across Canada, 2005

Responsibility* / Province & Territory	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
General Government Services	X	X	X	X	X	X	X	X	X	X
Courts of Law					X					
Policing (incl. bylaw enforcement)		X	X	X	X	X	X	X	X	X
Fire Fighting	X	X	X	X	X	X	X	X	X	X
Regulatory Measures						X			X	
Roads & Streets	X	X	X	X	X	X	X	X	X	X
Public Transit			X		X	X	X	X	X	X
Hospital Care										X
Preventative Care						X				
Other Health Services						X	X		X	
Social Assistance						X			X	
Other Social Services			X		X	X			X	
Agriculture								X	X	
Tourism / Promotion & Trade / Industry				X	X	X				X
Water Purification & Supply	X	X	X	X	X	X	X	X	X	X
Sewage Collection & Disposal	X	X	X	X	X	X	X	X	X	X
Garbage / Waste Collection & Disposal	X	X	X	X	X	X	X	X	X	X
Recreation & Culture	X	X	X	X	X	X	X	X	X	X
Housing					X	X			X	
Regional Planning & Development	X	X	X	X	X	X	X	X	X	X

* An X denotes per capita expenditures larger than $10
Source: Statistics Canada; compiled for Slack, Kitchen, McMilan and Vaillancourt 2007.

[18] Côté, André and Fenn, Michael, IMFG Papers on Municipal Finance and Governance, No. 17, 2014, *Provincial-Municipal Relations in Ontario: Approaching an Inflection Point.* Page 32.

Different taxation or revenue tools available to municipalities in provinces across Canada

Tax/Revenue Tool Description[19]	Province Where Power Exists (Act or agency where power exists in parentheses)
Advertising Tax: This tax is for permanent signage, primarily billboards. The tax is often assessed by size and is paid by the owner, not the advertiser.	Manitoba *(City of Winnipeg Charter)* Ontario *(City of Toronto Act)*
Amusement Tax: A tax on various forms of entertainment, paid on admissions to theaters, etc.	Manitoba Newfoundland & Labrador *(St. John's Assessment Act)* Ontario *(City of Toronto Act)* Quebec Saskatchewan *(excludes northern municipalities)*
Area/Improvement/Service Area/Parcel Tax: These types of tax have a variety of names but are fundamentally the same – to tax a geographically specific area for a specific service such as water, sewer, roads, etc.	Alberta British Columbia Manitoba Newfoundland & Labrador Nova Scotia Ontario Prince Edward Island Quebec Saskatchewan
Business Tax: A surcharge on top of the property tax. Tax base is not necessarily the same as a property tax for business and industry, e.g. the property tax is on the assessed value while the business tax sometimes is on the renting value.	Alberta British Columbia Manitoba Quebec
Equipment Tax: Levied against machinery used for extraction of resources such as oil. It is a form of capital tax.	Alberta Manitoba Newfoundland & Labrador Saskatchewan
Hotel Tax: Tax on short-term accommodation in hotels, motels, tourist homes, lodging houses, and similar establishments. In some cases hotel taxes are specific municipal powers, in other cases the tax is collected and directed as a Destination Marketing Fee – which can be voluntary or not.	Alberta British Columbia Manitoba New Brunswick Newfoundland & Labrador *(St. John's Assessment Act)* Nova Scotia *(Halifax Regional Municipality Marketing Levy Act)* Prince Edward Island Quebec Saskatchewan
Land Transfer Tax: A land transfer tax is normally based on the amount paid for the land, in addition to the amount remaining on any mortgage or debt assumed as part of the arrangement to buy the land.	Manitoba Newfoundland & Labrador *(St. John's Assessment Act)* Nova Scotia Ontario *(City of Toronto Act)* Quebec

[19] BC Ministry of Community, Sport and Cultural Development, "Municipal Revenue Sources Review: Inter-jurisdictional Comparison of Revenue Tools", August 2012.

Levies for Public Development/Development Cost Charges: Levies for public development or development cost charges are collected from a developer under a development scheme in exchange for approval that increases the density of an area and is intended for creation of a public good, like a park, recreation facility, school, water, sewer or street lighting.	All provinces. Prince Edward Island – only 31 of province's 75 municipalities have opted to take on responsibility for local planning.
Lift Charges: Lift charges are fees to a developer or the developer makes a contribution to the community based on the fact that the development has received a favourable zoning that will improve the land values (and presumably the developer's bottom line). The assumption is that the zoning will have "lifted" the value of the land and the local government is trying to capture some of that increased value on behalf of the surrounding community.	Alberta Manitoba Newfoundland & Labrador Ontario Quebec Saskatchewan
Poll Tax: A poll, head tax or capitation tax, is a tax of a portioned, fixed amount applied to an individual in accordance with the census.	Newfoundland & Labrador *(132 towns collect poll tax in NF&L)*
Revenue Sharing: Municipalities receive a portion of provincial sales tax revenues (which grows or declines with the economy) based on prior year totals. It offers some measure of predictability and is responsive to provincial economic circumstance. (Saskatchewan does not provide other operating grants to municipalities).	Saskatchewan
Road Pricing and Fuel Taxes: Road pricing is an economic concept regarding the carious direct charges applied for the use of roads. The road charges include fuel taxes, license fees, parking taxes, tolls and congestion charges, including those which may vary by time of day, by the specific road, or by the specific vehicle type being used. Road pricing has two distinct objectives: revenue generation, usually for road infrastructure financing, and congestion pricing for demand management purposes. Toll roads are the typical example of revenue generation. Charges for using high occupancy toll lanes or urban tolls for entering a restricted area of the city are typical examples of using road pricing for congestion management purposes.	British Columbia *(Greater Vancouver Regional District)* Ontario *(City of Toronto Act)* Quebec *(Transportation Agency of Montreal)* Newfoundland & Labrador *(St. John's Assessment Act)*
Royalties/Charges on Pits, Quarries and Aggregates: Charges of this nature either apply to the extraction of earthen materials within a municipality or the transportation of earthen materials through municipalities.	Alberta British Columbia Manitoba Ontario Quebec Saskatchewan
Sin Tax: Sin tax is used on activities that are considered socially undesirable. Common targets of such taxes are alcohol and tobacco, gambling, and vehicles emitting excessive pollutants.	Ontario *(City of Toronto Act – alcohol and tobacco purchases)*
Utility/Miscellaneous Taxes: Utility taxes are charged on businesses delivering utility services such as telephone, hydro electricity, natural gas and cable television.	British Columbia Manitoba *(City of Winnipeg Charter)* Quebec *(9-1-1 services)* Newfoundland & Labrador *(St. John's Assessment Act)*

6 Discussing Your Priorities

First and foremost, this is an open-ended invitation to imagine. Imagine the future for municipal governments – what do you want to see? What are your priorities for municipal fiscal sustainability?

To move forward with common priorities and possible tools and solutions, AMO has developed a series of key questions for the municipal sector to consider:

1. **What fiscal challenges is your municipality facing now and how will they change in the future?**
   - Which areas present the greatest municipal fiscal challenges or opportunities?
   - Rank the top five fiscal challenges facing your municipality in the next five years and the next ten years.
2. **What changes can you make to tackle those challenges?**
   - How can municipal governments on their own modernize and improve what they do to increase fiscal sustainability?
   - Is there anything standing in the way of doing this?
3. **What changes can the Province or the federal government make to empower your municipality to tackle those challenges?**
   - What ideas would you like to see the provincial government take on that would help municipal governments move towards fiscal sustainability?
   - Are there any specific provincial policies that could be strengthened or removed to improve our sector's fiscal sustainability?
   - Do municipalities need more authority to tackle fiscal challenges? If so, what type of authority do we need?
   - Do municipal governments need more taxation tools? If so, what taxation tool(s) would work effectively in your municipality and how?
   - Alternatively, would you prefer current types of transfers from other levels of government knowing that more assistance means less independence for the municipal sector?
4. **What possible solution(s) do you think should be the focus of a coordinated municipal effort to meet this challenge?**
5. **Did we miss anything?**
   - Please let us know if there are any key municipal fiscal issues missing in this document.

A Discussion Guide summarizes these questions and key background information, for each municipal elected official and senior staff response. We welcome your input in any format up to **Wednesday, July 15, 2015**.

Municipal responses will serve as the foundation for AMO's work to investigate how greater fiscal sustainability for Ontario's municipal governments might be achieved. Your input is the first step to help us develop a clear vision for a more prosperous future.

AMO will report back to the membership on what we heard at the 2015 Annual Conference in August.

Your input is welcome in whichever format is most convenient for you or your municipality:

By E-mail: whatsnext@amo.on.ca

Regional meetings and conferences: AMO will be making presentations at the following conference: NOMA, FONOM, OSUM, and AMCTO. Please watch for more details on regional meetings taking place near you in the weeks ahead.

Online: Please see details distributed separately to municipal officials and senior staff.

By mail: Association of Municipalities of Ontario
c/o What's Next Ontario?
200 University Avenue, Suite 801
Toronto, Ontario
M5H 3C6

Questions or Technical Assistance: If you are a municipal official or senior staff member and you did not receive instructions or have questions on how to access the Discussion Guide, please contact Nicholas Ruder, Policy Advisor at 416-971-9856 extension 411 or by email at nruder@amo.on.ca.

Appendix A - Municipal Fiscal History: Further Reading

Naturally there is a long and evolving history to the provincial-municipal fiscal relationship. The paragraph below paints a picture of what that relationship looked like in the late 1970s and the early 1980s. On the pages that follow, we include an excerpt from a recent paper published by the Institute on Municipal Finance and Governance at the Munk School of Global Affairs, University Toronto which explores more recent changes to the fiscal relationship. AMO thanks the Institute and the paper's authors.

Most of Ontario's infrastructure was built in the 1950s and the 1960s. The key municipal revenue sources up until the early 1990s were: property taxes, payments in lieu of taxes, conditional and unconditional grants from the province and other revenue sources such as user charges, licences, permits and fines. As detailed in the 1979 Ministry of Municipal Affairs' Municipal Councillor Manual, there were "over 100 individual grants and subsidies available to municipalities from provincial ministries and agencies." Conditional grants were provided on the basis that the funds would be used for a specific municipal program or service in accordance with detailed provincial requirements. Provincial conditional grants accounted for approximately 73% of the total provincial grants in 1979. Unconditional grants, representing 27% of total grants, could be used by the municipality for locally determined program and service areas and were comprised of the following; per household general grants; per household policing grants; per household density grants; levy-based grants; resource equalization grants; northern support grants; special assistance and transitional grants.

Excerpted from:

Provincial-Municipal Relations in Ontario: Approaching an Inflection Point

By André Côté and Michael Fenn

Institute on Municipal Finance and Governance

2.4 The Government of Canada's role in urban affairs

The 1970s saw a brief period of federal intervention in urban affairs. The primary vehicle for federal-provincial-municipal cooperation had long been the Canada Mortgage and Housing Corporation (CMHC), which underwrote postwar suburban residential expansion and shared the responsibility for funding and managing social housing. The Liberal government of Pierre Elliott Trudeau created the Ministry of State for Urban Affairs (MSUA), and the Prime Minister even expressed his openness to municipal constitutional recognition. But by 1979, provincial opposition led to the abolition of the MSUA and firm rejection of any notion of municipal recognition in the constitution (Dewing, Young, and Tolley 2006).

Municipal advocacy for intergovernmental and constitutional recognition during this period, best expressed through the Federation of Canadian Municipalities, was "largely motivated by [municipalities'] search for practical ways of meeting the increasing demands upon their fiscal resources" (Dewing, Young, and Tolley 2006, 1). The provincial and federal governments responded to this municipal need, increasing transfer payments by 102 percent between 1968 and 1973. However, the increase in municipal fiscal transfer dependence – often as conditional grants – did not satisfy municipal leaders who sought greater financial autonomy (O'Brien 1975). One-time funding for capital investments also placed new financial burdens on municipalities left to operate and maintain new infrastructure.

This period of urban tumult during the 1970s was followed by a decade and a half of relative calm as the rise of the Québec sovereigntist movement and the election of the Parti Québécois created a significant cooling in the federal inclination to engage in municipal policy spaces. Furthermore, the focus through this period was on deficit taming, climaxing in the mid-1990s with a 1995 federal budget that significantly reduced transfers to provinces (Cameron 2002).

2.5 The restructuring and realignment of the 1990s

The broad narrative of the 1990s holds that the provinces, facing severe fiscal difficulties themselves, passed these transfer reductions to local governments. While this trend is difficult to assess across the country, it is clear that the fiscal crisis was one of a few drivers of the dramatic reforms that unfolded in Ontario. During the late 1990s and early 2000s, Ontario's Progressive Conservative government undertook three major reforms in the municipal sector: a unilateral realignment of responsibilities between the provincial and local levels; the halving of the number of municipal governments through a policy of restructuring and amalgamations; and a comprehensive reform of the property tax system. The result was "some of the most turbulent provincial-municipal relations ever experienced in a Canadian province" (Graham and Phillips 1998, 176).

Some of these changes contradicted advice provided by several expert advisory commissions. The first was an advisory committee chaired by Grant Hopcroft, convened in 1991 to review provincial-municipal financial arrangements, which recommended that responsibilities be disentangled to allow municipalities to focus on traditional local functions and that local governments have access to adequate sources of revenue to fund their responsibilities, with provincial use of conditional transfers warranted only where services remained a shared responsibility (Hopcroft 1991).[6]

In 1996, another provincially appointed task force, chaired by Anne Golden and mandated with providing direction on the future governance of the Greater Toronto Area (GTA), recommended merging five GTA upper-tier governments into a single Greater Toronto regional body that would be responsible for high-order land-use and transit planning, economic development, highways, and infrastructure. At the same time, the powers and responsibilities of the lower-tier municipalities would be broadened to ensure the governance model would be responsive locally (GTA Task Force 1996).

Finally, the Who Does What Panel that same year recommended reforms to create a more flexible, permissive legislative framework under the *Municipal Act*, and a GTA services board to coordinate regional activities. The Panel also called for the Province to assume full control and funding responsibility for health services

6. The report did not endorse major new revenue sources such as income, payroll, or sales taxes, but did recommend providing access to hotel, parking, or environmental taxes. It also called for more local governments to be provided with more flexibility for innovative asset management arrangements and public-private partnerships.

(such as public health and long-term care homes) and redistributive human services (such as welfare, support-payments to the disabled, employment supports, and child care) (Who Does What Panel 1996).

During the provincial reforms that followed, some of this advice was heeded, but many key recommendations were ignored. Local Services Realignment (LSR), which its opponents called "downloading," took effect in January 1998. Municipalities were required to assume partial or full funding responsibility for social services such as social housing, disability supports, the seniors' drug benefit, and child care, as well as for municipal transit, public health, land ambulance, and property assessment (see Table 1). The Government of Ontario also intervened in the public education system, reorganizing school boards and their boundaries, limiting the authority of elected trustees, and assuming control over education funding, including the residential and business education property taxes.

Education property taxes were reduced as part of the realignment, ostensibly leaving the municipalities with tax "room" to fund the new municipal program expenses transferred to them. A transfer payment program, the Community Reinvestment Fund (CRF), was created to support local fiscal capacity with the objective of overall "revenue neutrality" in the service restructuring. Experts disagree on whether the restructuring was actually revenue-neutral across the province.

Table 1: The Effects of Local Services Realignment (LSR), 1998

Responsibility	Pre-LSR		LSR	
	Provincial	Municipal	Provincial	Municipal
Social Assistance (Ontario Works or OW)	80%	20%	80%	20%
Social Assistance Administration	*50*	*50*	*50*	*50*
Ontario Disability Support Program (ODSP)	100	0	80	20
Child Care Services	100	0	80	20
ODSP & Child Care Administration	*100*	*0*	*50*	*50*
Ontario Drug Benefit (ODB)	100	0	80	20
Public Health*	75	25	50	50
Land Ambulance**	100	0	0	100
Social Housing	100	0	0	100
Municipal Transit Costs***	33	67	0	100
Property Assessment	100	0	0	100
Sewer & Water	10	90	0	100
Policing	10	90	0	100
Farm Tax & Conservation Lands Tax Rebates	100	0	0	100
Children's Aid Societies	80	20	100	0

*Public health costs were returned to the pre- LSR 75- 25% shares in 2007.
** The land ambulance funding share was shifted to 50-50% in 1999.
***GO Transit was completely devolved to municipalities, only to be re-assumed by the Province in 2002.

The second major reform involved municipal amalgamations. The rationale was to increase the efficiency and accountability of local governments, to achieve cost savings through economies of scale, and to ensure that municipalities had the fiscal capacity to accommodate Local Services Realignment. Amalgamation was generally imposed on unwilling local municipalities, although some were persuaded to restructure on a voluntary basis as an alternative to enforced solutions. The two-tier municipalities of Metro Toronto, Ottawa-Carleton, Hamilton-Wentworth, and Greater Sudbury were amalgamated into single-tier cities. Many smaller amalgamations took place as well, often in two-tier county systems.[7] In all, between 1995 and the early 2000s the number of municipalities in Ontario was nearly halved from around 850 to 444 (Found 2012).

The third major reform was to the property tax system. An antiquated assessment and tax system had resulted in growing inequities among homeowners and across property classes. The 1998 reforms had two main components. The first was the shift to a uniform, province-wide system of "current value assessment" (CVA) that sought to capture a true market rate for real property.[8] The assessment function was transferred from the province to what is now known as the Municipal Property Assessment Corporation (MPAC), a non-profit corporation with membership composed of all municipalities.

The second component was a classified property tax structure, which allowed municipalities to set different rates across seven different classes of property, with rate reductions required on certain sub-classes such as vacant commercial and industrial lands and farmland and managed forests. Several optional property classes were also created, for a total of up to 36 different property classes and sub-classes. The new system included transition and rate-capping mechanisms, and allowed for three separate commercial and industrial rate "bands." The complexity of the classification system resulted from a desire to minimize large shifts in tax burden caused by the new assessment system and the resulting political ramifications.[9]

David Siegel has suggested that the changes between 1996 and 1999 represent the "most comprehensive reform of municipal government since 1849" (Siegel 2004, 182). The results have been mixed. The property tax reforms, despite some problems, represented a needed modernization of the assessment regime in the province. The municipal property tax room that accompanied the uploading of

7. For example, amalgamation was imposed on the 23 municipalities in the Kent County–City of Chatham area, creating a single-tier municipality – a development that prompted a spate of "voluntary" restructuring in other parts of the province, to avoid a similar fate.

8. Current Value Assessment is synonymous with the terms Market Value Assessment or Actual Value Assessment.

9. The seven different property classes were residential, multiresidential, commercial, industrial, pipelines, farms, and managed forests, as well as optional classes such as new multiresidential, office buildings, shopping centres, parking lots, and large industrial properties (Bird, Slack, and Tassonyi 2012).

education costs increased municipal use of own-source revenues, while the unconditional transfers through the Community Reinvestment Fund (CRF) and other policies such as the "pooling" of social services costs among suburban municipalities in the GTA helped equalize for the fiscal deficiencies of poorer local governments.[10]

Packaged with Local Services Realignment and amalgamations, however, the property tax reforms were unpopular. The fiscal changes came at the expense of function-specific capital and operating grants and created major swings in property assessment valuations among municipalities and classes of taxpayers. The results were predictable: the "winners" were quiet and enjoyed a diffuse, often incalculable benefit, and the "losers" – older cities, transit operators, social housing providers, some classes of taxpayers – were vocal in their protests. A comprehensive 2012 review of the property tax reforms concluded that the jury is still out on whether they have been a success. The shift to a uniform, market value assessment system was needed, but the numerous property classes and rates have created complexity and administrative burden for municipalities, and prompted additional reforms in the decade since (Bird, Slack, and Tassonyi 2012).

The provincial reforms also failed in some important respects. The amalgamations did not address the critical need for metropolitan governance mechanisms in the GTA, and the evidence does not suggest that they achieved cost savings (Slack and Bird 2013).[11] Finally, in spite of the recommendations of the Hopcroft, Golden, and Who Does What advisory bodies, Local Services Realignment further entangled service delivery responsibilities and saddled local governments with the costs of some social services without the commensurate revenue-raising mechanisms, setting the stage for further realignments over the next decade.

2.6 The 2000s: Unshackling? Or creeping fiscal dependence?

The upheaval of the late 1990s was followed by another period of relative calm, as local governments adapted to the structural reforms and service realignments, and the provincial government increased its investments in municipalities. The Liberal government, elected in 2003, sought to rebuild the relationship, in part through significant reforms to the municipal legislative framework. There were growing pains for local governments across the province as the newly amalgamated cities of

10. The concept of "pooling" within the GTA recognized that the cost of human services was higher in the City of Toronto because of the number of recipients and the range of programs, whereas the tax resources of the GTA economic region favoured the surrounding regional municipalities. A statutory formula was developed to "pool" tax assessment resources across the GTA, and redistribute the resulting tax revenues in a way that recognized the higher costs in Toronto. The Province began to phase out the GTA pooling transfers in 2007, replacing them with a provincial compensation grant for Toronto (See City of Toronto 2013a).

11. Amalgamations did, however, allow for a more equitable sharing of the tax base within the enlarged cities and some other benefits.

Toronto, Ottawa, Hamilton, and Greater Sudbury sought to merge local functions and create new political and administrative systems. For regional municipalities in Southern Ontario and the Greater Toronto Area, the primary concern continued to be managing growth in population, service demands, and land use. Rural and northern municipalities faced different challenges, as small and often shrinking populations, a limited or declining industrial tax base, and unreduced expectations for public services strained their capacities.

The early 2000s also marked a brief resurgence in federal interest in municipal affairs. Prime Minister Paul Martin's Liberal government identified a "New Deal for Canada's Communities" as one of its major priorities. John Godfrey, appointed Minister of State for Infrastructure and Communities, identified three components of the New Deal: stable long-term funding, sustainable relationships, and a commitment to look at federal activity through an urban lens. In a speech to big-city mayors, Godfrey noted that "the municipal agenda – both large and small – is at the heart of the federal government's priorities" because municipalities foster Canada's prosperity and deliver an array of social programs (Godfrey 2004). The 2004 budget made several funding commitments to local governments, including a municipal Goods and Services Tax (GST) rebate, infrastructure funding, and a promise to share the federal gas tax (see Table 2).

Nevertheless, the provinces and territories resisted federal incursion into the municipal realm. In 2004, they proposed that federal programs be developed following consultation and agreement with the provinces, fall under federal-provincial agreements, and respect the provincial role in consulting with their own municipalities (Dewing, Young, and Tolley 2006). With the election of the federal Conservatives in 2006, the provinces' wishes have largely been realized. The Conservative government's commitment to "Open Federalism" signalled a return to a more clearly delineated division of responsibilities along constitutional lines. Still, the federal government committed significant funding for local infrastructure, including stimulus funding in the wake of the 2008 financial crisis. The 2013 federal budget announced a continued federal commitment to infrastructure funding, flowed through the municipal Goods-and-Services Tax (GST) rebate and an enhanced Gas Tax Fund, as well as the renewed Building Canada Fund and Investment in Affordable Housing programs (Government of Canada, Department of Finance 2013).

2.7 A new phase in the provincial-municipal relationship

The last decade also saw the most significant reform of the statutory relationship between the Ontario government and its local governments since the Baldwin Act. The increased size, role, and complexity of local governments led to the first new legislation regulating provincial-municipal affairs in 150 years, the *Municipal Act*, 2001, and unique treatment of the province's largest local government under the *City of Toronto Act*, 2006. These two pieces of legislation created a "permissive" policy framework that provided additional flexibility, less prescriptive "natural-

Table 2: Major Federal Transfers to Ontario Municipalities

Program	Overview	Ontario Funding (Timing)
Infrastructure		
Full Refund of the GST for Municipalities	A permanent program provides a 100 percent rebate of the federal portion of the HST (Ontario provides a 78 percent rebate for provincial portion).	~$280 million for 2013-14* (permanent)
Gas Tax Fund (GTF)	The GTF provides $2 billion annually to fund eligible infrastructure projects. The 2013 federal budget indexed the GTF to grow by 2 percent starting in 2014, and expanded eligibility to include almost all municipal infrastructure.	$750 million per year, indexed to grow by 2 percent annually (permanent)
Building Canada Fund	Budget 2013 renewed and extended the BCF from the current 7 years to a new 10 year program. The matching grant program is allocated on a 'base plus population' formula.	~$500 million per year* (10 years beginning in 2014)
Other infrastructure programs	Other major programs include the P3 Fund, Green Infrastructure Fund (GIF) and the Community Infrastructure Investment Fund (CIIF)	~180 million per year* (timing varies)
Housing		
Canada-Ontario Investment in Affordable Housing (IAH)	A cost-shared program that provides funding for new construction, renovation, homeownership assistance, shelter allowances, and other supports. New housing must remain affordable for a minimum of 20 years.	$480 million from 2011-2015 (extended to 2018-19)
Federal social housing operating agreements	The long-term agreements (25 to 50 years) with housing providers provide federal operating subsidies for over 200,000 units in Ontario. The agreements generally end when mortgages are paid.	Nearly $500 million per year (declining until the expiry of all agreements by 2032)

*Approximate funding amounts for Ontario calculated on the basis of per capita population.
Sources: 2013 Federal Budget; Federation of Canadian Municipalities; Ontario Long-Term Affordable Housing Strategy; Ontario Public Accounts 2011-12; Association of Municipalities of Ontario

person" powers for municipal corporations, and other measures to augment the autonomy of local governments. Reforms to the *City of Toronto Act* also provided the province's largest local government with modest new taxation powers.[12]

Provincial policy has also taken an increasingly regional lens. The Greenbelt Plan, 2005, and the Growth Plan for the Greater Golden Horseshoe, 2006, were established to address the challenges of growth management and suburban expansion in Central Ontario. The Growth Plan for Northern Ontario, 2011, focused on stimulating investment and economic diversification, but took a similar approach in creating a broad regional policy framework within which

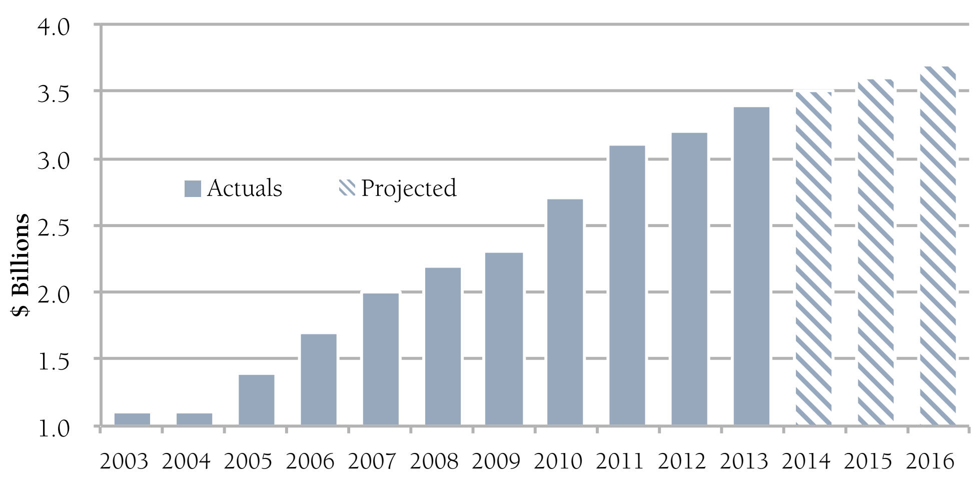
12. The Act allows the City to tax land transfers, vehicle registration, billboards, retail alcohol sales, and entertainment, but not more significant tax bases such as retail sales, income, gasoline, or payrolls.

municipalities make their own choices.[13] Finally, the Province created Metrolinx, a Crown agency set up to develop and implement a regional transportation strategy and manage and expand the commuter rail and bus network in the region surrounding Toronto.

The negotiation of a Memorandum of Understanding between the Province and the Association of Municipalities of Ontario (the AMO MOU) created a formal, ongoing reporting and consultation mechanism for discussing policy and regulatory reforms. The City of Toronto is the only municipality to manage its relations with the Province outside this arrangement. A Toronto-Ontario Cooperation and Consultation Agreement and the *City of Toronto Act* represent the Province's recognition of the need for an asymmetrical relationship with Ontario's largest city (Siegel 2009).

The past decade has also seen considerable provincial investment in the municipal sector (see Figure 1). Between 1999 and 2007, the Province re-assumed the costs of GO Transit and much of public health (earlier devolved as part of Local Services Realignment), followed by the costs of land ambulance service. In 2005, the Ontario Municipal Partnership Fund (OMPF) replaced the Community Reinvestment Fund. The OMPF is an unconditional transfer program with a significant equalization component. It targets funding to small, rural, and northern communities with poorer fiscal capacity. In 2007, the Province also began lowering

Figure 1: Provincial Support to Ontario Municipalities



Source: Provincial-Municipal Fiscal and Service Delivery Review; Ontario Ministry of Finance; adjusted to reflect the OW administration funding model announced in 2011, the phase-down of the OMPF confirmed in the 2012 and 2013 Ontario Budgets, the phase-out of Toronto Pooling Compensation and updated projections.

13. Regional programs include the Northern Ontario Heritage Fund and the Northern Industrial Electricity Rate Program, and economic development grant programs targeted to the eastern and southwestern parts of the province.

business education property tax rates to reduce the burden on business and increase room for municipalities to increase their property tax rates.

The Province has provided considerable support for municipal infrastructure. Time-limited federal-provincial cost-shared programs have provided significant new funding. The provincial gasoline tax transfer was introduced in 2004 to support municipal transit infrastructure needs.[14] The Province has committed to permanent gas tax funding of $318 million annually (McNamara 2012). There were also one-time, year-end investments during the mid-2000s, as required under the *Investing in Ontario Act* when the provincial budget was running a surplus. Since 2003, provincial support for municipal infrastructure has totalled more than $12 billion, not including the significant federal component of cost-shared investments (Commission on the Reform of Ontario's Public Services 2012).

The most significant increase in provincial support came through the "uploading" of municipal costs as part of the Provincial-Municipal Fiscal and Service Delivery Review. A joint process of research, analysis, and negotiation between the Province, the Association of Municipalities of Ontario (AMO), and the City of Toronto, the two-year initiative focused on opportunities to realign the funding and service delivery relationship, notably for social services. The outcome was a provincial commitment to upload the municipal funding share of benefit costs for social assistance programs – Ontario Works (OW) and the Ontario Disability Support Program (ODSP) – seniors' drugs, and court security costs. The net benefit to municipalities will be $1.5 billion per year by 2018.

In addition to the fiscal realignment, there was also agreement to pursue other priorities, including infrastructure investments and improved municipal asset management, the modernization of low-income supports, and the consolidation and integration of provincial-municipal programming in the areas of housing and homelessness, child care services, and social assistance and employment supports (Provincial-Municipal Fiscal and Service Delivery Review 2008; see Table 3).

This substantial increase in provincial support for municipalities was the most important trend of the past decade. From 2003 to 2010, without including one-time infrastructure transfers, provincial funding support grew by almost 150 percent, or by nearly 14 percent annually (Commission on the Reform of Ontario's Public Services 2012). The Province also provided local authorities with some additional flexibility in their spheres of responsibility and made efforts to rationalize the alignment of service responsibilities. These efforts at legislative unshackling and partnership were important symbolically and in some practical respects. But the Province remained unwilling to relinquish control over key policy levers and local finances.

14. The Province transfers two cents per litre from gas tax revenues to municipalities, based on a formula weighted to transit ridership volume.

Table 3: Provincial Upload Schedule

Program	Upload Status	Prov. Share 2007	Complete*
Ontario Drug Benefit (ODB)	Complete	80%	2008
Ontario Disability Support Program (ODSP) Administration	Complete	50%	2009
ODSP Benefits	Complete	80%	2011
Ontario Works Benefits	Began in 2010	80%	2018
Court Security Costs	Began in 2012	14.3%	2018

*Provincial share equals 100%

3. Provincial-Municipal Relations: Approaching an Inflection Point

The financial crisis of 2008 ushered in a new era of slower economic growth, uncertainty in financial and credit markets, and alarming deficits and public debt levels. While Canada fared relatively well during this period, it has not been spared from these problems. Ontario in particular has suffered a decline in its fiscal situation from a budget surplus in 2007 to a $20-billion deficit in 2009. As we have seen in the past, fiscal challenges are usually a major catalyst – if not *the* catalyst – for big shifts in provincial-municipal relations.

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