

Provincial Elections 2007

MississaugaMatters

Fiscal Imbalance: Underfunding of Municipal Services Corporate Report





Corporate Report

Clerk's Files

Originator's
Files



R-3

DATE: April 30, 2007

TO: Mayor and Members of Council
Meeting Date: May 9, 2007

FROM: Janice M. Baker, CA
City Manager and Chief Administration Officer

SUBJECT: **Provincial Election 2007:**
Fiscal Imbalance: Underfunding of Municipal Services

- RECOMMENDATION:**
1. That the report entitled "Fiscal Imbalance: Underfunding of Municipal Services" dated April 30, 2007 from the City Manager and Chief Administrative Officer, being one in a series of corporate reports regarding matters of importance relating to the upcoming October 10, 2007 provincial election, be received for information.
 2. That Council endorse that any party wishing to govern the Province of Ontario needs to commit to the City of Mississauga that it will:
 - a) End the provincial-municipal fiscal imbalance by taking immediate action to eliminate the Province of Ontario's reliance on the property tax system by uploading the costs of health and social services to the province over a three year period;
 - b) Recognize that the GTA Pooling Program (known also as the Toronto Tax) is unfair and complicated and commit to accelerating the elimination of the GTA Pooling Program by advancing the phasing schedule to

R-3-a

three years, as opposed to the elimination over a seven year period;

- c) Commit to forging better relationships between all three orders of government with the ultimate goal of ending the use of municipal property taxes to fund provincial programs and services and ensure appropriate funding of municipal infrastructure.

BACKGROUND:

A provincial election is a critical event which causes us to reflect on past achievements and look to the future to better understand and articulate actions that are required to ensure the Province of Ontario continues to flourish and be a premier location for businesses and residents.

For the first time in Ontario, the province has set a fixed election date, of October 10th, 2007, and this allows key stakeholders, such as the City of Mississauga, to structure their approach to influencing political party policy.

This is the third in a series of papers that will be brought forward to articulate the critical issues that impact the City of Mississauga where most attention needs to be paid.

After all corporate reports in this series have been received; the City Manager and Chief Administrative Officer will bring forward a summary report of these issues and the next steps towards engaging key stakeholders and provincial parties with the view to favourably influencing provincial policies on issues of major importance to the City of Mississauga. This summary report is expected to be presented at the June 20th, 2007 meeting.

While there are many issues that the City of Mississauga has with the provincial government ranging from Pit Bull legislation to a review of the Library Act, staff will outline the major issues where policy needs to be set or changed. Other issues will continue to be monitored and reports prepared to Council at the appropriate time.

This report reviews the "fiscal imbalance" which is clearly linked to the problems associated with the downloading and funding of health and social services. It should be noted that all of these services are

R-3-h

provided by the Region of Peel, and the citizens of Mississauga continue to pay a disproportionate share of the costs within the Region.

CURRENT STATUS: The Need for Change

It is widely acknowledged that the Province of Ontario already has an over dependency on property taxes as a source of government revenue. At 3.7% of GDP, Ontario is more reliant on the property tax as a source of government revenue than any other jurisdiction in the Organization for Economic Cooperation and Development (OECD) world. (Appendix I).

A “fiscal imbalance” is said to exist when there is a large gap between the needs of a community and the municipality’s ability to provide and pay for these services. An example of fiscal imbalance is illustrated by the overcrowding of transit buses; this would not occur if transit investment was at a sufficient level to match ridership demands.

The Association of Ontario Municipalities currently estimates the fiscal imbalance to be at least \$3 billion. In 2003, they calculated that this was made up by:

	2003 (\$m)*
Health and Social Services	
Public Health	267
Ambulance	313
Social Assistance	1,331
Senior Services	243
Child Care	193
Social Housing	880
Total	3,227

Source: Provincial Financial Information Returns

*Figures net of provincial and federal contributions, user fees and service charges

Municipalities simply cannot afford to provide the services that residents need given the limited revenues that are available and the accountability given to it by the Province of Ontario.

Further, all of the costs associated with these services will increase substantially in any downturn of the economy. According to the Government of Ontario’s Printed Estimates for 2003/4 and 2007/8:

- R.3-c
- ODSP benefit costs have increased by 30% since 2003 – an average of 7.5% a year, this trend is expected to continue
 - ODSP cost of administration has increased by 20% - an average of 5% a year – this trend is expected to continue
 - Ontario Drug Benefit (ODB) costs (cost-shared) have increased by 40% - an average of 10% a year – this trend is expected to continue
 - Ontario Works Financial Assistance costs have increased by over 6% - this caseload is sensitive to economic performance and will increase sharply in the event of job loss

Mississauga is known for being run like a business and for being fiscally responsible, however, like other municipalities, Mississauga has an infrastructure deficit that is growing. This deficit is the result of:

- federal downloading to the province and its flow through effects to municipalities;
- provincial downloading to municipalities;
- elimination of the unconditional grants for transit, roads and bridges;
- unpredictable conditional grant programs;
- legislative changes to various acts, such as the 10% discounting for soft services in the *Development Charges Act, 1997*; and
- reliance in Ontario to fund education, health and social services from the property tax base.

The infrastructure deficit is the result of the fiscal imbalance; cooperation between all orders of government is essential if the existing fiscal imbalance is to be remedied. In 2006, the Conference Board of Canada's report entitled *Mission Possible* states, "Citizens and leaders at all levels of government and civic enterprise must....accept that Canada's sustainable prosperity depends on national investment and involvement in our major cities." (pg. 13)

The Ability to Pay

The Federation of Canadian Municipalities' (FCM) report entitled "*Restoring the Municipal Fiscal Balance*" (June 2006) illustrates a comparison of expenditures and revenues between the three orders of government between 1988-2004, revealing that:

- the federal government was able to increase its revenues while decreasing its expenditures,

R-3-d

- the provincial government experienced an increase in its expenditures but also had an average annual growth in its revenues,
- municipalities' experienced a higher growth rate in annual municipal expenses than growth of revenues.

A comparison of revenues and expenses at each order of government clearly shows the effects of downloading. In conjunction with the elimination of unconditional grants from the province, municipal governments show an overall negative change of 0.2% in annual growth per capita, in constant dollars. Municipal expenditures for housing, health and social services have increased from 11.2% to 16.4% of municipal expenditures since 1988. These costs are expected to increase substantially over the next few years.

Federal and provincial sources of revenue rise as a result of growth in the economy and each individual's ability to pay based on income. The main source of municipal revenue continues to come from property tax revenues which do not necessarily grow in the same terms with economic growth, nor is it based on one's ability to pay. The payment of user fees is the only other main source of revenue that municipalities have available to cover the costs of providing services.

These statistics are summarized in the following table, which provides a breakdown of the impacts of fiscal changes between 1988 and 2004, for each order of government. It is important to note that the municipal sector experienced an annual disproportionate increase in expenditure growth per capita compared to average annual growth in revenues.

**Comparison of Changes in the Average Annual
Growth Per Capita of Government Revenues and
Expenses** (in constant dollars from 1988-2004)

Order of Government	Revenues	Expenditures	Average Growth Change
Federal	+0.6%	-0.9%	+1.5%
Provincial	+0.8%	+0.6%	+0.2%
Municipal	+0.7%	+0.9%	-0.2%

Source: The Municipal Fiscal Imbalance by the Numbers, FCM Backgrounder, June 2006.

R-3-2

The property tax tool is an exceedingly regressive measure for raising revenues since it is based on current value assessment of a resident's home. This tax is not based on a person's ability to pay.

Statistics for 2003, outlined in the following table, clearly demonstrate the regressive nature that property taxes have on the poor as compared to the wealthier populations in Canada.

Comparison of Property Tax and Income Taxes Paid by the Poor and the Wealthy in Canada		
Canadian Population	Gross Income paid in Property Tax	Gross income paid in Income Tax
Poorest 20% of Population	9.62%	4.1%
Wealthiest 20% of Population	1.95%	25.8%
Source: The Municipal Fiscal Imbalance by the Numbers, FCM Backgrounder, June 2006.		

The poorest 20% of the population paid 9.62% of their gross income in property taxes, compared to 1.95% for the wealthiest 20% of the population. The poorest 20% of the population, also paid 4.1% of their gross income in income tax, compared to 25.8% paid by the wealthiest 20% of the population. These statistics reflect the serious imbalance being perpetuated by outdated tax measures.

The *Municipal Act, 2001* dictates that local municipalities must have a balanced budget. Therefore, municipalities must find a balance between the ability to raise revenues through property taxes and user fees, while providing the necessary services that residents demand – and increasingly, the services involving health and social service programs.

In addition, municipal councils must continue to explain to their tax payers that municipal tax increases above the rate of inflation are necessary. It is becoming increasingly difficult for councils to explain to residents, why decisions that are made at other orders of government, with little or no consultation at the municipal level, are

R-3-8

finding their way onto the property tax bill.

Over Reliance on Property Taxes to Fund Health and Social Services in Ontario

Municipal property taxpayers in Ontario continue to shoulder the heavy burden of paying for health and social services. The following chart illustrates the significant inequities that exist between Ontario and the rest of Canada for municipal spending on social services, housing, and health care.

Municipal Spending Differences

	<u>Ontario</u>		<u>Rest of Canada</u>	
	<u>Per</u>	<u>% of</u>	<u>Per</u>	<u>% of</u>
	<u>Cap.</u>	<u>Total</u>	<u>Cap.</u>	<u>Total</u>
Social Services	\$412	25.2 %	\$13	1.2 %
Housing	\$116	7.1 %	\$19	1.7 %
Health	\$89	5.4 %	\$9	0.8 %
Total	\$617	37.7 %	\$41	3.7 %

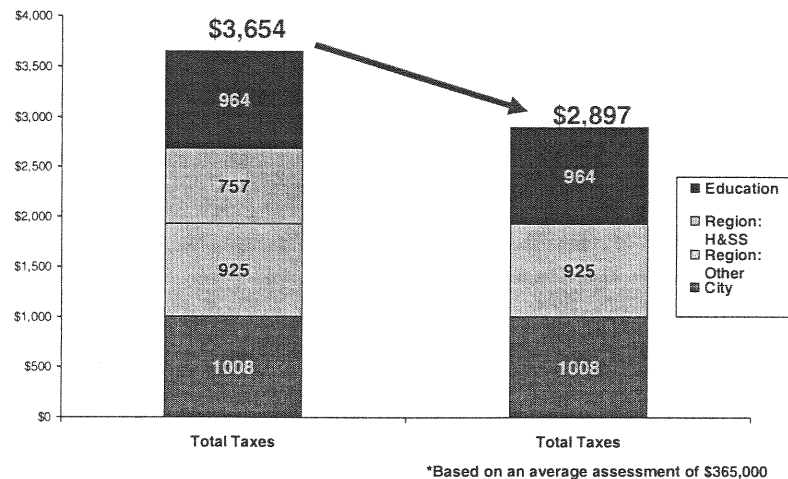
Source: Association of Municipalities of Ontario – Closing the Gap – The Ontario Municipal Fiscal Situation Issues and Future Directions – February 2, 2006 Appendix B

In 2006, Mississauga residents were responsible for funding 64% of the Region of Peel tax levy which translates into \$190 million dollars of the costs of health and social services. This is an enormous burden for Mississauga residents to carry on their property tax bill. It is widely recognized by municipal staff that social services and housing costs are rising at rates greater than the rate of inflation, making it difficult for municipalities to maintain reasonable tax increases for local residents.

The following chart illustrates the impacts of removing health and social services from the municipal tax bill. There is an estimated impact of \$757 per household (or 21%) if the province took ownership of the costs for the 2007 health and social services portion of the Mississauga property tax bill based on the 63% funding formula.

R-3-8

2007 Taxes In Mississauga if Health & Social Services Removed



The Province of Ontario has often recognized that the property tax is not an appropriate mechanism to fund health and social service costs. The costs of supporting these services at the municipal levels are compounding at rates which cause the size of the fiscal imbalance to grow disproportionately to municipal revenues. This not only causes property taxes to be higher than in any other jurisdiction in the OECD, but also impedes funding from flowing to more discretionary services which are also critical like Recreation and Parks.

As an example, The Province of Ontario recognizes Health Promotion as a critical area to be advanced, however, funding is not provided to take action and the property tax has no “room” to provide additional service.

Municipalities are struggling to maintain their services and deal with the transportation gridlock issues, at the same time as trying to limit the size of tax increases necessary to maintain the required services.

GTA Pooling (also referred to as Toronto Tax)

Perhaps one of the most contentious issues for GTA area municipalities with the Province of Ontario is GTA Pooling. The Local Services Realignment (LSR) initiative in 1998 moved residential education costs/taxes to the provincial level (but still on the

R-3-h

property tax base) and downloaded the cost of various health care and social services to municipalities. In addition, LSR also introduced GTA Pooling whereby the City of Toronto and the GTA regional municipalities shared the cost of social services and housing. The entire LSR initiative was supposed to be a "revenue neutral" exercise, however it is widely accepted by all parties, including the Provincial Auditor, that it was not.

Staff from the Region of Peel, York and Halton have worked together to present a proposal of options to the Ministry of Municipal Affairs and Housing (MMAH) for their consideration. In the meantime, the Region of Peel Council resolved to cap its 2007 Toronto Tax budget at the 2005 budgeted level of \$59.1 million. Mississauga's portion of the Toronto Tax collected on behalf of the Region of Peel is approximately 63% of the total costs (approximately \$37.1 million) in 2007. It should be noted that while the municipalities must budget appropriately for the Toronto Tax, it is legislated by the Province of Ontario that each municipality must pay the actual costs incurred each year, regardless of whether the funds have been completely collected from its residents through property taxes.

The current provincial government has recognized that the theoretical "neutrality" in realigning services has not translated well in real practice. On March 22, 2007, the McGuinty Government presented its Ontario Budget 2007, and committed to phasing out the GTA Pooling Program over seven years, beginning in 2007 with pooling contributions being rolled back to the 2004 level. The estimated 2004 GTA Pooling requirement for the Region of Peel is \$60.9 million therefore the City of Mississauga's portion would be approximately \$38.2 million in 2007.

While The Region of Peel does not expect to see any real savings in 2007 because of the disparity between the Region's budgeted level of \$59.1 million and the estimated 2004 Pooling obligation of \$60.9 million, it is expected that 2008 may demonstrate some real savings. This is a real step forward for GTA municipalities after nine years of supporting social services and housing in Toronto. Given the pressures that the GTA Pooling tax has placed upon municipalities it is recommended that the Province give serious consideration to accelerating the time frame for the GTA Pooling elimination. Once GTA pooling is fully removed from the property tax base, Mississauga rate payers will save approximately \$147 per household;

R.3.12

these funds could be better used if re-invested in local programs or infrastructure renewal.

COMMENTS:

A series of changes are required.

1. Ending the Province's reliance on the property tax system.

The provincial government must end its reliance on municipalities for funding their provincial programs. Revenues raised by the Provincial Income Tax Program are used by the government to pay for the services that it provides. It is a progressive tax tool that allows each Ontarian to be taxed based on their ability to pay. The provincial government has acknowledged that it must address this imbalance between itself and municipalities by creating the Province of Ontario's Joint Provincial-Municipal Fiscal and Service Delivery Review. This review provides a great opportunity to make positive changes on the issues that have been discussed by municipalities and economic think tanks for decades. The review is expected to be completed by the spring of 2008. However many reviews have taken place with little action. This time, the Province of Ontario must act otherwise they will lose any credibility and trust with municipalities.

2. A commitment to eliminate GTA Pooling on an accelerated timetable.

The costs of social services and affordable housing must be a provincial responsibility. The property tax is not an effective method of collecting funds to pay for these expenditures. Costs are rising at rates that the property tax can not sustain. The most responsive method of funding these costs exists at the provincial level. The province's income tax revenues are more reactive to economic changes and increasing levels of income which places the province in a better position of matching its revenues with housing and social services costs. The 2007 Provincial Budget outlines a real first step in dealing with this contentious issue, but acceleration of the seven year timetable needs to be addressed. Real progress must be achieved sooner than later and the GTA Pooling elimination schedule needs to be advanced to three years.

3. Forging better Municipal/Provincial/Federal Relationships.

The recent 2007 Federal Budget continues to reflect the view that the federal government is not yet ready to recognize municipalities as a separate voice from its provincial counter parts. The federal

R-3-j

budget has failed to adequately address the fiscal imbalance being faced by municipalities or provide any type of permanent funding for infrastructure or a national transit strategy.

CONCLUSION:

Municipalities must continue to draw the attention of the Province of Ontario to help solve the fiscal imbalance that is facing all municipalities. It is increasingly important that the Province of Ontario become a stronger advocate for urban centres, specifically the City of Mississauga, with the federal government.

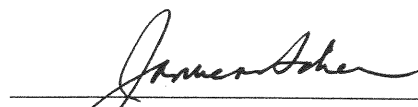
The 2007 Provincial Budget has provided a long awaited indication that municipalities are beginning to be heard on the issues that impact the funding and delivery of programs and services. There are still many issues to be faced and resolved. The provincial government must develop action plans to address the fiscal imbalance that continue to exist, especially as it relates to the funding of health and social services.

There is a dangerous gap growing between the funds available to Ontario municipalities and the ever-greater responsibilities they are being asked to take on.

Current provincial-municipal fiscal arrangements undermine the economic competitiveness of Ontario's communities and they must be changed.

ATTACHMENTS:

Appendix 1: Ontario's Over Dependency on Property Taxes as a Source of Government Revenue, Canadian Federation of Independent Business



Janice M. Baker, CA
City Manager and Chief Administrative Officer

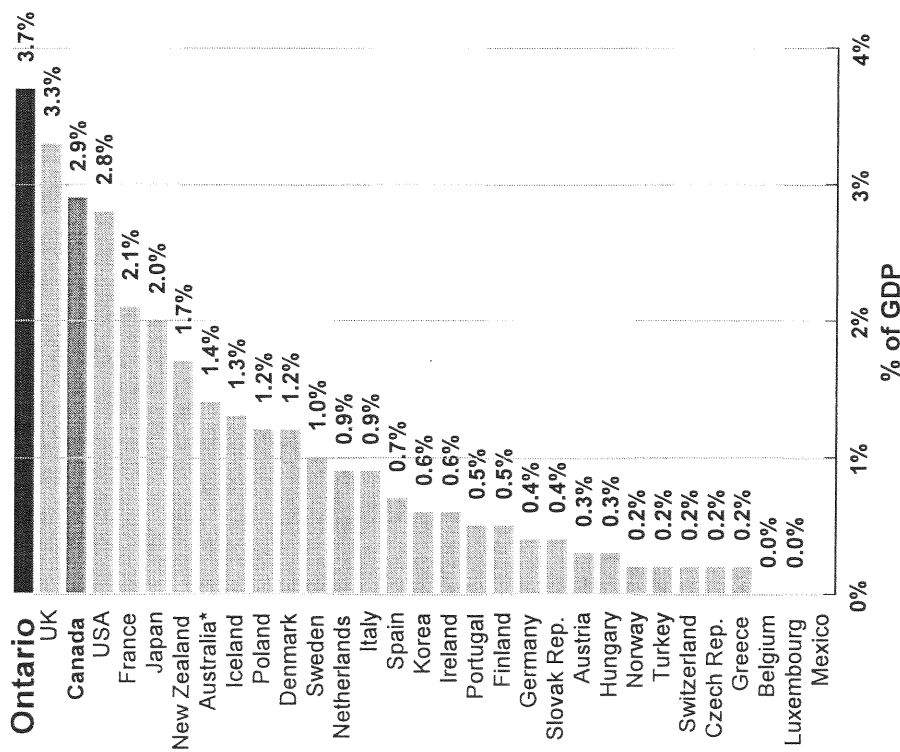
Prepared By: Gary Kent, Director of Strategic Initiatives

R.3-h

Problem
One

Ontario's Over Dependency on Property Taxes as a Source of Government Revenue

Property Taxes as a Share of GDP - 2004



Ontario is more reliant on property tax as a source of government revenue than any other jurisdiction in the OECD world.

* 2003

Sources: OECD Revenue Statistics 1965-2004, Statistics Canada Financial Management System