

**Remarks by:
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3:45 – 4:10 p.m.**

AMO Pre-Budget Submission 2020

(Check Against Delivery)

Slide 1 – Highlights: AMO Prebudget Submission 2020

Slide 2 – 2020 Context

AMO's 2020 pre-budget submission is an opportunity to take account of how municipal governments are doing as we begin a new decade.

A lot has changed in the past decade.

We have a new provincial government in Ontario since mid-2018.

It's now mid-term in its mandate.

Over the past year, we have seen a positive "reset" of its relationship with municipalities.

It's listening carefully to municipal government. And never more so than at events like this.

Last November, the AMO Board established strategic objectives for 2020 – key among them was to safeguard the fiscal resources and financial tools of Ontario's municipalities.

That is to say, make sure YOU don't lose ground financially.

We are in a time of great uncertainty, and we certainly don't want or need any surprises in 2020.

AMO understands municipal priorities.

They include transit, housing, roads/bridges, broadband, climate change adaptation, and OMPF funding.

There are others too, and they all have in common, that they are part of the provincial –municipal fiscal and policy relationship.

Back in 2008, AMO, along with the City of Toronto , established a new fiscal framework with the province. It was fully implemented in 2018. A lot has happened since it began, and it is useful to take a look at the fiscal situation today.

Slide 3 – Outline

And that is what we are doing with our 2020 pre-budget submission, and with this presentation today.

So, here is an outline of what is included in this presentation.

We will take a look at the magnitude of Ontario's municipal sector - where your money comes from, and where it goes.

Most of the information in the presentation relies on the 2017 Financial Information Returns , which is the most up-to-date source of data.

Some is from Statistics Canada and other sources.

Affordability for property tax payers is an important matter.

Demographic changes are putting pressure on municipalities.

We had a number of changes arising from last year's provincial budget.

We are looking for *efficiencies* and have support from the province to do so.

We will take a look at the provincial services that you cost-share, and see where we are with the fiscal gap – that we first quantified back in about 2006.

We will take a look at the positive impact of uploading social assistance and court security costs.

And leave you with some messages that I hope you will find useful.

Slide 4 - \$41 Billion Own-Source Revenue

Ontario municipalities raise \$41 billion a year of *own-source* revenue. It's money *you* raise through your 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.

It's a remarkable amount of money, but it is not the entire picture.

Slide 5 - \$51 Billion Total Revenue

Your revenues also include an additional \$10 billion of provincial and federal funding.

You receive about \$1.6 billion in federal funding and about \$8.5 billion in provincial funding - in a combination of conditional and un-conditional grants.

In total, Ontario municipalities have combined revenue of \$51 billion a year.

It's a lot of money.

For comparison purposes, it's 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 is roughly equal to the entire amount of revenue the province generates from “personal income tax” and “corporations tax” combined.

And I'm going to come back to another comparison later in the presentation.

Why is that so important?

Because it makes a clear case that we are not a stakeholder, but a major partner in public finance in this province and, consequently, a partner in Ontario's prosperity.

You are investing over \$50 billion a year in key public services and infrastructure in this province, making you a major force in the economic well-being of this province and this country.

Slide 6 – Affordability

Another part of the picture is affordability for property tax payers.

We know that one-in-five *homeowners* in Ontario is spending 30% or more of their income on housing.

They simply are not in a position to deal with higher property taxes.

Here's another look at how Ontario stacks up in terms of housing affordability.

Slide 7 – Affordability

It's not surprising that Ontario and BC are at the top-end, given the housing market in both jurisdictions.

One-in-five homeowners in Ontario spends 30% or more of their household income on shelter costs.

30% is widely used by banks and others as an accepted norm to measure housing affordability.

I'm including this information because we need to consider the impact of additional costs (for example, potential funding changes or escalating emergency services costs) on the people in your communities who simply cannot afford to pay more.

You know who they are – in many cases - seniors and young families.

Slide 8 – Affordability

And we know that property taxes in Ontario are already amongst the highest in the country.

This graph shows property tax revenues reported by provincial and territorial governments, municipalities, school boards, and other institutions in 2017, expressed in *per capita* terms.

Focusing on Ontario...Ontario is second only to Alberta in property taxes collected.

And we know that property tax levels are a major factor in housing affordability as illustrated in earlier slides.

Slide 9 – Affordability

This is an interesting slide – it shows that the residential share of property tax is growing, relative to the non-residential share.

This is not surprising. It is, in part, intentional.

We had “ranges of fairness” implemented in the late 90s to ensure the tax burden on commercial and industrial tax payers did not create economic distortions.

It’s also attributable to the massive growth in residential property during the period.

It also illustrates the effort of an economy in transition.

The disruption of shuttered saw mills, auto assembly plant closures, and online shopping - all have an impact on residential property taxes.

There may be some who would have you believe the trend is going in the other direction, and that is not the case.

Slide 10 - Affordability

This slide is instructive because it shows relative program spending among 10 provinces. This data comes from the Fiscal Accountability Office of the Ontario legislature.

It shows that provincial government program spending in Ontario, is the lowest in the country.

In fact, it shows that Ontario's program spending of about \$9800 per capita is about \$2000 *per person* less than the national average.

Now in context, we need to recognize that Ontario is also servicing an enormous debt, which cannot be avoided, and has its own fiscal challenges that need to be managed.

Slide 11 – Demographic Shifts

Demographic Shifts are another important part of the fiscal picture.

We know that our aging population, for example, will create pressures on health care services which we deliver and co-fund.

Paramedic services are a good example.

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

I don't want to oversimplify, but being a co-funder of paramedic services exposes you to risk.

It may be that innovation in service delivery in EMS services will generate savings and efficiencies in the overall health care system (by reducing crowding in emergency rooms, for example) – but such innovations could also add costs to paramedic services – which you co-fund.

What *is* clear, is that any change to EMS cost sharing that resulted in an additional share of the costs for municipalities, would have serious financial implications for our sector.

The good news is that no such changes are planned, to my knowledge – and let's keep it that way.

Slide 12 - Efficiencies

Turning to efficiencies.....Our cost of service per household has declined slightly - about 2.7% between 2010 and 2017. This is the total operating cost per household adjusted for inflation.

Municipalities spent about \$7,800 per household on operating costs in 2017. This is down slightly from 2010's peak of just over \$8,000 per household.

This is a marginal decrease – but it does point to efficiency. We believe it reflects a strong commitment in the sector to manage costs.

Slide 13 – Recent Changes

But a number of changes have been made – some reducing - and some increasing - municipal costs.

In a number of cases, the impact is not *yet* fully understood – especially in future years.

Changes to cost-sharing in public health will have a fiscal impact in future years that is not yet fully understood.

This year, cost increases *directly attributable* to the change in cost-sharing will be capped at 10%.

As you know, that doesn't mean your public health budget will not increase by more than 10% - it just means that the added cost attributable to the 2019 provincial budget announcement are capped at that rate.

At the moment, that cap applies only in 2020 so it's a file we will need to keep a very close eye on.

The fiscal impact of changes to the Development Charges Act, and the creation of the community benefit charge, are not yet fully understood.

Changes in Blue Box funding are very positive and will save municipalities an estimated \$130 million a year when fully implemented.

OMPF funding for 2020 is stable and allocated, but it is subject to review.

And we have received substantial funding to support modernization and greater efficiencies – which is very helpful and has been enthusiastically received by municipalities.

Innovation, efficiency and modernization will be very helpful but will not solve all of our underlying financial pressures.

Slide 14 – Fall Economic Statement

There have also been some important signals recently from the provincial government.

Initially, our analysis of the 2019 Fall Economic Statement was that there were no significant impacts for municipalities.

But on closer inspection, there are a number of key themes – 6 key themes - clearly articulated in the document that are worth noting.

- 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

They are worth our attention for two reasons:

- First, they are stating government priorities.
- And second, because these are themes that are very familiar to municipalities because you are absolutely involved in every one of these areas.

Simply put, if these themes are important to the government, the government is going to have to work in *partnership* with municipalities to be successful – I see that as a very positive signal.

Slide 15 - The Fiscal Context: Provincial Programs

Take a look at the broad array of services you provide.

In fact, these are the services that Ontarians rely on most, on a day-to-day basis, and at all stages of life.

They support residents and business alike.

They include services to property, public safety, health and human services, transportation, environmental protection and so on.

And Ontario is quite unique in that regard.

Slide 16 – The Fiscal Context: Provincial Programs

Typically, in Canada, many of those services are delivered and/or funded by provincial or territorial governments.

Examples include childcare, public health, paramedicine, seniors' 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, and largely governed by municipalities as part of a “system’ of municipal services.

These services account for a significant portion of municipal operations and budgets.

Slide 17 – The Fiscal Context

In fact, this graph shows that about 27% of aggregate municipal operations budgets go to services that are conventionally considered a *provincial* responsibility in most other Canadian jurisdictions.

There are all kinds of historical reasons why municipalities in Ontario play such an important role in human services

And we do a very good job of delivering these services in a way that connects them to our communities.

But it's a very important part of the provincial-municipal fiscal relationship in Ontario.

Slide 18 – The Fiscal Context

In 2017, municipalities invested \$12 billion in these services – offset, in part, by provincial conditional grants.

Whether it's in housing, health related services - including public health and EMS – or in other social services..., provincial funding is *less than the total amount of required municipal expenditure*.

But it's not the whole story, we also receive provincial funding through the OMPF, for example, that completes the picture of who pays for what.

Slide 19 – The Fiscal Context – the Gap

This graph shows 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 municipalities receive.

It shows a gap of over \$3 billion a year – using 2017 data.

And If you are asking yourself, wasn't that roughly the amount of the provincial-municipal gap back in 2008 when the uploading of social assistance and court security costs began – the answer is yes, BUT.

BUT - Had we not succeeded in getting \$2B a year in social assistance benefits and court security costs uploaded since 2008, that gap would now be approximately \$5 billion – a year.

So In relative terms, that gap is been reduced significantly since 2008.

We have gone from a \$35 billion sector to a \$50 billion sector during that same period of time – so the gap is declining.

It also reflects the importance of the upload, where we managed to get the program with the highest level of financial risk uploaded – namely social assistance benefit costs, which are highly sensitive to economic and demographic shifts.

The risk associated with social assistance benefits is now where it belongs – with the province which has the fiscal flexibility to manage that risk effectively.

The uploading also allowed municipalities to reinvest their own resources in infrastructure – just as we knew they would.

Slide 20 – Uploading and Infrastructure

This figure shows a relationship between uploading and infrastructure investment.

We can see that over 2009 – 2017, uploading saves municipalities about \$2 billion annually.

And, in the same time period, municipal infrastructure investment increased by about \$4 billion a year – a factor of 2:1.

I am NOT saying this is “cause and effect” but we are pointing out a relationship between the two factors that we predicted at the time when the uploading was negotiated.

That is, that municipal savings due to the uploading would be reinvested in municipal infrastructure.

We also believe 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.

I suspect the opposite is true as well.

If we lose confidence in the provincial-municipal fiscal situation - or we see it erode - infrastructure investment is likely to be the first casualty.

Slide 21 – Concluding Thoughts

So, I promised earlier I would come back to another comparison that illustrates the magnitude of the municipal sector's impact on the economy.

I said we are a \$51 billion sector – our aggregate annual revenue is \$51 Billion.

I thought I would see how that shapes up against other jurisdictions in Canada and, it turns out the combined revenue of Ontario municipalities – from all sources - is the same as the total revenue, from all sources, of the Government of Alberta.

Think about, and consider, the power, importance and impact of your spending.

And it caused me to reflect on Alberta in 2020 – and what it's going through.

Slide 22 – Concluding Thoughts

Think about Alberta in 2020.

Its success is fundamentally important to our collective prosperity – to our collective property as a nation

It is under serious fiscal pressure -

And it is seeking assurance from its key fiscal partner that it's committed to the economic sustainability and prosperity of its communities

(repeat)

Does that remind you of anyone?

Slide 23 – Concluding Thoughts

Its success is fundamentally important to our collective prosperity

It's under serious fiscal pressure

And seeking assurance from key fiscal partner that it's committed to the economic sustainability and prosperity of its communities

It has a familiar ring.

These themes are already familiar to you.

So, where does that take us as we prepare for the 2020 provincial budget?

Slide 24 – Key Messages

It brings us to some key messages reflecting some important ideas.

These are key messages that we will be including in our pre-budget submission, which will be shared with our membership late next week following our presentation to the standing committee on finance and economic affairs:

Recognizing that the success of Ontario's \$50 billion municipal sector is fundamentally important to Ontario's prosperity.

- Ontario's \$50 billion municipal sector is a key partner in Ontario's prosperity.
- Municipalities want assurance from the province that it is committed to the economic sustainability and prosperity of our communities.
- Municipalities want to work in partnership with the Government of Ontario to build the strong and sustainable communities that are the foundation of this province.

Slide 25 – Thank you!

Thank you for your time.

Enjoy the rest of conference.