

Issue at a Glance

Municipal Financial Sustainability

January 2022

Key Takeaways

- Municipalities are experiencing new challenges resulting in higher operational and capital costs.
- Ontario municipalities are extremely limited in the ways that they can collect revenue.
- Many municipalities rely on transfers from other levels of government to mitigate property tax rate increases and balance annual budgets.

Issue

Ontario municipalities have been facing challenges with their long-term financial sustainability for many years. Municipalities have experienced a significant transfer of responsibilities and services over time, and the expectations and complexity of residents' needs have increased. Many of these challenges are exacerbated by unforeseen events and circumstances that put pressure on local budgets and therefore the property tax base.

The Need for Reform

What is financial sustainability?

For the municipal sector to be financially sustainable in the long-term, a guaranteed level of funding is needed as an important part of financial planning. Financial sustainability for municipalities means predictable and reliable funding. However, rising operating and capital costs, and limited revenue streams make this a challenge.

Rising costs

Municipal operating and capital budgets are rising with new and increasing expenses. Some examples include infrastructure costs, municipal insurance, and other services that have been passed on by successive governments.

- Municipalities in Ontario own more infrastructure than the Provincial and Federal governments combined, totaling \$484 billionⁱ and this figure does not take into account the costs associated with climate change. Municipalities need to think about building in ways that are more resilient to climate change while also managing financial impacts resulting from an increase in natural disasters and weather events.
- Municipalities are seeing rising insurance costs, with many reporting increases of over 20%.ⁱⁱ Ontario's joint and several liability system is in part to blame for this, resulting in higher insurance premiums, increased settlement costs, and potentially reduced servicesⁱⁱⁱ, but there are other factors at play too, such as the rise in claims related to natural disasters^{iv}.

- Municipalities' expenses have increased due to the transferring of provincial responsibilities of successive governments and additional provincial mandates. Whether public health, policing, or conservation authorities, municipalities have long advocated for more consultation when provincial cuts to joint programs are made.^v When the responsibility of provincial services are transferred to municipalities, consideration must be given to whether revenue streams are sufficient and appropriate for the services they are funding.^{vi}

Revenue streams and their limitations

Municipalities are limited in the ways that they can collect revenue, and as municipal costs have increased, revenue tools have not kept up.

Traditional revenue streams include taxation, including both property taxes and special area rates, payments in lieu of taxation (PILT), user fees and fees for licenses, permits and rents, fines and penalties, investment income, and development charges.

However, all these revenue streams have limitations. For example, if municipalities rely on raising property tax rates to offset increased costs, a substantial burden is placed local ratepayers which can be especially difficult for residents during hard economic times (like the current pandemic). Another example is that the formula for PILTs has not kept up with current economic realities.^{vii} Municipalities can charge user fees, but these are limited to cost-recovery and so they generate no revenue nor pay capital costs.^{viii}

Another key source of revenue are conditional and unconditional transfers from other levels of government. Many municipalities rely on municipal transfer programs as revenue sources to offset operating costs, fund infrastructure, or modernize services. However, government programs have limitations. Transfers from the provincial or federal government are currently a mix of project-based and formula-based funding. Project-based funding does not allow for long-term financial planning. When funding is formula-based it allows for better planning and decision-making.

Some examples of provincial transfers include the Ontario Municipal Partnership Fund (OMPF) and the Ontario Community Infrastructure Fund (OCIF). These programs are instrumental for the 389 and 424 municipalities who receive them respectively, but more investment is needed to ensure resilience.

Though the total funding envelope for 2022 will remain at \$500 million, which it has been since 2020, OMPF allocations have changed over time with reductions in the Transition and Stabilization Grant and increases in the Rural Communities Grant and Northern and Rural Fiscal Circumstances Grant. In recent years, OMPF allocations have been announced earlier allowing municipalities to know their allocations in time for municipal budget-planning; however, single-year announcements regardless of how early they are made, do not replace the benefit of multi-year allocations which would allow municipalities to plan for the long-term.

The Province is providing an additional \$1 billion over the next five years for the OCIF. Though this is welcomed news for many municipalities, the program continues to have its limitations given that it is not available to all municipalities. In addition, the infrastructure deficit in many municipalities who receive OCIF funding is so significant, that OCIF is not sufficient.

Operational burden

Support from the Province (whether through application-based funding or reporting requirements after the fact) can be burdensome for municipalities. Often reporting requirements are not made clear at the time that funding is allocated, making it challenging or overly burdensome for municipalities to record-keep resulting in extra time and resources dedicated to filing paperwork. It is also worth noting that municipal and provincial budget cycles do not align. This means that funding announcements work for Provincial budget timelines but not local ones. Without long-term predictable funding, municipal staff are limited in the ways that they can ensure effective financial management and planning. Funding programs should be announced well in advance of municipal planning and approvals.

Conclusion

Municipal decision-makers can do everything in their power and ability to promote strong financial health in their communities. However, with limited revenue streams and rising costs, they cannot serve their municipalities in effectively planning for the long-term. Reliable and sustainable revenue streams are needed to support municipalities in this work.

Ideal solution

Our members would like to see:

1. Predictable long-term funding supports that are reflective of the value and cost of the services municipalities are expected to deliver.
2. Grants and other funding envelope timelines that respect local decision-making processes including but not limited to municipal budget cycles and financial year-end.
3. No transferring of responsibilities without consultation and consideration of municipal revenue streams and long-term costs.

ⁱ Financial Accountability Office of Ontario “A Review of Ontario’s Municipal Infrastructure and an Assessment of the State of Repair.” 2021. <https://www.fao-on.org/en/Blog/publications/municipal-infrastructure-2021>

ⁱⁱ Association of Municipalities of Ontario “Municipal Liability and Insurance Costs.” 2022. <https://www.amo.on.ca/advocacy/municipal-gov-finance/municipal-liability-and-insurance-costs>

ⁱⁱⁱ Association of Municipal Managers, Clerks and Treasurers of Ontario “Issue at a Glance: Joint and Several Liability.” 2019. <https://www.amcto.com/getattachment/1f47958b-adf3-4f2a-9139-4bb15cd42bc5/.aspx>

^{iv} Nick Dunne “Why are municipal insurance rates skyrocketing in Ontario.” 2021. TVO. <https://www.tvo.org/article/why-are-municipal-insurance-rates-skyrocketing-in-ontario>

^v Ontario Big City Mayors “Statement of Mayor Cam Guthrie, Chair of LUMCO and LUMCO Mayors.” 2019. <https://www.ontariobigcitymayors.ca/news/details.php?id=638>

^{vi} G Eldelman, T Hachard, & E Slack “In it Together: Clarifying Provincial-Municipal Responsibilities in Ontario.” 2020. Ontario 360. <https://on360.ca/policy-papers/in-it-together-clarifying-provincial-municipal-responsibilities-in-ontario/>

^{vii} S Johal, K Alwani, J Thirgood & P Sprio “Rethinking Municipal Finance for the New Economy.” 2019. Mowat Centre. <https://munkschool.utoronto.ca/mowatcentre/rethinking-municipal-finance-for-the-new-economy/>

^{viii} O. Reg. 584/06: Fees and Charges. <https://www.ontario.ca/laws/regulation/060584>