



Let's Get This Right

The 2012 AMO Pre-Budget Submission

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Association of
Municipalities
of Ontario

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Introduction

Ontario municipal governments understand the fiscal challenges faced by the provincial government at this time. Municipal governments have their own fiscal challenges too. Many parts of Ontario are facing stalled or declining growth. Closed factories and shuttered sawmills limit property tax revenues. Municipal infrastructure investments, which matched the economic stimulus contributions of the provincial and federal government, came at the cost of higher municipal debt loads. The fiscal challenges of today are shared federally, provincially, and municipally.

The Drummond Report highlighted these fiscal issues. It also made specific recommendations to the Government of Ontario and beyond, on what can be done to overcome these challenges. Municipalities are committed to working with the provincial government to find ways to deliver services more efficiently to meet taxpayer expectations. The single taxpayer that all governments serve expects aligned priorities and outcomes within reasonable fiscal limits.

Municipal governments understand the message of the Drummond Report. Indeed, many of the key themes of his recommendations echo longstanding municipal advocacy efforts to find ways to make cost-shared programs and public services work better. This includes provincial policy development that is evidence-based, that minimizes operational costs, and maximizes the outcomes for those we serve.

Key Themes

Ontarians expect their governments to work together. It is the destination that counts the most to them, not the journey. What the provincial government does with the Drummond's recommendations will be determined in the 2012 and future budgets. To that end, the Association of Municipalities of Ontario offers the following advice centred on the following two themes for the 2012 Provincial Budget and beyond:

Policy consultation:

Municipal governments are open to having discussions on program change and delivery. Getting that change right means talking with municipalities before pen is put to paper on design. Involving municipal expertise can only help to build better policy. Involving municipalities includes getting a better understanding of regional, northern, and rural perspectives. Consultation that informs policy development results in successful policy outcomes. Policy that takes into account the diversity of municipalities across the province is all the better for it.

No downloading:

At the recent OGRA/ROMA conference Premier McGuinty recommitted to no new downloading, a commitment that was initially made at the AMO Annual Conference. Transferring responsibilities to another order of government without resources can, as Don Drummond notes, “often shift the burden to those assuming the service.” At a different time in similar fiscal circumstances, this resulted in the ratcheting up of municipal property taxes to the point where Ontarians paid the highest property taxes in the country. Some ten years later, Ontarians still do. Only with the recent uploading of social assistance programs has the pressure for greater property tax dollars begun to marginally wane while capital program investments are managed.

Those property tax dollars deliver a lot to Ontarians. Nine cents of every tax dollar is stretched an incredible distance. They deliver the municipal infrastructure and service investments that contribute to the long-term success of Ontario’s economy.

- Municipal services include roads, bridges, and transit. They move goods to market and people to work.
- Municipal services comprise water and wastewater treatment. Water feeds factories and the thirst of Ontarians.
- Municipal services include parks, recreation, and dollars to build and renovate hospitals. They provide community health and contribute to well-being.
- Municipal services include the delivery of electricity through local distribution companies. Power that is reliable, safe, and affordable is vital to our economy.
- Municipal services provide shelter to those with limited means. They bring people to the workforce and offer the safety of a compassionate society.

For all of these reasons, the Premier’s renewed commitment to the upload agreement demonstrates a principled approach. It is one which recognizes that the property tax base is the wrong tax base to fund income redistribution programs, and other programs, such as court security. This year alone it has relived municipalities of \$1.8 billion in annual operating costs for social assistance and court security. These funds have been redirected to core municipal services and infrastructure investments. Ontario is better for it.

The Importance of Equalization

Despite these positive developments, and the province’s fiscal condition, the importance of municipal equalization through the Ontario Municipal Partnership Fund (OMPF) should not be lost. The OMPF, which replaced the Community Reinvestment Fund (CRF) in 2005, is the Province’s main transfer payment to municipalities. Its objectives are to: assist municipalities with their social program costs; support areas

with limited property assessment; address challenges faced by northern and rural communities; and respond to policing costs in rural communities. It is what helps many small rural and northern municipalities fund base services to Ontarians in communities with limited assessment.

Equalization is an important feature of Canada – nationally and provincially. The Drummond report highlights its purpose in the federation:

“The Equalization program constitutionally mandates the federal government to ensure that provinces have the ability to “provide reasonably comparable levels of public services at reasonably comparable levels of taxation.” Provinces unable to raise revenues at the national average standard are provided with payments funded through federal taxation.”

The province itself knows this in terms of federal-provincial fiscal relations. Starting in 2009-10, Ontario became a recipient of federal equalization transfers for the first time in the program’s history.

If federal-provincial equalization is important, the same can be said of the OMPF to provincial-municipal relations. In many northern communities, without the OMPF, property taxes rates would need to be 2.5 times higher than they currently are to sustain existing services. The same is true of eastern Ontario where tax rates would need to be 1.5 times higher without the OMPF. Such property tax increases on this magnitude clearly fall outside the definition of “comparable levels of public services at reasonably comparable levels of taxation.” The test of reasonableness, transparency, and equity are the hallmarks of good intergovernmental fiscal relations. They must govern any discussions related to the OMPF.

Working Together

Municipal governments can benefit from some provincial ‘fixes’ to other longstanding issues. For example, AMO is encouraged that a dialogue with the province is about to commence on ways to improve the administration of justice with better *Provincial Offences Act* fine collection. AMO is also encouraged that a dialogue with the province is commencing regarding joint and several liability. Improvements in this area are needed to stop the practice of municipalities being named the “deep pocketed” insurers of last resort and for settlement amounts that far exceed the legal finding of municipal responsibility.

Where We Need to Work Together Still

Another longstanding issue is the *Development Charges Act*. The Act currently undermines the sustainability of municipal infrastructure by undercharging property developers for the true municipal costs of servicing that land. In 2007, provincial and municipal representatives met on this issue and produced a report which highlighted the importance of development charges. It noted, "Development charges help ensure that the capital costs of providing services to new growth are paid by those who will benefit from it." It also identified, "four provisions in the Act that appeared to be most inconsistent with the growth pays for growth principle."

The first of these provisions deals with municipal services which are "ineligible services" for which development charges cannot be collected. This includes the acquisition of park land, the building of cultural facilities, or helping to fund the community share of hospital capital projects. The second is the so-called "10% discount" which is applied before a municipality calculates the total cost of some services when setting rates. This includes transit, libraries, social housing, and child care facilities for which full costs are not applied. Before 1989 there was no such discount. The same issue exists with service level calculations based on historical trends as opposed to future trends. And finally, the way in which provincial capital grants are netted-out of development charge calculations remains entirely unreasonable. [A full copy of the report is available on AMO's Provincial-Municipal Fiscal and Service Delivery Review webpage.](#)

The Drummond Report also spoke to the issue of full cost pricing for water. There are municipalities that have taken action so that the costs, including lifecycle costs are based on a user fee basis. AMO has been at work in preparing a comprehensive research report on this issue. What we do know from communities which have already reached this mark, is the transition to full cost pricing takes time. It must be measured. If the province feels that regulating full cost pricing is needed, then early pre-consultation with AMO is critical.

Of all the services a municipality provides, none is more expensive than policing. Municipalities spend in excess of \$3.5 billion annually on a wide array of activities that has grown well beyond the core police function of law enforcement. Sixteen years ago that total cost was \$1.5 billion. This growth is unsustainable. It is time to rethink how we deliver policing. What alternatives exist regarding core and non-core policing functions? Are there cheaper alternatives to delivering court security? Are there alternatives to dealing with community safety education, crime prevention, and assisting the victims of crime? What improvements can be made to the accountability of municipal policing contracts with the Ontario Provincial Police? Can we build an arbitration system which includes an independent, neutral tribunal that uses objective

criteria in determining awards? It would help to achieve a system that is more efficient, transparent, and accountable. Above all else, measuring the municipal ability to pay and fiscal conditions has to mean something to those footing the bill. Fruitful discussions on these topics are well overdue – solutions are needed sooner rather than later.

Similarly when we look to the municipal delivery of ambulance services - we need to find process improvements so that hospital emergency rooms are not filled with paramedics waiting to drop off patients. We need to ensure provincially dispatched municipal ambulances are exactly where they need to be, as quickly as possible, all of the time.

Specific Drummond Recommendations

Efficiency gains like the ones above can be achieved not just in the delivery of emergency services but also with the electricity regulatory process. Utility consolidation may enhance the delivery of conservation and smart grid policy goals, but should be examined on a case by case basis in terms of producing cost savings. But we must also recognize that there are municipal local distribution company customers that do not want Hydro One given its poor reputation for service. Improving energy pricing and streamlining the regulatory process have greater efficiency potential. Reducing the number of entities to be regulated, the amount of regulation itself, and focusing only on those entities that are not meeting regulatory requirements will provide considerable cost reductions that would be passed onto ratepayers.

One of the matters that the Drummond Report highlighted generally was the amount of oversight reporting required but without useful analysis. One municipality tallied the reports it provides to the province on a yearly basis. It submits the following to provincial ministries: 96 monthly reports, 100 quarterly reports, 6 semi-annual reports, and 68 annual reports. This is total of 270 reports annually plus an additional 16 audited statements, not including the annual Financial Information Return.

As Drummond wrote, *“we often noted inconsistent objectives and uncoordinated activities among these governments. The result is less-than-optimal overall public service to the people of Ontario. In some cases, we can identify fairly straightforward ways in which all governments can better co-ordinate their activities.”* From AMO’s perspective, there is plenty of room to simplify reporting requirements while maintaining accountability and better coordinate these activities in straightforward ways. The regulatory and reporting pendulum must return to the middle.

The Drummond Report has identified other areas where improvements to the delivery of services can be made. While local delivery of ODSP, OW benefits, and employment services may make sense, we need to have a discussion on what this could look like and the conditions upon which municipal governments would be interested in delivering these services. These ideas have arisen through two provincial commission reports – The Lankin-Sheikh Report and the Drummond Report.

The Drummond Report looked at pension plans at the province, noting that the contribution rates for the province as an employer is a big challenge to the province's fiscal condition today and in the future. For municipal governments, we are similarly challenged with growing pension costs which are becoming increasingly unsustainable for municipal property taxpayers. The OMERS pension contribution rate for both employers and employees is currently over 20%. The trajectory appears to continue to grow unless the OMERS Sponsors Corporation takes on some benefit changes on a go forward basis. The province can demonstrate some valuable leadership on this front that may in turn help other employers in broader public sector pension plans.

Infrastructure

When we look to infrastructure, the Premier recently indicated that a previous pledge to deliver a dedicated new permanent fund for rural and northern road and bridge infrastructure would not be delivered in 2012.

AMO awaits the delivery of a new permanent fund in the remainder of the government's mandate. Why? Because people who work and live in rural and northern Ontario are in as great a need for adequate transportation as people who live in urban areas. Hospitals, treatment facilities, home care, and child care - these are just as valuable to rural dwellers as urban dwellers.

We believe that the final report of the roads and bridges review will help to guide this new permanent fund. In the meantime, AMO holds out hope that the government's infrastructure plan, released prior to the last election, will begin to be implemented in the 2012 Budget and that some municipal infrastructure across the province will benefit from that plan, particularly when considering the disruption a bridge closed for safety could mean to a community.

AMO supports the provincial goal of infrastructure asset management plans as part of infrastructure financing but there is a need to recognize the varying capacity of smaller communities to put these plans in place. Some capacity building assistance would help municipalities develop asset plans and be better positioned for any future

funding programs, either provincially or with the federal long term infrastructure plan anticipated for 2013.

Conclusion

In conclusion, municipalities offer these three final thoughts:

- First and foremost, municipalities are open to having discussions on coordinating activities that deliver a clear benefit to the Ontario taxpayer and the municipal taxpayer.
- Second, the diversity of municipalities in Ontario must not simply inform policy development; policy development at the province must respect it and it must be evident in policy outcomes.
- And finally, to paraphrase Albert Einstein, “problems cannot be solved within the mindset that created them.” We cannot afford to be provincial in our approach. To solve these challenges requires new thinking, new ideas, and a commitment to open and candid consultation with municipalities.