

AMO | 08.2022 - Annual Conference

Building Together Stronger

Municipal fiscal sustainability

Policy opportunity/solutions:

Given the expected economic instability, addressing existing municipal fiscal challenges will better position municipalities to effectively meet the increasing needs of residents and businesses during these uncertain times. To this end, the Province should:

- Review federal-provincial-municipal cost-sharing to ensure that each government's funding responsibility is proportional to its revenue sources, with a particular goal of removing income-redistribution programs from the property tax.
- Engage with municipalities to discuss the need for updated municipal revenue sources and collection tools to address the changing needs of local communities.

Background:

Support for Regional medium and long-term service priorities

Responding to COVID-19 magnified the urgent need for predictable and sustainable funding for critical services like public health, paramedic services and long term care. Emergency funding received during the pandemic through provincial/federal programs was greatly appreciated.

However, as municipalities continue to deliver essential services and infrastructure, fiscal challenges related to outdated funding models and limited revenue sources continue to threaten municipal fiscal sustainability in the medium and long term. When provincial funding does not keep pace with growth and inflation, the resulting deficit is added to the property tax base, placing an additional burden on property taxpayers.

Historic under-funding for provincially mandated services

Funding for many provincially mandated services continues to be outpaced by growth and service demand pressures. For example:

- Federal and provincial funding for housing subsidies has dropped 20 per cent between 2017 and 2021, and the State-of-Good-Repair funding gap for Peel's aging community housing is \$442 million.

For every tax dollar generated in Ontario, its municipalities receive only 9 cents. The Province receives 44 cents and the federal government receives 47 cents, as reported in the 2019 report *Rethinking Municipal Finance for the New Economy*.

- Funding for Public Health was frozen between 2018 and 2021 and, in 2022, there was only a \$404,000 increase, reducing a funding shortfall from \$8.7 million to \$8.3 million.
- Ministry 50:50 cost-sharing for Paramedic Services that is based on the previous year's approved budget creates a funding lag that does not reflect current inflation and service pressures.
 - For Peel in 2021, the funding gap was 1.5 per cent, which equates to approximately \$3.9 million.
- An increasing proportion of the Region's Long Term Care operating budget is being funded through property tax.

To address these long-standing funding challenges, **there is an urgent need to engage with federal and municipal partners** to review service responsibility as well as conduct a review of municipal revenue sources and tools.



The Region is currently examining a potential Vacant Homes Tax (VHT) in order to increase housing supply by returning units to the market. The VHT would also be a viable revenue source to support service delivery and help mitigate municipal fiscal challenges related to housing. It is important to note, however, that the VHT will be insufficient to fully address Regional affordable housing needs, and other revenue tools and sources of funding will still be required.

Ultimately, the Region as well as the broader municipal sector argue that the responsibility for funding income re-distribution programs, such as paramedics services, affordable housing and social services, should not be financed through the property tax base and is more appropriately funded by provincial sources.