



Partnering for a Stronger Ontario

Investing in municipalities is a good investment in the provincial economy.

2020 Pre-budget Submission

AMO Association of
Municipalities Ontario



Municipal governments are a key partner, investing revenues of \$50 billion in important public services and infrastructure.

Introduction

A strong relationship between the Government of Ontario and its 444 municipal governments is the foundation for our collective prosperity. Municipal governments are a key partner, investing revenues of \$50 billion annually in important public services and infrastructure.

Over the past year, the Ontario Government has made some important investments in municipal modernization and efficiency. It has also launched several consultations on municipal priorities.

While the province addresses its own fiscal realities, it must appreciate that municipal governments are a major force in the economic well-being of this province and this country.

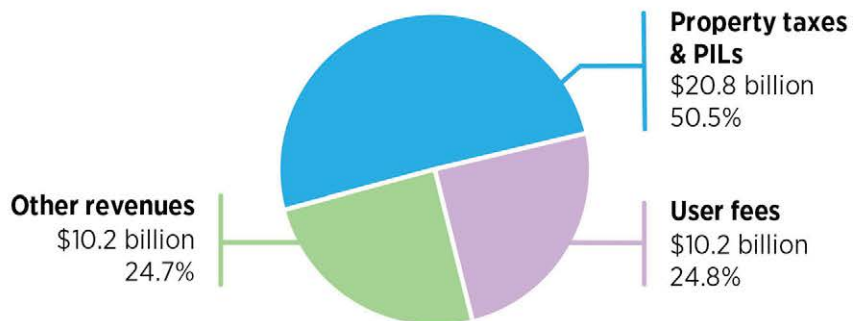
For Ontario to grow and prosper, we need to ensure affordable and sustainable municipal services and infrastructure investment. This can only be accomplished by working together and respecting our single and shared taxpayer.

Municipal Finance

Municipal own-source revenues amount to approximately \$41 billion per year. This is money raised through the authority as municipal governments. Half of the money raised, about \$20 billion, is raised through property taxes and payments in lieu of taxes. The other half is raised through user fees, and other revenues, such as development charges, licenses, and permits.

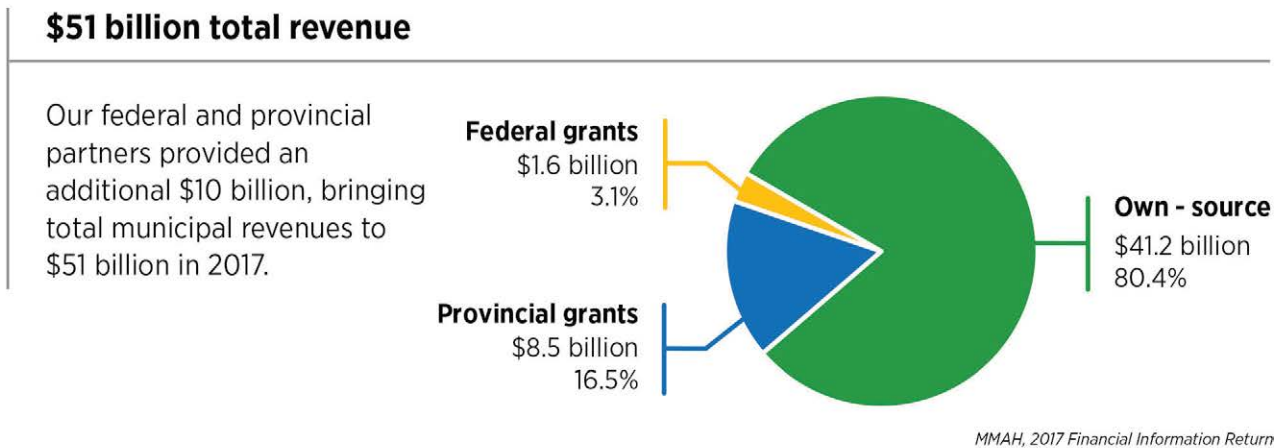
\$41 billion own-source revenue

Our communities collectively raised \$41 billion in 2017 - primarily from property owners and service users.



MMAH, 2017 Financial Information Return

Municipal revenues also include an additional \$10 billion of provincial and federal funding. Municipalities receive about \$1.6 billion in federal funding and about \$8.5 billion in provincial funding - in a combination of conditional and unconditional grants. In total, Ontario municipalities have combined revenue of \$51 billion per year.



For comparison purposes, \$51 billion is equal to one-third of the total revenue of the Government of Ontario, which is \$150 billion a year.

The combined revenue of Ontario municipalities from all sources is roughly equal to the entire amount of revenue the province generates from “personal income tax” and the “corporations tax” combined.

Municipalities are a major partner in public finance in this province and, consequently, a partner in Ontario’s prosperity. Investing more than \$50 billion per year in key public services and infrastructure means municipalities are a major force in the economic well-being of this province and this country.

Affordability

Another part of the picture is affordability for property taxpayers. One in five homeowners in Ontario is spending 30% or more of their income on housing – a measure widely used by banks and others to measure housing affordability. They simply are not in a position to deal with higher property taxes.

Housing affordability

One in five homeowners in Ontario spend 30% or more of their total household income on shelter costs. This makes Ontario fairly unique among Canada’s provinces and territories.



Property tax levels are a major factor in housing affordability. Property taxes in Ontario are already amongst the highest in the country.

The figure below shows property tax revenues reported by provincial and territorial governments, municipalities, school boards, and other institutions in 2017, expressed in per capita terms. Ontario is second only to Alberta in property taxes collected.

Property taxes amongst highest in Canada

Municipal governments collected about \$2,000 in property taxes and payments-in-lieu per capita in 2017. We can’t ask much more of our residents and local businesses.

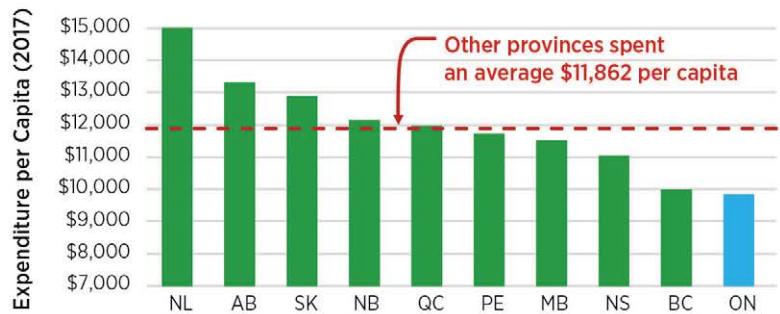


Provincial Program Spending

While property taxes in Ontario are amongst the highest in the country, provincial program spending is the lowest in Canada. Ontario's program spending of about \$9,800 per capita is about \$2,000 per person less than the national average.

Lowest provincial spending per capita

The Ontario Government spent \$9,820 per capita, compared to an average of \$11,862 per capita by other provinces.



Financial Accountability Office of Ontario, Comparing Ontario's Fiscal Position with Other Provinces

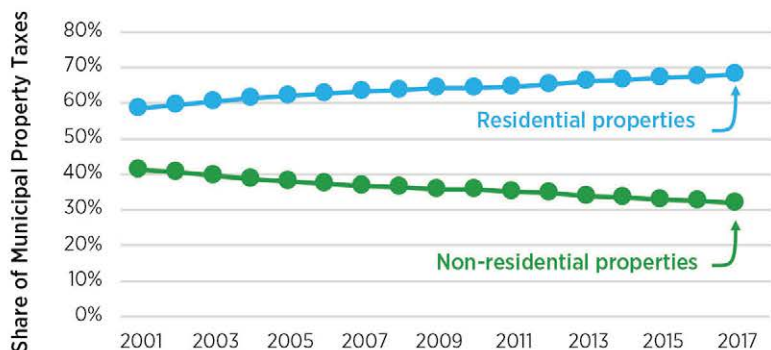
A Shifting Tax Burden

Residents have gradually been paying a greater share of property taxes, compared to the non-residential sector. This has been driven in part by massive growth in residential property during the period.

It also reflects an economy in transition. Economic disruption from shuttered saw mills, auto assembly plant closures, online shopping and other factors have shifted a greater tax burden on to residential property taxpayers.

Tax burden shifting to residents

Residents are picking up an increasing share of the tab. Homeowners contributed 68% of property taxes in 2017 - up from 59% in 2001.



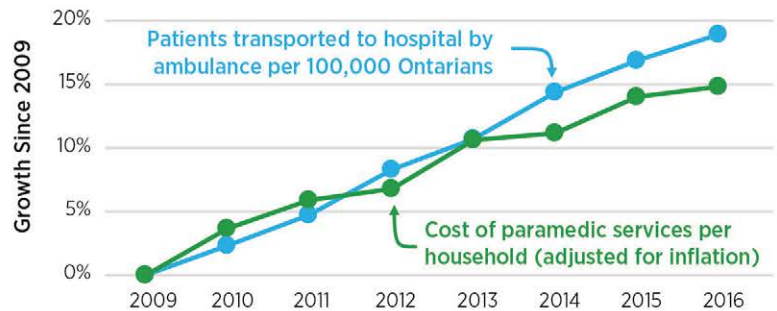
Statistics Canada, tables 10-10-0147-01 and 17-10-0005-01

Demographic Change

There are a range of pressures on municipal services including demographic changes that are adding to municipal costs. Increased demand for paramedic services is a good example.

Responding to pressures: Paramedic example

The number of patients transported by ambulance between 2009 and 2016 increased by almost 20%. The added cost of the services grew accordingly – by about 15%.



Paramedic service costs: MMAH, 2017 Financial Information Return
 Transports: OMHLTC, Ontario's Emergency Health Services: Sector Overview

Maintaining costs through efficiency

Municipalities are doing their part by finding efficiencies. Despite rising service demands, total operating costs per household are stable.



MMAH, 2017 Financial Information Return

Absorbing these pressures while still meeting the needs of their communities means that municipalities work hard to innovate and do more with less.

From 2010 to 2017 the cost of service per household actually declined slightly - about 2.7%. This is the total operating cost per household adjusted for inflation.

Provincial Changes

AMO acknowledges and appreciates that several provincial announcements will have a positive impact on municipalities.



Changes in the Blue Box program will save municipalities an estimated \$130 million a year when fully implemented.



Provincial funding of \$343 million to support modernization and greater efficiencies will help municipalities deliver services more cost-effectively.



Stable OMPF funding is vitally important to the municipalities that rely on it for fiscal sustainability. Allocations for 2020 have been provided totaling \$500 million and the Minister of Finance has announced that total OMPF funding in 2021 will remain at \$500 million.

Some changes have impacts that are not yet fully understood – especially for future years. Changes to cost sharing in public health for example. In 2020, cost increases directly attributable to the change in cost sharing will be capped at 10%. Municipalities are uncertain about the cost impacts in future years.

There is also uncertainty about the fiscal impact of changes to the Development Charges Act and the creation of the community benefit charge.

The Ontario Government's 2019 Fall Economic Statement set out six key themes that are relevant to municipal governments:

- Making life more affordable
- Preparing people for jobs
- Creating a more competitive business environment
- Connecting people to places
- Building healthier and safer communities, and
- Making government smarter

Municipalities are involved in every one of these key areas. If these themes are important to the government, the government is going to have to work in partnership with municipalities to be successful.

Municipal services and provincial programs

Municipal governments provide the services that Ontarians rely on most, on a day-to-day basis, and at all stages of life. Services to property, public safety, health and human services, transportation, environmental protection and more, support residents and business alike.

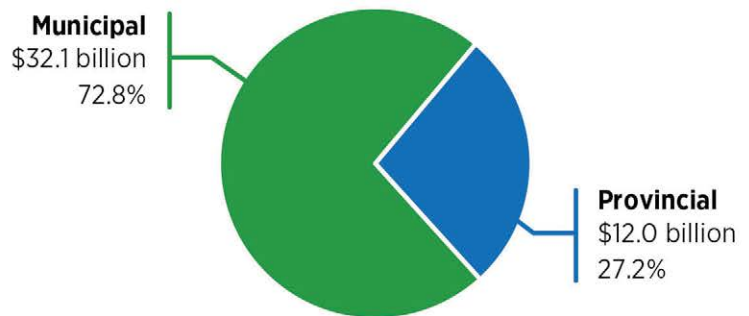
Typically, in Canada, many of these services are delivered and/or funded by provincial or territorial governments. Examples include childcare, public health, paramedicine, senior's care, social housing and social assistance.

In Ontario, these services are delivered by municipalities or municipal entities and, in most cases, are cost-shared with municipalities.

About 27% of aggregate municipal operations budgets go to services that are conventionally considered a provincial responsibility in most other Canadian jurisdictions.

Municipal budgets support “provincial” services

Municipalities in Ontario delivered \$44 billion in services in 2017. Services that typically fall under provincial jurisdiction in other provinces comprised 27%.



MMAH, 2017 Financial Information Return



The provincial-municipal fiscal gap

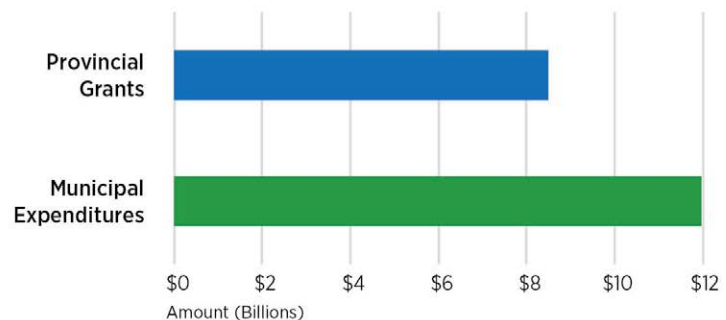
In 2017, municipalities spent \$12 billion on “provincial” services - offset in part by provincial conditional and unconditional grants of about \$8.5 billion. It reflects a gap of more than \$3 billion.

But this gap is declining in relative terms. Had AMO and the City of Toronto not secured the uploading of social assistance benefits costs and court security costs in 2008, that gap would now be about \$5 billion a year. The uploading of those costs is saving municipalities about \$2 billion a year.

\$3 billion fiscal gap

Municipal expenditures on health services, social housing, and social and family services exceeded total provincial grants by more than \$3 billion.

Without 2008-2018 uploading, this gap would be \$5 billion.



MMAH, 2017 Financial Information Return



There is a gap of more than \$3 billion a year. This is the difference between what municipalities spend on what can be conventionally described as provincial health and human services, and the total amount of provincial grants to municipalities.

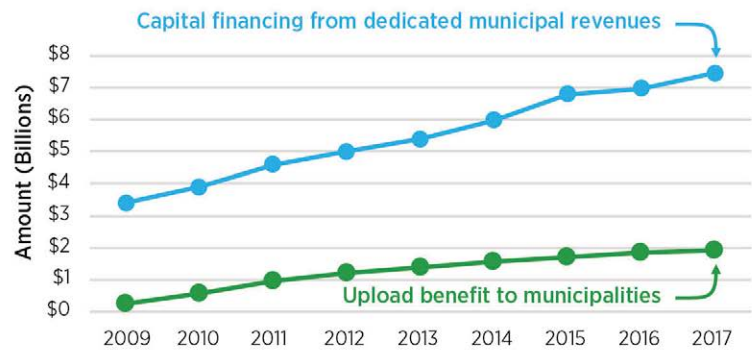
Uploading and municipal infrastructure investment

From 2009 to 2017, uploading of social assistance benefits and court security costs generated savings for municipalities amounting to \$2 billion a year when fully implemented. Over the same period, municipal infrastructure investment increased by about \$4 billion per year – a factor of 2:1.

The upload savings have allowed municipalities to reinvest their own resources into infrastructure.

Upload valued at \$2 billion

Uploaded social service costs reached nearly \$2 billion in 2017. Municipalities invested the savings – and much more – in infrastructure.



Capital financing: MMAH, 2017 Financial Information Return
Upload benefit: Ministry of Finance, OMPF Technical Guides, 2009-2017



The predictability of provincial uploads provided municipalities with the financial confidence to invest in infrastructure for the long-term. Without confidence, financial planning often shifts focus to the immediate needs of today, versus those of tomorrow.

Conclusion

Ontario's \$50 billion municipal sector is fundamentally important to the success of Ontario. It is a key partner in Ontario's prosperity.

Municipal governments provide the services that Ontarians rely on most, on a day-to-day basis, and at all stages of life.

Municipalities are managing serious financial pressures and they are seeking assurance from the province that it is committed to the economic sustainability and prosperity of Ontario's communities.

Currently, municipal governments are spending about \$3 billion annually on responsibilities that are traditionally considered provincial. At the same time, Ontario's provincial spending per capita is the lowest in Canada.

Municipal property taxpayers face some of the highest property taxes in the country and encounter major challenges in terms of affordability.

While the provincial government is striving to reduce costs and Ontario's substantial debt, it must balance these goals with the need to make strategic investments in important priorities that drive growth and prosperity.

Key challenges, like transit, housing, roads and bridges, broadband, and climate change adaptation will only be addressed by a strong partnership.

Ontario and municipal governments must work in partnership to build the strong and sustainable communities that are the foundation of this province.

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