Association of Municipalities Ontario

Protect Together, Recover Together

Submission to the Standing Committee on Finance and Economic Affairs

January 26th, 2022

Table of Contents

Introduction

The interdependent provincial-municipal relationship is protecting lives and preventing even greater pandemic hardship. The stability of that relationship matters to Ontarians in this moment; it will matter to Ontarians in a post-pandemic recovery.

It is Ontarians who measure the success of that interdependence. Many pandemic services delivered by municipal staff have helped to protect lives and livelihoods. They include: vaccine distribution, paramedic services, public health activities, childcare, care for the homeless, long-term care and supporting small business economic development to name but a few. Even without an international public health emergency, Ontarians rely on a full range of critical municipal services every single day. Fiscally stable municipal governments are the backbone of these public services.

The provincial government and municipal governments have a fiscal and service delivery relationship that is mutually dependent. The provincial government relies on municipalities to deliver services to Ontarians. Municipal governments rely on the province to fulfill its contributions to cost-share programs and services. Ontario's more than $50 billion municipal sector is a key partner in building Ontario's health and prosperity.

In presenting the 2022 pre-budget submission of the Association of Municipalities of Ontario (AMO), pandemic related issues are an immediate priority but so too are the enduring needs of municipal governments to successfully and adequately finance and deliver services now and in the long-term.

To that end, AMO urges a general theme of fiscal stability for 2022. Our focus includes a provincial government budget that reflects these four themes:

1. AMO seeks a provincial budget that continues to address pandemic-related municipal costs with ongoing intergovernmental cooperation and investment;

2. A budget that does not impose new unfunded responsibilities upon municipalities and builds for the future;

3. Accounts for inflation in cost-share programs, Ontario Municipal Partnership Fund allocations, and provincial payments in lieu of taxes; and

4. Monitors the impact of future property assessment updates for any significant shifts between classes or property taxpayers.

We expand further on these four themes below.

1. AMO seeks a provincial budget that continues to address pandemic related municipal costs with ongoing intergovernmental cooperation and investment.

The degree of collaboration and intergovernmental cooperation these past two years is an inspiring example at a tumultuous time. The $4 billion Safe Restart Agreement, close to $1 billion more announced in March 2021 for social services and transit, and a $1.1 billion federal and provincial commitment for housing and homelessness through to 2023 are all examples of governments rising to the challenge. Such measures have sustained municipal finances to this point in the pandemic. Additional federal and provincial support will be needed again in 2022 until the pandemic is well and truly in our collective rear-view mirror.

AMO continues to seek the support of the provincial government in helping to make the case with the federal government regarding outstanding social service assistance payments. The amount in question is significant - about $1 billion. Municipal governments in Ontario are unique when compared to their national counterparts given their additional social service obligations. Provincial assistance is sought to address this issue with the federal government.

Transit

The 2021 Provincial Fall Economic Statement provided additional funding for transit systems and was meant to address lower ridership and gas tax revenues resulting from the pandemic to the end of 2021. The stability of the Ontario Gas Tax Fund has been very beneficial. It is now apparent that pandemic related financial shortfalls will extend into 2022. AMO looks forward to working with the Ministry of Transportation to continue this funding and monitor evolving transit-related needs with the appropriate investment.

Long-Term Care (Pandemic Related)

Long-term care residents experienced the devastating impact of the COVID-19 pandemic these past two years. Residents have been disproportionately affected with families and communities feeling the brunt in profound and tragic ways. Approximately 80% of COVID-19 related deaths in Canada in earlier waves of the pandemic were within long-term care settings. Decades of underfunding and understaffing has affected the ability of homes to address outbreaks. The government responded with significant funding to cover COVID-19 related costs and increased Infection Prevention and Control (IPAC) capacity to prevent and contain the pandemic spread in homes. Such types of support must continue.

Public Health

The value of public health services has been demonstrated throughout the pandemic. AMO calls on the government to restore the 75% provincial and 25% municipal public health cost sharing arrangement and enshrine it in legislation. Municipal governments should not pay an increasing share of funding for public health. It should not become a new cost pressure for municipalities. Protecting the cost-sharing formula by enshrining it in the *Health Promotion and Protection Act* will provide municipalities with greater fiscal confidence.

Homelessness

Again, the pandemic has exposed the very real need to address homelessness in ways that deliver results into the long-term. Similarly, programs like the Community Homelessness Prevention Initiative (CHPI) need more ongoing base funding. CHPI has been flatlined to pre-pandemic levels despite an increased need for those services. Homelessness is intensifying and getting more complex. There is a larger conversation needed about how the province, municipalities and the federal government can work together to end homelessness. We must continue to address housing related challenges and grow the community and supportive housing systems.

The most pressing challenge is the urgent need for another phase of funding from the Social Services Relief Fund continuing beyond March 31, 2021. The government’s significant investment of $1 billion to municipal service managers has protected vulnerable people from the impacts of COVID-19, primarily the homeless. It has saved lives over the past two years. With this surge of COVID-19, the continued need to shelter, house and protect the health of people is present and ongoing.

2. A budget that does not impose new unfunded responsibilities upon municipalities and builds for the future.

Fiscally stable municipal governments are the backbone of the essential public services that people and businesses in Ontario rely on most. Through the right balance of investments, municipal governments can support economic and social policy outcomes that target the overall health and potential of Ontarians. Communities are the foundation of our shared health, wellbeing, and livelihoods. Stable responsibilities help municipalities succeed. New or unfunded responsibilities can either take away from the local services Ontarians rely on or results in higher property taxes to address new gaps.

One in five homeowners in Ontario are spending 30% or more of their income on housing – a measure widely used by banks and others to measure housing affordability. These families are not in a position to deal with higher property taxes. Property tax levels are a major factor in housing affordability. Property taxes in Ontario are already amongst the highest in the country.

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, as they invest revenues in excess of $50 billion annually in important public services and infrastructure. 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.

When we consider the needs of current and future generations:

- we know that broadband investments are essential for economic wellbeing in all areas of the province;
- we know that a high functioning circular economy will help us to use resources better; and
- above all else, we know future Ontarians are expecting climate change leadership from their provincial and municipal elected officials.

Broadband Connectivity

In the 21st century, internet connectivity is a necessity, not a luxury. As highlighted later in this submission, how Ontarian's work, learn, access goods and services, and interact with friends and family is changing. AMO appreciates the historic, nearly $4 billion investment the province has made to expand and improve broadband and cellular access. The pandemic has shown the need to bring service to all Ontarians, especially those in unserved and underserved communities. At the same time, we must contribute to build for the future which is why AMO looks forward to working with the province to ensure these investments are designed in a way that brings affordable, reliable and high-speed service to all communities.

Circular Economy

The implementation of full producer responsibility marked by the Blue Box transition in July 2023 is another future focused policy that marks an important milestone for municipalities, the environment, and future generations. Additionally, a number of municipal governments are implementing food and organic waste collection programs to divert these resources from disposal. Funding is required to support these programs. We must continue to expand full producer responsibility programs to establish a circular economy that will preserve precious resources and increase economic efficiency.

Climate Change

AMO has published several climate change discussion papers to advance the agenda for the future. Topics relate to mitigation and adaptation measures, and include building retrofits, distributed energy resources, flooding, and more. While more work is underway, these papers underline the importance that AMO has making climate change mitigation and adaptation efforts for future generations.

3. Accounts for inflation in cost-share programs, Ontario Municipal Partnership Fund allocations, and provincial payments in lieu of taxes.

The provincial government has been a very generous partner in its commitments to help finance the municipal infrastructure deficit. Notably this includes the ongoing commitment to double Ontario Community Infrastructure Fund (OCIF) envelope to $400 million annually for the next five years. These new investments reflected an inspired provincial commitment to tackling municipal capital challenges, particularly in small, rural and northern communities.

In 2021, the Financial Accountability Office of Ontario estimated the municipal infrastructure investment backlog at $52.1 billion. Stability and predictability in fiscal arrangements means municipalities can continue to address the infrastructure backlog with confidence and deliver the quality services Ontarians expect from their local governments. Doubling the OCIF for the next five years will go a long way towards addressing this backlog.

But beyond ribbon cutting for new or improved "hard" services like roads, bridges or community centres, there lies an enduring need to keep the funding of "soft services" and municipal operations relevant and up-to-date. This need extends to all cost share programs and several key examples follow.

Ontario Municipal Partnership Fund

There is a developing need to build inflationary increases into the $500 million Ontario Municipal Partnership Fund. Its envelope has generally remained constant (between $500 million and $510 million) since 2016.

As an example, if we look to the thirty-six municipalities of Northwestern Ontario, between 2015 and 2020, on average property tax revenues have increased 20%, from $299.5 million to $339.8 million. [1] Over that same period, OMPF allocations to this portion of the province have declined from $59.3 million (2015) to $50.5 million (2020), a drop of 14.8%. This drop is measured in current dollars, unadjusted for inflation.

The impact of this drop is temporary blunted in 2020 and 2021, mostly by pandemic related funding from Safe Restart and the Social Services Relief Fund. However, pandemic related funding is temporary.

This is just an example from one region of the province but property taxpayers in other OMPF recipient municipalities are also carrying a heavier burden as a result of inflation. The following chart illustrates the year-over-year change in the value of the OMPF, adjusted for the Ontario inflation rate*:

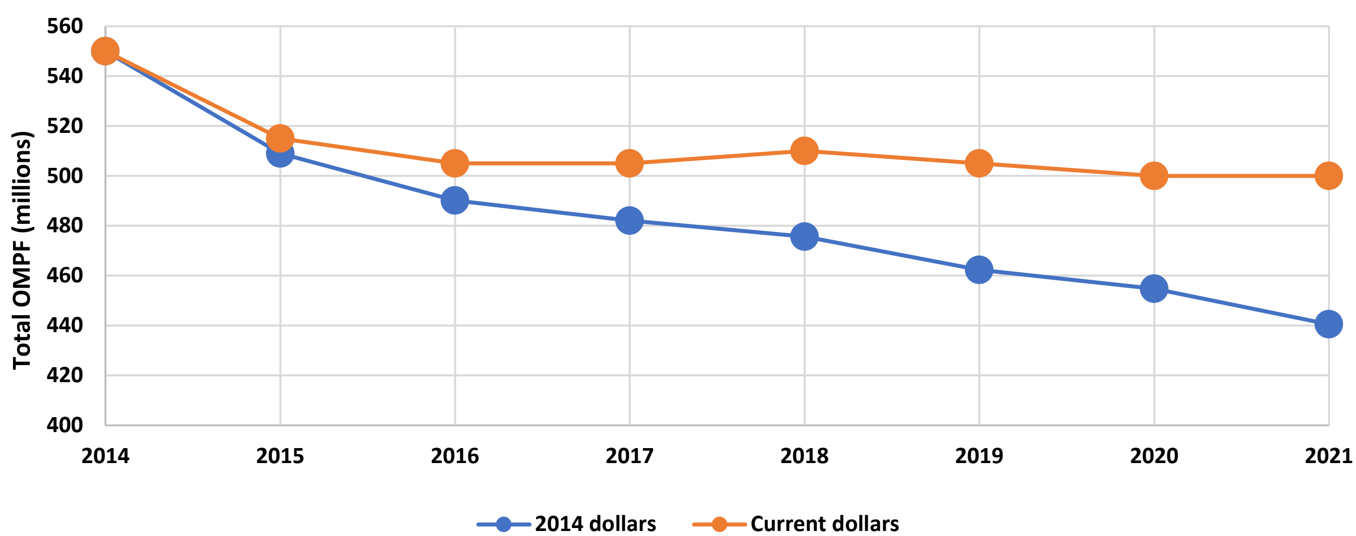
[1] Source: MMAH 2020 FIRs (prior year used in seven municipalities).

Year-Over-Year Change in Inflation-Adjusted OMPF Accounts

OMPF	2014	2015	2016	2017	2018	2019	2020	2021
Assessment Equalization Grant		-1%	-2%	-2%	-2%	-2%	-1%	-3%
Northern Communities Grant		-1%	4%	-2%	4%	-2%	-1%	-3%
Rural Communities Grant		-1%	2%	2%	-1%	-2%	-1%	-2%
Northern and Rural Fiscal Circumstances Grant		9%	20%	20%	6%	-2%	-1%	0%
Transitional and Stabilization Grants		-31%	-36%	-34%	-21%	-17%	-18%	-24%
Total		**-7%**	**-4%**	**-2%**	**-1%**	**-3%**	**-2%**	**-3%**
Less Transitional and Stabilization Grants		0%	4%	3%	0%	-2%	-1%	-2%

*Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

Total OMPF shown in current and 2014 dollars



What the chart above illustrates is that, for 2021, inflation has taken a $59 million bite out of the OMPF's value compared to 2014. AMO calls on the provincial government to begin accounting for these inflationary declines with annual inflationary adjustments to the OMPF.

Heads and Beds Levy

Unchanged since 1987, is the formula which determines provincial payments to municipalities in lieu of property taxes for provincial facilities. This predominantly relates to colleges and university locations but also affects municipalities with hospitals and correctional institutions.

Provincial regulations empower municipalities to levy an annual amount per student, hospital patient, or inmate based on the institution's capacity. That levy is fixed at $75 per year, per student (or bed in the case of hospitals or correctional facilities), an amount which has been unchanged for over 30 years. It was raised to $75 per student in 1987, up from $50 when it was last increased in 1973.

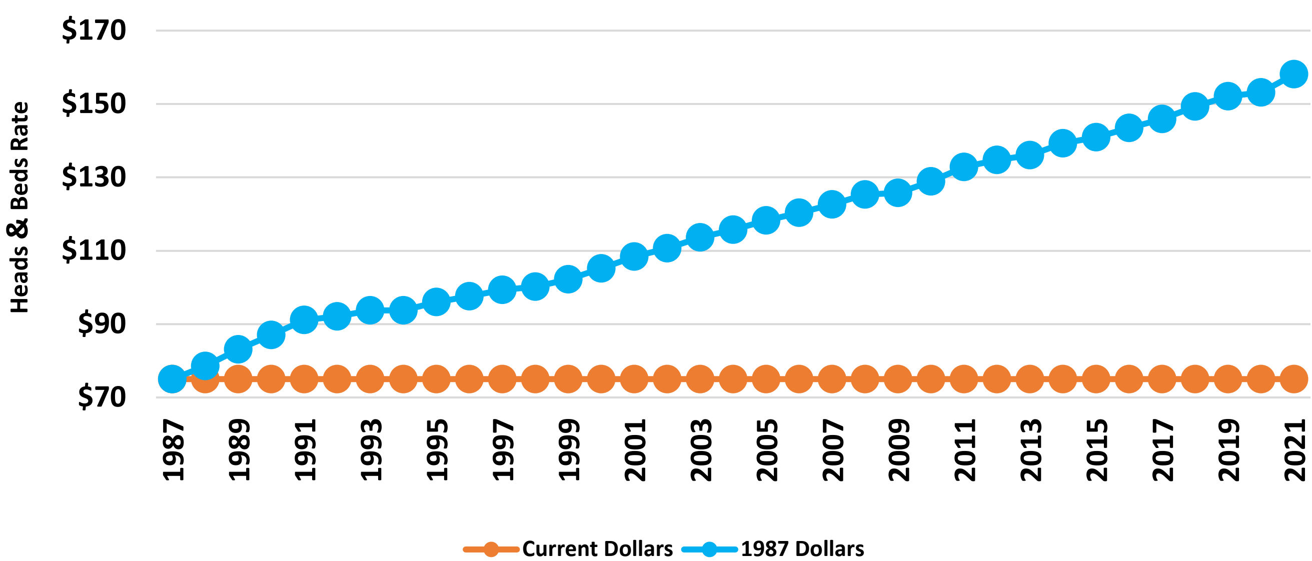
Municipal services such as public transportation, roads, and sidewalks are required to service post-secondary institutions. The student population in Ontario has grown significantly since 2000 putting increased pressure on the surrounding municipal infrastructure.

An additional cost pressure includes the erosion of the surrounding municipal property tax base as university campuses continue to expand to meet ongoing enrollment and facility demands. For municipalities with institutions in urban settings in particular, this expansion is at the expense of existing property tax paying homes or businesses.

As it existed in 1973, the levy regime was approximately equivalent to the amount that would be levied if post-secondary institutions had been classified as taxable property. A return to this principle by increasing the levy as if the institutions were taxable properties would address the existing inequities and provide for a lasting and durable resolution of this issue for municipalities.

Had the 1987 rate been indexed to inflation, the levy would stand at $158 per head today. Total municipal revenues from post-secondary institutions would stand at $117.2 million annually – roughly $61.6 million more than an estimated $55.7 million due in 2021.

The provincially regulated "heads and beds" levy rate shown in current and 1987 dollars



Had the 1987 heads and beds levy of $75 kept pace with inflation, the rate would stand at $158 today.

Long-Term Care (Cost Sharing)

Long-term care, in theory, is not a cost-shared program. Municipal contributions are not required. However, there is a significant municipal subsidy of this health care service that ensures high quality care in municipal homes. The cost of capital development and redevelopment of homes is rising due to increasing construction costs and inflation. Resourcing to implement emotion-focused models of care is also needed to provide appropriate care to residents with complex needs and behaviors resulting from health conditions such as dementia.

Municipal governments seek the full provincial funding of operating and capital costs of providing long-term care in communities. Municipalities also seek the resources necessary for the implementation of emotion-focused models of care for residents.

Emergency Medical Services

The government currently funds eligible program costs for paramedics and ambulances on a 50-50 cost share basis. The municipal contribution is more than the required 50%. This needs to be addressed especially as costs are rising, particularly the capital cost of purchasing ambulances and fuel. Increases to the provincial funding for Emergency Medical Services to match the actual municipal contributions is needed.

Childcare

Participation in the labour force by parents and guardians plays a critical role for economic stability and growth. Equally, early childhood development leads to improved educational outcomes resulting in a stronger labour force for the future.

Childcare is an essential ingredient to returning the economy on a path to growth and stabilizing school participation. For every five children in a childcare setting, it is estimated that one fulltime employee equivalent is created. This includes Early Childhood Educators, cooks, cleaners, and other staff. This means that investments in childcare make good economic and social sense.

AMO urges the provincial government to work with the federal government on finalising a childcare funding deal for Ontarians. In addition, changes to the cost-shared formula have resulted in increased municipal costs that threaten reductions in services to children and their parents. AMO seeks a restoration of the provincial contribution for administrative costs-sharing for childcare, removing the 5% cap as well as fully funding the expansion of new spaces with provincial dollars.

Hospital Capital Contributions

Provincial efforts to rebuild Ontario's hospitals have a positive impact on the health of our communities yet these efforts also affect the fiscal health of municipalities.

Provincial policy determines the funding of new hospitals and capital building projects. It will be a surprise for many to learn new hospitals are not built without community and municipal donations. Known as the "local share", donations from benevolent individuals, groups, and businesses are key. This fundraising effort also includes municipalities.

A community's required local share is to pay 10% of capital construction costs and 100% of the cost of equipment, furniture and fixtures. This includes medical equipment with big ticket prices: MRI machines, CT scanners, and x-ray machines. In terms of overall cost, this translates to 70% provincial, 30% local (individuals, groups, businesses, and municipalities).

In addition, the adoption of the "design-build-finance" hospital construction model, (also known as alternative financing and procurement or P3 projects), had an impact on the size of the local share, particularly for municipalities. It means local share amounts are now determined with long-term financing build in. Typically, this includes a municipal down payment at the outset and locks in annual municipal support payments for upwards of 30 years.

These 30-year contributions do not factor in the cost of medical equipment upgrades during that period. With a typical equipment lifespan of just ten years, equipment replacement needs are frequent and increasingly expense. Thus, municipalities are now faced with regular funding requests from hospital foundations with a high degree of frequency.

As desirable as a hospital is for any municipality, it is only one of many public services that contributes to a healthy community. The municipal decision to contribute to a hospital takes resources away from other municipal services that keep people healthy. The local share formula for hospital capital needs must be re-examined.

4. Monitors the impact of future property assessment updates for any significant shifts between classes or property taxpayers.

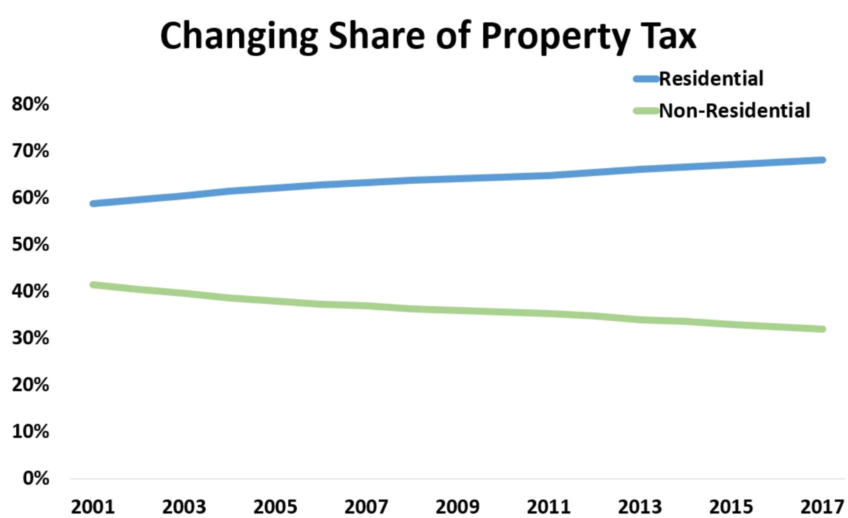
The Fall Economic Statement of November 2021 announced the resumption of the current value assessment system would occur after the 2023 tax year. This was an extension of previous delays implemented earlier in the pandemic intended to bring about stability for municipalities and property taxpayers.

As a result, January 1, 2016 continues to be used as the most current valuation date. Since that date, the Ontario residential property market has changed considerably. Residential prices have increased substantially and yet are unquantified for the purposes of assessment and property taxation. Similarly, on the commercial site, changes in value should be expected. The pandemic has accelerated existing trends with a move from in-store purchasing to online shopping. This shift changes the value of commercially classified lands.

It is important for property taxpayers to recognize that an updated value assessment does not mean that a municipality will be collecting more tax. Current value assessment means the same tax burden will be redistributed based on updated values. For example, less tax will be paid for properties where increases in value have been below the average increases of other properties. If a property's value has increased more than a neighbouring property, more tax will be paid.

But what is especially important to recognize is how that tax burden gets re-distributed among different property types, ie. commercial, industrial, and residential. From 2001 to 2017, the residential share of property taxes has increased by 9% compared to non-residential properties. This shift represents about $2.5 billion in property taxes.

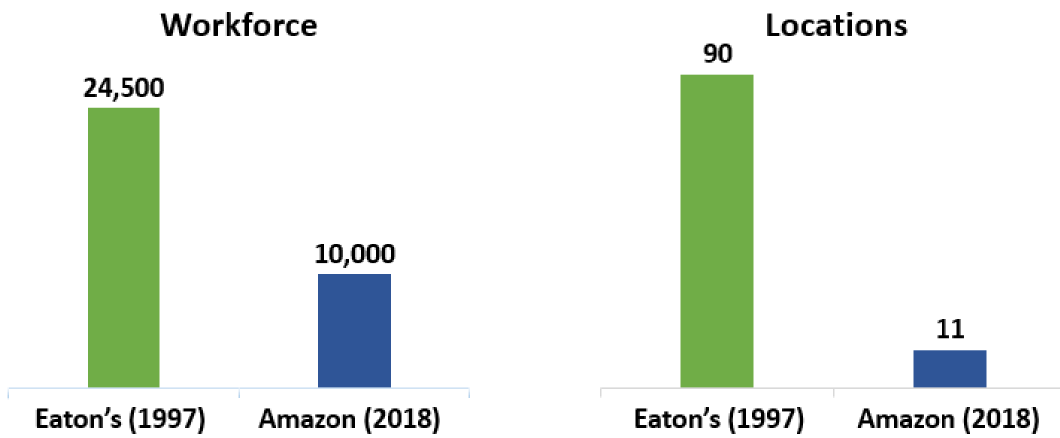
Taxes once paid by industrial and commercial properties are now being paid by people and families. This is the result of an evolving economy: shuttered sawmills, closed factories, the demise of department stores, the death of retail video rental stores, or population declines are all examples of that evolution.



The property tax burden is gradually shifting to residential taxpayers.
Will this trend continue with the next assessment update?

In 2001, 59% of taxes collected were residential. By 2017 that share had increased to 68%. What will that share be in 2024? If the trend continues, which seems likely, will all residential taxpayers in all communities be able to afford this shift?

Local economies are in transition. In the place of mills and factories are services driven by a digital economy, often with less employees. Netflix has replaced Blockbuster. Amazon has replaced Eaton's and Sears. An economy in transition has property tax implications for the future which cannot be ignored.



Comparing two Canadian retail giants, how we shopped, then and now. An economy in transition has property tax revenue implications for municipalities.

There is no specific request of the provincial government related to this issue and the 2022 provincial budget. However, in resuming the current value assessment system, the provincial government and municipal governments need to be mindful of the economic factors driving some of these changes and how we address these trends into the future to ensure property tax remains affordable.

Conclusion

Ontario's leadership in national discussions on pandemic response helped achieve the Safe Restart Agreement which included over $4 billion in federal and provincial support for Ontario municipalities to offset the added costs and revenue losses due to COVID-19. These federal and provincial dollars reflected an unprecedented level of intergovernmental cooperation and it reflected an appreciation for the fiscal limits municipalities face.

This financial assistance, coupled with local constraint measures allowed municipal governments to immediate address cash flow concerns, a structural decline in revenues, and prevented municipal budget deficits. It was an acknowledgement that the municipal property tax dollar is already stretched. Until the pandemic is well and truly behind us, this level of investment must continue into 2022.

In presenting the 2022 pre-budget submission of the Association of Municipalities of Ontario, pandemic related issues are a clear priority. But even without an international public health emergency, Ontarians rely on many critical municipal services every single day. Fiscally stable municipal governments and up-to-date fiscal arrangements are the backbone of these public services both now and in the future.

The interdependent provincial-municipal relationship is protecting lives and preventing even greater pandemic misfortune. Protect together, recover together.

Stability matters to Ontarians in this moment; it will matter to Ontarians in a post-pandemic recovery.