



Eastern Ontario Wardens' Caucus

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2015 Pre-Budget Submission

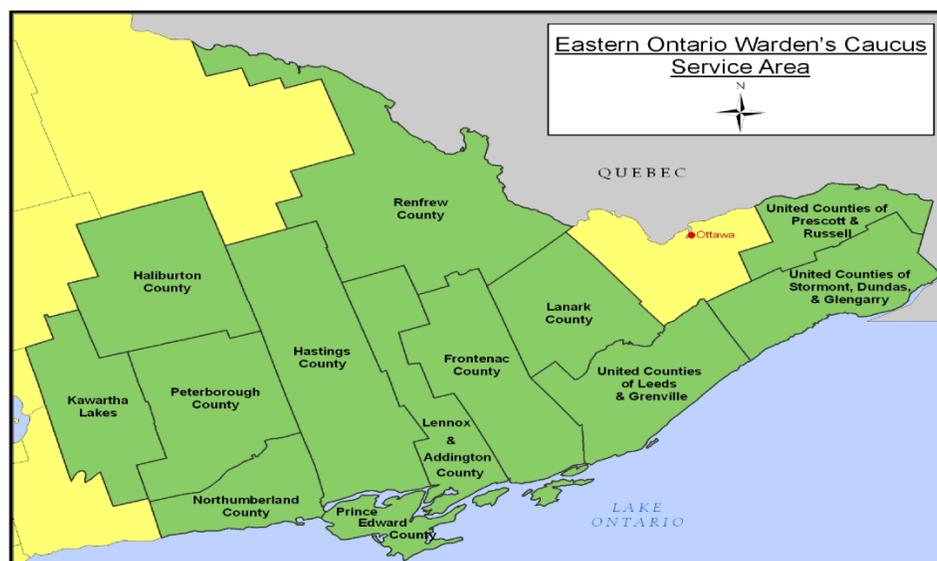
January 30, 2015

Overview

The Eastern Ontario Wardens' Caucus (EOWC) Inc. is an incorporated not-for-profit organization comprised of the heads of Council of eleven (11) Counties and two (2) single-tier municipalities in Eastern Ontario.

Its member municipalities include:

- County of Frontenac
- County of Haliburton
- County of Hastings
- City of Kawartha Lakes
- County of Lanark
- United Counties of Leeds and Grenville
- County of Lennox and Addington
- County of Northumberland
- County of Peterborough
- United Counties of Prescott and Russell
- County of Prince Edward
- County of Renfrew
- United Counties of Stormont, Dundas and Glengarry



Over the past three years, the Eastern Ontario Wardens' Caucus (EOWC) researched and developed a series of five White Papers to explore further prospects for financial sustainability through to 2020.

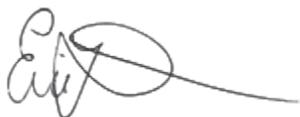
The EOWC's research confirms, among other things, that rural ratepayers across the region are increasingly challenged to pay the costs of vital municipal services. Rural Eastern Ontario ratepayers, like local governments, are at a crossroads in terms of financial sustainability. Residents simply can no longer afford to pay the ever-increasing costs of municipal services, particularly when rural areas have increasing amounts of infrastructure to be maintained by a relatively small and widely-dispersed population.

Each White Paper includes updated financial data to 2012 (based on provincial Financial Information Returns/FIRs) as well as extrapolated projections through to 2020, and offers recommendations to address the challenges ahead. Among the more than 50 recommendations contained in the five White Papers are two cornerstone actions, implementation of which will have positive impacts – either directly or indirectly – across all areas of service:

- Active support and implementation of a regional economic development strategy with the long-term objective of stimulating growth and jobs in the region's tax base, as well as expanding cellular network coverage and capacities.
- Encouragement for the province's efforts to contain the growth in costs for service delivery.

In presenting these White Papers as a 2015 Pre-Budget Submission to the Ministry of Finance, the EOWC is seeking to continue the efforts that have previously been explored with its provincial partners – and which have largely proven to be successful. As financial circumstances and budgets continue to be tightened, rural municipal governments will require more active support in stimulating growth and employment and, in turn, the regional tax base. At the same time, the Province of Ontario must also continue its efforts to contain the growth in costs for service delivery.

While some of the recommendations in these White Papers refer to initiatives that the EOWC can undertake on its own, others are likely to be most successful if pursued in partnership. Let us collectively move forward, in the best interests of all our residents.



Eric Duncan
Chair, 2015, Eastern Ontario Warden's Caucus

Executive Summary:

In addition to the following Executive Summary, the EOWC would also like to draw the Ministry of Finance's attention to a series of key financial recommendations, which can be found on pages 7 and 8.

Municipal Infrastructure: Municipalities in Rural Eastern Ontario manage nearly \$9 billion in assets, \$5 billion of which is for transportation services (roads and bridges). The capital infrastructure deficit is estimated at \$3.74 billion (2011) with \$3 billion for roads and bridges. Rural municipalities are responsible for 75% of the region's roads (69,000 lane-kilometres) and 5,000 bridges and large culverts. The associated capital infrastructure deficit is \$2.48 billion for roads and \$526 million for bridges. Municipalities should be making an additional \$638 million a year in capital expenditures to maintain their assets. The White Paper notes that none of the three financing mechanisms for addressing infrastructure needs (debt, direct from property taxes, utilization of reserves) is sustainable. Both debt capacity and reserves would be exhausted in two years. The White Paper contains six (6) recommendations, including a call for the creation of a permanent provincial non-competitive infrastructure fund, with a suggested design framework and allocation methodology.

Municipal Affordability: Local governments in Rural Eastern Ontario have significant responsibilities in delivery of (largely) provincially-mandated services to their citizens: annual operating expenditures are now roughly \$2 billion a year. Expenditures for four major service areas (Transportation Services, Protection Services, Environmental Services, and Health and Emergency Services) all increased by seven (7) % a year or more in the 2000-2011 period – well above the rate of population/household growth (1% a year) or the Consumer Price Index (2% a year). As a result, Own Purpose Revenues (property taxes and user fees/charges have increased by a Compound Annual Growth Rate of 6.1% since 2000) in a region where three-quarters of municipalities have median household incomes below the provincial average. Real assessment growth in rural areas is weak (2% a year or less), especially in the commercial and industrial sectors, and local governments are therefore heavily reliant on residential property taxes (2012: 90% of total taxes compared to 84% for the region as a whole).

Development prospects for the region are also constrained by the 75% of land mass that is not available for full assessment value taxation. Without a change in the economic circumstances of Rural Eastern Ontario, continued above-CPI increases in property taxes are not sustainable. The White Paper contains 13 recommendations, focused on cost containment, alternative revenue generation, and exploration of new methods, models and funding formulae for delivering municipal services.

Ratepayer Affordability: Citizens of Rural Eastern Ontario are financially disadvantaged, as compared to the provincial average, on virtually every measure: lower average and personal median incomes and household incomes, lower reliance on employment income and higher reliance on government transfers (15.4% compared to 12.3%). Population and household growth projections for the region are modest with the proportion of elderly citizens well above the provincial average (18% compared to 15%). Levels of home ownership are high but the value of those dwellings is lower and a higher proportion of the homes are in need of major repair (8.2% compared to 6.6%). Rural Eastern Ontario residents are also less likely to have post-secondary education (47% compared to 57%) so their employment and earnings prospects are more limited. Nine (9) recommendations focus on ways to enhance the region's labour force and access to employment, new strategies targeted to specific sub-populations (e.g. SMEs, youth), and housing-related initiatives.

Environmental Services White Paper: Local governments in the region are responsible for more than \$2 billion in assets (2012) with more than \$225 million in annual operating expenditures (63% of expenditures are for water, wastewater and sewer services). The Compound Annual Growth Rate in operating expenditures was 5.9% in the 2000-2012 period. The rural areas are responsible for nearly 500 landfills (90% of the regional total), with net/unfunded liabilities estimated at \$100 million (not including new landfills). Net cost per tonne for material diverted from landfills is higher in rural areas compared to urban areas due to smaller volumes and larger geographic areas for collection. Eight (8) recommendations encourage cost containment by collaborative administration and management, exploration of new environmental technologies, repurposing of legacy assets, cost-benefit analysis and provincial funding for any new environmental regulations or upgrading existing compliant assets.

Social Housing White Paper (June 2014): Across Eastern Ontario (excluding Ottawa), municipalities are directly responsible for \$467 million in social housing assets. Because of the age of many of these units as well as variations in assigning value, the capital infrastructure deficit is likely to be at least \$526 million. Including municipal social housing units and those offered by not-for-profit organizations or private sector organizations (Rent-Geared-To-Income), there are an estimated 14,000 housing units in the region. Comparison of the region's End of Agreement situation (wind-down of federal funding for social housing) to that of the province as a whole suggests that more than three-quarters of the region's social housing projects – at least 10,000 units – will not be viable at EOA (either due to insufficient investment capital, insufficient revenues to cover operating expenditures, or both). Waiting lists for social housing are relatively stable (in the 7,500 to 9,000 households range) but there is a need for a transitional strategy for social housing to match the locations and configurations of housing units with citizens' contemporary needs. The Paper notes that social housing is not sustainable without support from upper levels of government. Eleven (11) recommendations call for shared effort by the province's stakeholders to encourage the federal government to remain financially supportive of social housing. The provincial government is asked to update operating subsidies to reflect contemporary costs, provide low/no-interest loans, and strategic policy latitude to enable municipalities to transform the portfolios of social housing stock to meet changing local needs. On a local level, the White Paper suggests exploration of different business models to increase efficiency of maintenance of social housing stock.

Key Financial Recommendations:

- That the Province of Ontario work in partnership with the EOWC to continue the implementation and growth of its permanent, predictable, non-competitive infrastructure fund designed specifically for small and rural areas.
- That the Province of Ontario continue the implementation of the social services upload to the original end date of 2018, thereby providing additional fiscal capacity for municipalities to address infrastructure maintenance needs as well as assisting in the provision of other critical municipal services.
- That the Province of Ontario provide Eastern Ontario municipalities that have significant Crown lands or other lands with assessment constraints (e.g. managed forests, farmland, aggregate sites, etc.) within their jurisdictions with compensation reflecting these property-based limitations. This compensation could be a Payment-in-Lieu or an annual share of revenues accruing to the Province from these lands (e.g. royalties from stumpage fees), and would be in recognition of the service provided by municipalities in building and maintaining roads and bridges, and providing emergency services for these tax-exempt lands.
- That the Province of Ontario be encouraged to leave as-is the provision of Regulation 284-09 regarding exclusion of depreciation expenses from annual budget processes.
- That the Province of Ontario continue its efforts to contain the growth in program and service delivery costs, including those that are mandated to municipal government (examples: joint and several liability, interest arbitration, and policing costs). It is further proposed that the Province engage municipalities in processes which will affect services mandated to municipal government.
- That the Province of Ontario simplify and increase the predictability associated with funding formulae for services mandated to municipal governments, and that the formula for funding long-term care be the first formula to be reviewed.
- That the Province of Ontario consider the streamlining of provincial accountability reporting requirements. The EOWC shall provide input to those recommendations from the perspective of small rural municipalities. The objective of such advocacy is to reduce the number, frequency and level of detail in reports submitted to the Province while still meeting regulatory accountability requirements. These changes are expected to reduce municipal costs or free up staff time to focus on managing and delivering services for local ratepayers.

- That the EOWC work with AMO and the Province of Ontario to develop a strategy which would allow and encourage local governments to introduce non-tax-based revenue generating measures to make their municipalities more financially sustainable. The first priority could be an examination of ways to leverage existing municipal assets to provide new revenue streams (examples: outstanding POA monies; per-ton charge for aggregates).
- That the Province of Ontario broaden its commitment to work with municipalities on renewable energy development to include determination of appropriate property tax rates for all types of renewable energy, not just wind turbine towers. This is an essential companion to the proposed changes to the Feed-in-Tariff (FIT Program) which are intended to engage municipalities and Aboriginal communities in location and siting decisions, and providing new energy-related economic development and revenue opportunities for municipalities and public sector entities.
- That the Province of Ontario modify the terms of the Provincial Gas Tax funding program to broaden the definition of transit to include alternatives to municipally-owned transit, where the municipality has oversight for the alternative approach. Examples would be private or not-for-profit services that operate on a fixed schedule and which are supported by the municipality, or volunteer services that provide scheduled service for appointments or meetings at health or social service organizations. These volunteer services must also be supported by the municipality.
- That the EOWC work with AMO and the Province of Ontario to determine if there are alternative, cost-effective ways to deliver services at the local level, and seek opportunities for pilot programs through which these alternatives might be tested on a cost-shared basis in Rural Eastern Ontario.
- That the EOWC continue to work cooperatively with provincial and federal authorities to obtain an agreement related to the Algonquin land claim. Once an agreement is in place, it is proposed that the EOWC work collaboratively within the Algonquin Nation to identify and pursue opportunities for economic development benefiting the Algonquins and the region as a whole.