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Under Pressure

How Public Policy is Constraining Ontario Municipalities

Carlo Fanelli

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Under Pressure

How Public Policy is Constraining Ontario Municipalities

Executive Summary

The growing influence of neoliberal policy at both the federal and provincial level is putting unbearable pressure on Ontario municipalities.

As "creatures" of the provincial government, municipalities have far more limited revenue options than do senior levels of government, yet infrastructure and public service pressure on Ontario cities has expanded under neoliberal policies. This paper examines the full weight of neoliberal policies on Ontario municipalities and calls for a new urban deal.

The paper thoroughly reviews the influence of decades of successive federal and provincial funding cuts on Ontario municipalities, compounded by the massive downloading of provincial programs onto municipalities in the late-1990s — a move that continues to burden cities.

The report notes that, considering the dilapidated state of Ontario municipalities' social and physical infrastructure, ongoing tax cuts by federal and provincial governments are destabilizing for Ontario communities. As a consequence, pressure on Ontario municipalities to find cost-savings continues to grow — resulting in a range of consumption-based taxes and user fees as well as property tax increases. Privatization and contracting out of municipal assets, services and employment has been put forward as a

means to restore budgets. But, as the report notes, the evidence on outsourcing and privatization across Canadian municipalities suggests that the privatization of formerly public sector jobs is correlated with more expensive and lower quality services as well as reduced public oversight.

Breaking the cycle of perma-austerity and retrenchment that has characterized the last three decades of municipal neoliberalism in Ontario will require new initiatives. The author proposes the following:

- Raise revenues to correct decades of federal and provincial offloading of municipal services and responsibilities. A variety of financial tools are needed to help municipalities repair Ontario's outmoded system of provincial-municipal transfers. Revenue options include raising the GST back to 7 per cent and allocating dedicated funding to municipalities; turning to wealthy individuals and corporations via higher income taxes.

- Establish new taxation and administrative powers to create new revenue streams for municipalities. Conferring new powers to municipal councils requires forming a new urban planning orientation at other governance scales.

- Dedicated funding to launch a national transit strategy, a national clean water fund, community development strategies in self-governing northern and First Nations communities, and long-term municipal funding for social and physical infrastructure.

Introduction

Under Section 92(8) of the Canadian Constitution municipalities are essentially "creatures" of provincial governments as they can create, modify or eliminate a local government at will. Provincial governments also determine which powers a local government is entitled or responsible to execute. Ontario has one of the most decentralized provincial-municipal structures in the country. Municipalities consist of cities, towns, villages, townships and, in southern Ontario, regions, counties and districts, which are upper-tier municipalities on whose council sit members of lower-tier units located within its boundaries, except for cities and some towns. Upper-tier municipalities include regions, counties and districts and are headed by a chair or warden, while lower-tier municipalities are headed by a mayor or reeve. The largest single-tier cities are chaired by a mayor. As *Table 1* shows, as

TABLE 1 Municipal Structure in Ontario, 2013

Type of Tier	Number of Municipalities
Single Tiers	
Southern Ontario	29
Northern Ontario	144
Total Single Tiers	173
Lower Tiers	
Within a Region	43
Within a County	198
Total Lower Tiers	241
Upper Tiers	
Region	8
County	22
Total Upper Tiers	30
Total Number of Municipalities	**444**

of 2013 Ontario had 444 municipalities of varying structures (Found, 2012; Slack and Bird, 2013).

Despite a variety of governance arrangements, the inability of municipalities to meet their fiscal requirements has been a chronic feature of Canadian urbanism for at least the last three decades. Provincial and federal governments sought to 'solve' their own budgetary impasses by shifting the cost of social and physical infrastructure downward to lower tiers of government. Although the federal government has no constitutionally prescribed municipal powers, almost all of its decisions affect municipalities in one way or another. However, except for some grants, bilateral agreements and emergency relief, the federal role in municipal affairs over the last 40 years has been *ad hoc* agreements. There is a complete absence in Canada of a national policy for cities or for urban funding of crucial infrastructure, transportation, housing, immigration and poverty.

This paper looks at the trajectory of neoliberal policy at the federal and provincial level that has led to the municipal impasse.

Ontario Overview, 1971–95

For a brief period of time from 1971–79, the federal government had a Ministry of State for Urban Affairs (MSUA), a landmark attempt to institutionalize federal-municipal relations (Spicer, 2011). However, as 'cooperative federalism' gave way to 'contested federalism' in the 1980s, the federal government abandoned an urban policy of any sort and returned to makeshift local agreements. This was particularly the case as neoliberalism gained ideological and political momentum in the 'new right' movements of the 1980s (Laycock, 2002; Carroll and Ratner, 2005).

Unlike the federal and provincial scales of administration, municipalities do not have the power to implement a broad range of tax measures such as income, corporate, sales, resource and import taxes. Municipalities are also limited in their ability to incur debt.[1] As *Figure 1* shows, Ontario municipalities overwhelmingly rely on property taxes to raise revenue outside of federal and provincial transfers. And from this, as *Figure 2* demonstrates, they must provide for general government administration, social assistance and health services, social housing, fire, policing and so forth. As a result of dwindling transfers to municipalities, the 1990s saw renewed calls for greater federal involvement in municipal affairs, particularly that related to revenue transfer. This resulted in the establishment of the Canada Infrastructure Works Program in 1993, which provided $2.5 billion over five years for local services and infrastructure. Unlike the MSUA, however, the federal government's role would be limited to providing fiscal injections rather than long-term intergovernmental planning boards.

A similar shift to neoliberal policies began to unfold at the provincial and municipal levels in Ontario. Although Ontario had long been a province dominated by Conservative rule, by the mid-1980s Ontario had been transformed into an urbanized manufacturing and service economy in the south and a service and extraction-based economy centered on the mineral and forest sectors in the north. Although real growth in Ontario had exceeded 4 percent per year from 1984 to 1989 (the largest and most sustained since the 1960s), federal cuts to shared-cost arrangements made themselves felt on Ontario's fiscal balance sheet. By the late-1980s, the David Peterson-led Liberals were making the case that federal downloading had resulted in over $1 billion in lost revenue. In an attempt to partially offset eroding revenues, the Liberals raised a broad range of consumption taxes on gasoline, tobacco, alcohol and general retail sales. Like the federal government, which reduced corporate and personal income taxes in the late-1980s, the Ontario

FIGURE 1 City of Toronto 2013 Operating Revenue ($9.4 Billion)

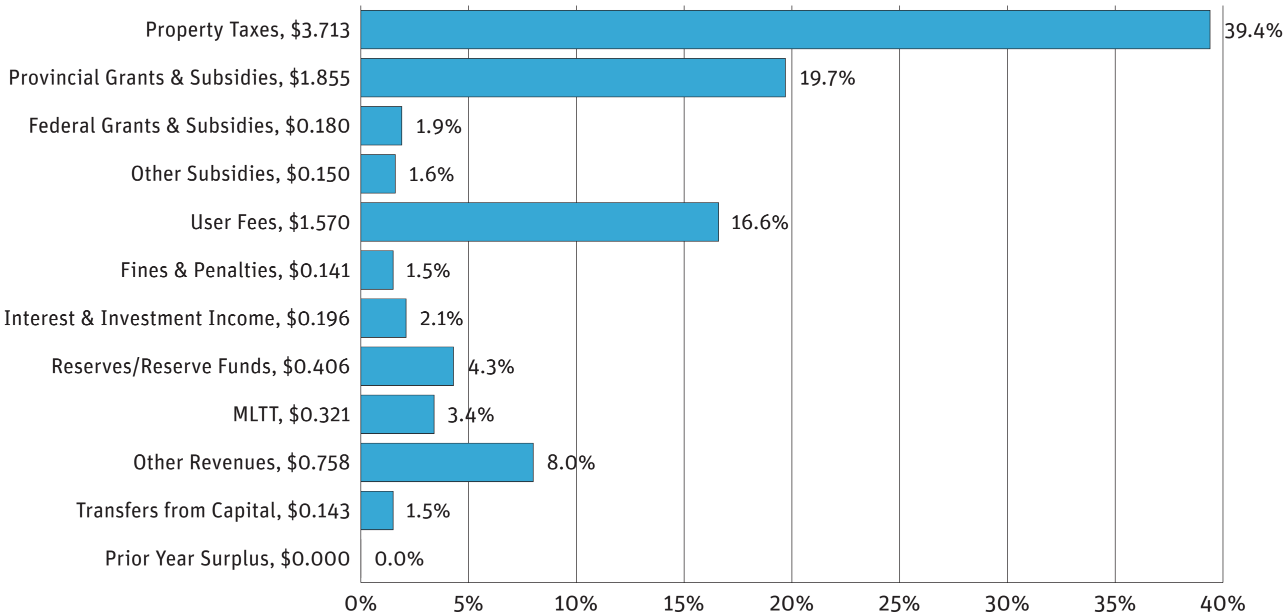
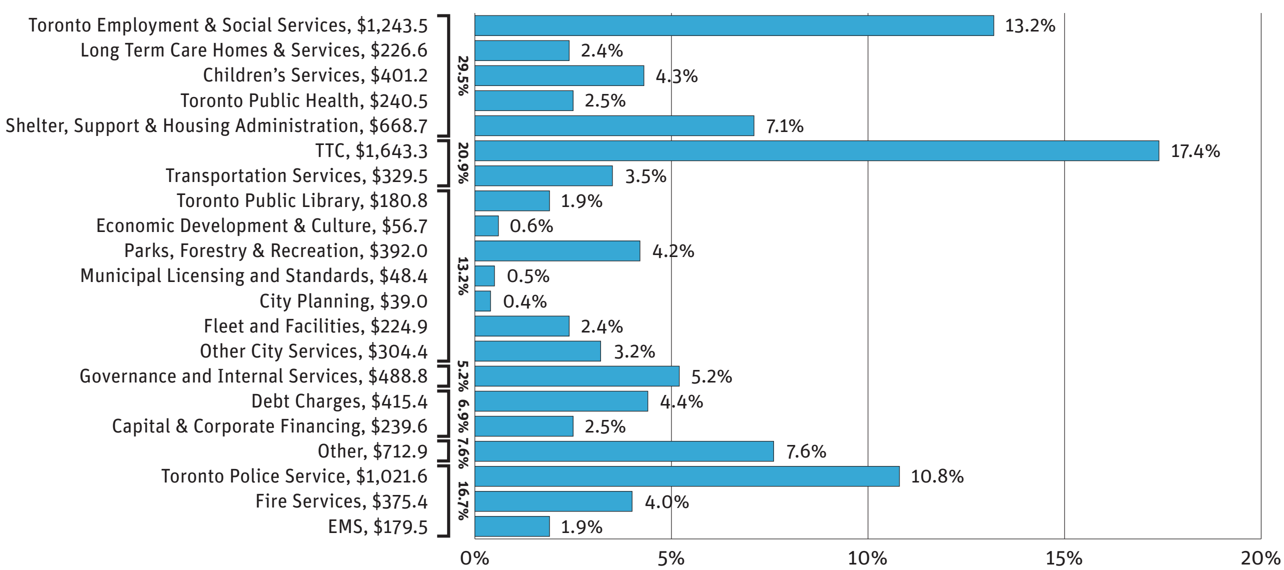


FIGURE 2 City of Toronto Operating Expenditures ($9.4 Billion)



Liberals followed suit lowering capital taxes and reducing the number of personal income tax brackets from ten to three. This signaled a broader movement away from collective social responsibility to an increasingly individualized social policy arena.

After a surprise election victory in September 1990, the Bob Rae-led NDP government's first budget continued along the course set by the Peterson Liberals, consisting of minor increases to income security programs. This included a 7 percent increase to basic social assistance rates and 10 percent increase to shelter rates, including the uploading of costs for single parents from municipalities and raising lone parents to the same income standard as two-parent families. The NDP retreated, however, from more ambitious increases in corporate and wealth taxes as well as public auto insurance, succumbing to the fiscal orthodoxy of balanced budgets and the mounting constraints of neoliberal policymaking. This pressure was evident in the NDP's withdrawal from its efforts at municipal reform recommended by the Sewell Commission's report on the reform of the planning and development system in Ontario. Chaired by former Toronto Mayor John Sewell, the report suggested modest changes to planning legislation by placing checks on sprawl and densifying urban development. The plan was met with a torrent of backlash from the development industry, citing excessive environmental and land use regulation. The retreat from the Sewell Commission ended any further attempts by the NDP at reforming provincial-municipal relations, leaving in place the ad hoc negotiations and regulations that had defined Ontario planning under the Conservatives (Desfor and Keil, 2004; Walker, 1994). The Fair Tax Commission suffered a similar fate, which among its 138 recommendations suggested moving away from property taxes, and instead, increasing and making the provincial personal income tax system more progressive.

Ontario, 1995–2004

The election of the Mike Harris Conservatives in 1995 signified the hard right pursuit of neoliberal economic policies. The Conservative government brought down two statements in 1995: the *Fiscal Overview and Spending Cuts* and *Fiscal and Economic Statement*, which represented a radical turn to "slash and burn" neoliberalism (Kozolanka, 2007; Reshef and Rastin, 2003). The measures were wide-ranging in their impact on Ontario municipalities. Among the first pieces of legislation rescinded by the Harris government was the *Planning Reform Act*, which sought to curb urban sprawl by linking municipal requirements to provincial planning applications, zoning bylaws and planning-related documents. The catalogue of other measures negatively impacting the fiscal capacity and service provision of municipalities undertaken by the Harris government is lengthy.[2] By 1999, the Conservatives had made over 99 different forms of tax cuts, significantly eroding provincial public revenues and significantly increasing the fiscal burden on municipalities (Government of Ontario, 1999).

Controversially, the Conservatives began a series of municipal amalgamations that reconfigured the municipal political economy. When Harris came into office there were 815 municipalities in Ontario. The Fewer Municipal Politicians Act, 1996 reduced that number to 447 by 2001. At the same time, the number of municipal councillors was reduced from 4,586 to 2,804, while the number of school board trustees fell from 1,900 to 700 (Sancton, 2000; Boudreau, Keil and Young, 2009). The largest and most extensive amalgamation occurred under the provisions of the City of Toronto Act, 1997, where six cities and seven governments were merged creating the new single-tier City of Toronto (Fanelli, 2014). This restructuring of Ontario municipalities involved a massive devolution of program spending and responsibilities onto municipalities, including: social services, public school services, non-profit housing, roads, public infrastructure, long-term healthcare, childcare, shelters, children's aid societies, ambulance, fire and police services, waste collection, as well as public health and transportation. Following the federal government strategy, the downloading of responsibilities by the Harris government onto municipalities occurred without an equivalent transfer of funding or matching fiscal supports. Amalgamation was overwhelmingly rejected by urban social movements, trade unionists and the general public across Ontario municipalities. But this did little to deter the Conservatives from amalgamating communities. The Conservatives argued that amalgamation was in the interest of all Ontarians. The political promise was that it would lower costs, remove barriers to investment, enable private sector job creation, and increase the political coherence and economic efficiency of municipalities.

The Conservatives argued, as a now thoroughly discredited report by the accounting firm KPMG alleged at the time, that Toronto could realize through amalgamation upwards of $865 million in savings over the first three years (KPMG, 1996). But this was later contradicted by a report from Deloitte and Touche (1997) that criticized KPMG's flawed report and showed savings would be next to nothing. Just one year into amalgamation, the city found itself short of $164 million in tax revenues as a result of downloading making a mockery of Harris's projected cost-savings.

The municipalities of Ottawa, Hamilton, Sudbury, Kingston and Chatham-Kent were also amalgamated as part of the *Municipal Act, 2001*, which consolidated dozens of municipal statutes and entrenched neoliberal administrative reforms. In what was to become a recurring saga, rather than address the structural deficit of Ontario municipalities and especially the larger cities, the provincial government proceeded to provide one-time fiscal injections and short-term loans. As a result of the structural shortfall due to downloading and tax cuts, Ontario municipalities have sought to deal with these fiscal challenges by seeking concessions from workers, contracting-out, privatization and raising user-fees. By the end of the provincial Conservatives' second term, more than $650 million had been cut from municipal transfers.

The movement away from shared-cost provincial-municipal funding shifted the onus of revenue generation from provincial income and corporate tax revenues to the narrower, less progressive base of municipal property taxes. Amalgamation of cities did little to reduce the costs of public administration, rather it lead to wide-ranging cuts to public services, lower service levels, labour strife and recurring budgetary shortfalls (Sancton, 2000; Boudreau, 2009). The Conservative tenure at Queen's Park from 1995 to 2003 radically extended neoliberal policies. For municipalities, territorial boundaries were remade and responsibility for delivering services increased despite the absence of an equivalent transfer of administrative powers to raise revenues.

Public Services and Municipal Transfers, 1995–2005

Similar retrenchment was occurring at the federal level during this period. The 1995 federal budget terminated the Canada Assistance Plan and Established Programs Financing, replacing them with the Canada Health and Social Transfer (CHST). The CHST represented a significant reduction to provincial transfers in the realm of social assistance, post-secondary education and healthcare funding. The new block funding removed the previous 50/50 cost-sharing arrangement and replaced it with a combination of cash and tax point transfers that were frozen at the 1995 level for the next five years, significantly eroding the real level of funding due to inflation and population growth. This unilateral devolution of social welfare responsibility not only cut and decentralized federal funding, it also led to an erosion of national enforcement standards and a reduction in the quality and scope of public services.

Alongside the cuts to transfers, the federal Liberals launched a series of uncoordinated programs targeted at urban issues. One was the 1998 Urban Aboriginal Strategy which provided $25 million over three years to cities in order to build organizational capacities within urban Aboriginal communities and develop partnerships with provincial and municipal governments. The fund also sought to coordinate federal government resources with provincial and municipal departments in order to address the disparity between urban Aboriginal and non-Aboriginal groups (AANDC, 2005). A year later, the federal government launched the National Homelessness Initiative as a way of channeling funds to municipalities in order to deal with poverty across the provinces and territories. In 2000, the federal Liberals launched the Infrastructure Canada Program, which distributed $2 billion over the next decade for local infrastructure projects, as well as the Green Municipal Fund, which was to be managed by the Federation of Canadian Municipalities. That provided $125 million for local environmental initiatives. In 2001, the green municipal fund was doubled and an additional $680 million was allocated to cities under the Affordable Housing Program. Another $2 billion was directed to municipalities in the form of the Canadian Strategic Infrastructure Fund, along with $600 million for the Border Infrastructure Fund.

A year later, the federal government combined various infrastructure and grant programs under Infrastructure Canada, which included a national effort to fund a New Deal for Cities and Communities (Bradford, 2007). The intent was to address both municipal fiscal pressures — particularly those related to infrastructure — as well as public policy concerns. The 2004 and 2005 budgets included a full goods and services tax rebate worth some $7 billion over 10 years, five cents per litre of the federal gas tax allocated on a per capita basis, worth approximately $9 billion over five years and $800 million for public transit distributed on the basis of transit ridership, which recognized the particular needs of large cities. In addition to new municipal revenue transfers, new intergovernmental consultative bodies were created, which brought together urban development experts and community groups. Despite the much welcomed influx of new federal funding and involvement, these measures were not enough to offset more than two decades of combined neglect and downloading from federal and provincial governments (FCM, 2012)

Consolidating Municipal Neoliberalism

After 13 years of Liberal government in Ottawa, the federal Conservatives formed a minority government in 2006, under the leadership of Stephen Harper. The election of the Harper-led Conservatives has shifted the urban policy landscape away from some of the encouraging programs initiated by the briefly Paul Martin-led Liberals and toward a circumscribed federal role in municipalities. Consistent with the steady retreat of the federal government from municipal issues, especially those linked to direct revenue transfers, the federal Conservatives have shown limited interest in moving beyond piecemeal injections of funds into urban policy issues. The two most important initiatives have been the Building Canada Infrastructure Plan and the Gas Tax fund. The former provides $40 billion for municipal infrastructure over 2007–14, yet this covers less than two percent of outstanding national needs (Warren, 2013). The latter provides Canadian municipalities with $2 billion annually and since 2013 is indexed to inflation.

Additionally, the 2009 federal budget provided some $12 billion in new infrastructure spending. But many municipal projects missed a federal government-mandated completion deadline in 2012, with Infrastructure Canada remaining "tight-lipped on the amount of money municipalities left on the table." (Tapper, 2012, n.p). The Conservatives also provided an additional $1.25 billion in funding to support provincial, territorial and municipal budgets, but made this funding contingent on public-private partnerships. Between 1989 and 2009 federal expenditures per capita in constant dollars fell at an average annual rate of 0.3 percent, as the retrenchment of local support continues. By 2014, general federal transfers to municipalities will represent only 1.6 percent of total municipal revenues (FCM, 2012). Over the course of nearly a decade in power, the Conservatives have cut some $220 billion in revenue generation in the form of corporate and income taxes, as well as the reduction of the goods and services tax from 7 to 5 percent (Whittington, 2011). That is revenue that could have been used to repair the decimated state of municipal financing in Canada, and any number of social programs.

Rather than depart from the market-led revamping of the public sector set in motion by the federal and provincial Conservative governments of Harper and Harris, the Dalton McGuinty-led Liberals consolidated neoliberal policies into the overall architecture of public policy, with a few modest amendments. The Liberal government, for example, extended some revenue-generating capacity to the city of Toronto with the passing of the *City* *of Toronto Act, 2006* and later, to a lesser extent, to other municipalities with the passing of the *Municipal Statute Law Amendment Act, 2006*. The Acts granted new powers to municipalities to enter into agreements with other governments, pass by-laws and levy some taxes. New powers assigned to municipalities also granted more control over the demolition of rental properties, green energy requirements, city-building standards such as height and density requirements, and faster approval of community improvement plans and brownfield remediation. While the Acts extended some municipal powers, they stopped short of extending additional recognition of operational autonomy and capacity in the absence of provincial oversight (for example, revenue powers related to income, wealth, gas or general sales).[3]

In 2006, the Liberals launched the Provincial-Municipal Fiscal and Service Delivery Review (Government of Ontario, 2008). Reporting in 2008, the review proposed the province would take over some (but not all) of the services and responsibilities downloaded onto municipalities during the Harris era. Beginning in 2010, staggered over an eight-year period, the province agreed to upload some of the costs associated with provincial court services, prisoner transport, public transit, and portions of the Ontario Disability Support Plan, Ontario Drug Benefit Plan and Ontario Works. While the new arrangement provides some much needed uploading of administrative costs and revenue transfers, the new arrangement does little to address issues related to crumbling social services and housing, urban capacities to address climate change, funding public transit and restoring infrastructure when compared with pre-Harris era financial support for municipalities. In the absence of uploading a larger portion of administration costs, Ontario stands as the only province in Canada where municipalities are responsible for administering more than half the cost of social assistance.

Between 1981 and 2012, Ontario's population grew from 8.3 million to 13.5 million. Nearly 70 percent live in the Greater Toronto Area, Canada's largest continuous urban area. The GTA is also the fastest growing region in Ontario, with significant employment in manufacturing, financial services, agriculture and food processing (Ali, 2008; Donald, 2005). It is worth noting that Ontario has more than one-half of the first-class agricultural land and produces one-quarter of total farm revenues in Canada. Because 90 percent of Canadians live in a narrow band along the U.S. border, the erosion of prime agricultural land as a result of urban sprawl, particularly in Ontario, is a significant public policy concern.[4] Lacking alternative means by which to raise revenue, many municipalities have come to rely on unchecked urban growth as a way to expand their property tax base and increase revenues.

As Sara Macdonald and Roger Keil (2012) note, for decades the region has been locked into a low-density, automobile-dependent suburban growth dynamic. As a result of the uneven dispersal of population and employment between 1986 and 2001, the province has seen a 53 percent increase in the supply of new roads and 38 percent growth in new highways. At the same time, though, transit ridership over the last two decades in the form of annual passengers per capita declined in all regions across the GTA with the exception of Peel (Pond, 2009). Ontario residents are among the most dependent upon automobiles in the country. In 2006, 71 percent of workers in the Toronto census metropolitan area got to work by car, while only 22 percent used public transit. Likewise, more than 80 percent of all workers across other census metropolitan areas covered under the *Places to Grow* legislation drove to work and fewer than 10 percent took public transit. It has been estimated that congestion costs the GTA area more than $6 billion annually, as automobile-dependent urban sprawl increases air pollution, congestion along trade corridors, and greenhouse gases — resulting in Ontario having the highest ground-level ozone concentration in the country (Ali, 2008; Metrolinx, 2008). Expensive low-density infrastructure puts upward pressure on tax rates, raising residential and commercial costs and impeding the flow of goods and services. If left unchecked, urban sprawl over the next 30 years could absorb more than 1,000 square kilometres of land to meet projected population influxes of more than three million. As a result of Ontario municipalities' administrative and financial incapacity and, often, political unwillingness to check urban sprawl and concerns related to congestion and environmental degradation, the Ontario government launched the Greenbelt Act in 2005.

The greenbelt legislation covers 7,300 square kilometres of southern Ontario, stretching around the Toronto region from Rice Lake in Northumberland County in the east to the Niagara River in the southwest. The greenbelt plan prohibits development outside existing municipal boundaries in designated areas close to environmentally sensitive lands and mandates higher residential and employment density, mixed-use communities, and infill development (Ali, 2008). Under the greenbelt plan, and its companion legislation *Places to Grow, 2005*, decisions about farm land and urban development have been removed from hundreds of municipal councils around the region and placed into the hands of Queen's Park (Pond, 2009). The *Places to Grow* legislation identifies 16 major growth areas, especially mid-sized cities in southern Ontario, based on their capacity to accommodate future growth in population and employment, as well as provide vital linkages to transit systems in urban growth centres. The growth plan states that a minimum of 40 percent of all annual residential development must be built within urban areas and not on greenfield sites (Government of Ontario, 2012).

The greenbelt legislation establishes planning and land-use restrictions, whereas the *Places to Grow* legislation sets out a density target of 50 or more residents and jobs combined per hectare. The legislation requires that municipalities identify areas for density expansion in official municipal plans. The purpose of the greenbelt legislation is to contain urban growth, preserve farmland and agrarian economies, and create compact development. The Acts also aim to prevent land speculation and reduce growth pressures along sensitive ecological and hydrological lands, which include the Niagara Escarpment and Oak Ridges Moraine. The greenbelt plan is about where growth is not allowed, whereas the *Places to Grow* sets out where and how this growth should happen.[5] In easing congestion, increasing the use of public transportation and raising density requirements for residential and commercial developers, the Acts also endeavour to increase the economic competitiveness of the region as a whole.

However, some sectors of the development industry across Ontario municipalities have been very vocal against the anti-sprawl legislation arguing that it is an illegitimate intervention by provincial government into municipal affairs and that it interferes with market-based residential and commercial outcomes by placing unnecessary restraints on development (Macdonald and Keil, 2012). In contrast, environmental and community groups have also criticized the greenbelt and *Places to Grow* plans, arguing that the Acts do not go far enough and that the 50 residents and jobs per gross hectare ratio could be easily doubled. They make the case that even with the greenbelt plan, some 425 square kilometres of rural agricultural land in the Greater Toronto and Hamilton area will be lost by 2031 (SUDA, 2011). Communities located outside of the greenbelt areas are not subject to planning coordination and restrictions. This leaves a wide open game for developers, with the province doing little to control competition over business incentives and interlocal erosion of tax bases from the surrounding regions. In fact, recent research suggests that land speculation and development has leapfrogged the greenbelt to the north, while prices south of the belt have risen as much of the land is owned by a small number of developers keen to take advantage of land supply constraints (Sanberg, Wekerele and Gilbert, 2013). With the first 10-year review of the *Greenbelt Act* scheduled for 2015, it is likely that a clearer picture of the Act's success in preventing urban sprawl will emerge.

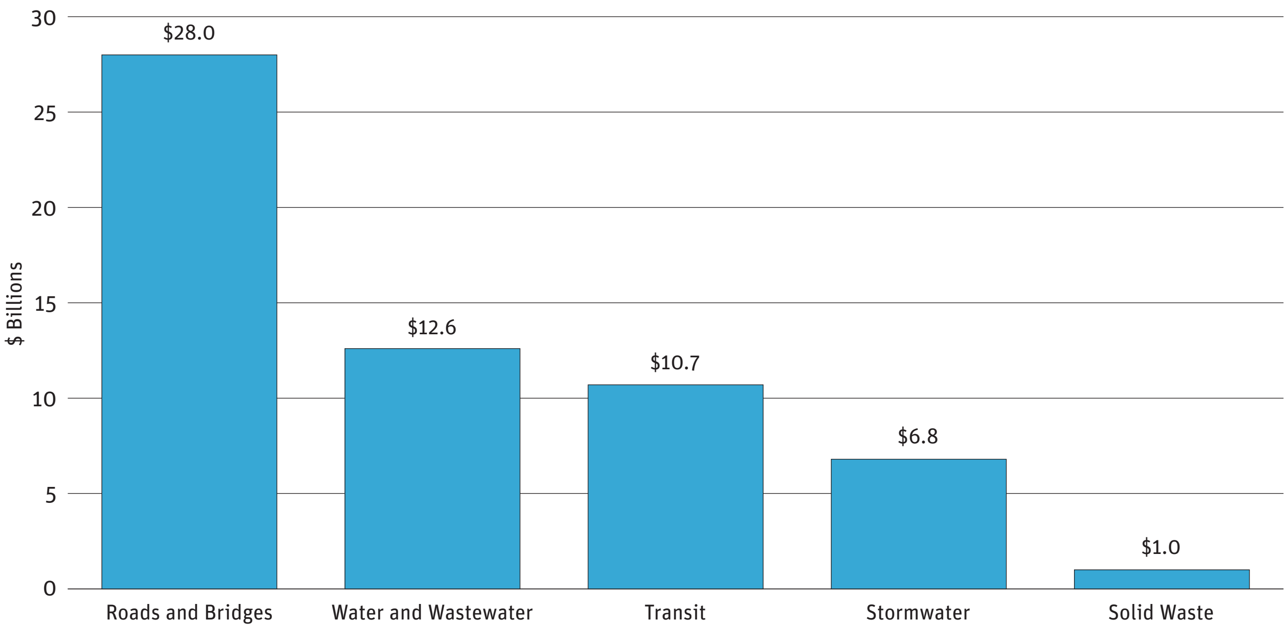
The Great Recession and Beyond

As the tailwinds of the Great Recession struck Ontario, the Ontario Liberal government ushered in an era of austerity. The major policy plank of this program was the *Open Ontario Plan*, and *Open for Business Act, 2010*, which called for: tax relief, a wage freeze for public sector workers, the privatization of public assets, trade investment, capital liberalization, and regressive reforms to employment standards legislation (Evans and Albo, 2010; Fanelli and Thomas, 2011; Gellatly, et al, 2011). These initiatives have placed new pressures on municipalities to extract concessions from workers and to reduce social services. Since 2010, the Liberals have limited expenditures to 2 percent growth, which, given inflation and population increases, continues the aggressive restraint measures that have been a hallmark of neoliberal government in Ontario since 1995. Furthermore, the 2010 budget deferred infrastructure spending to the tune of $2 billion, while corporate and personal income tax cuts are worth more than $4.6 billion over three years and an additional $1.6 billion through the elimination of the Ontario Capital Tax. The measures are in addition to a host of other tax cuts, corporate subsidies, and general erosion of revenue capacities (Government of Ontario, 2010; Mackenzie, 2014).

Considering the dilapidated state of Ontario municipalities' social and physical infrastructure, ongoing tax cuts by federal and provincial governments are destabilizing for Ontario communities.[6] As *Figure 3* shows, Ontario municipalities face an infrastructure deficit upwards of $60 billion just to meet existing backlogs (AMO, 2012).

Because of uncontrolled development, infrastructure costs in the GTA have been increasingly financed by debt as these municipalities try to deal with the cost of sprawl. For example, in York Region, debt has grown from $319 per capita in 2000 to $1,792 per capita by 2012 (York Region, 2013, p.15). Yet, much needed maintenance and repair in urban areas is often being deferred in favour of expansion to ex-urban communities on the fringes (CMCC, 1999; RCCAO, 2010).[7] The infrastructure deficit excludes parks and recreation, cultural centres, libraries and heritage facilities, all of which face added pressures for commercialization and privatization amidst declining municipal revenues. In addition, social housing has an estimated replacement cost of $40 billion, while an additional $50 billion is needed to expand public transit in the Greater Toronto and Hamilton Area over the next 25 years (AMO, 2012; Metrolinx, 2008).

FIGURE 3 Ontario Municipalities Infrastructure Deficit ($60 Billion)



As a consequence, pressure on Ontario municipalities to find cost-savings continues to grow. This has resulted, on the one hand, in the implementation of a broad range of consumption-based taxes and user fees on all citizens and increases in property taxes. On the other hand, there has been a shifting away from commercial property taxes, 'density for benefit agreements', below market-value development charges, shared provincial and municipal grants, and financial assistance for large corporations in order to attract private capital (Moussaoui, 2013ab; Skaburskis and Tomalty, 1997; Sheppard, 2008; Moore, 2013). Under neoliberal policymaking, the privatization and contracting out of municipal assets, services and employment has been put forward as a means to restore budgets. For instance, the province is engaged in 80 Alternative Financial Procurement (AFP) models at the moment. Of 28 public-private partnerships undertaken in Ontario between 2007–10, Siemiatycki and Farooqi (2012) found them to be 16 percent more expensive than traditional public procurement. The evidence of outsourcing and privatization across Canadian municipalities suggests that the privatization of formerly public sector jobs — and the experiences of private sector building projects on urban transport and infrastructure projects — is correlated with more expensive and lower quality services and reduced public oversight. Additionally, there is evidence — the most notable being the Walkerton e-coli water crisis — to suggest that with the outsourcing and consequent re/deregulation of public services the health and safety of communities is jeopardized as cost-cutting and profit maximizing measures are prioritized (Loxley, 2010; FCM, 2006; TEA, 2011; Furlong, 2007; Vining and Boardman, 2008; Krawchencko and Stoney, 2011; Sanger, 2011).

In any case, attempting to get costs off-book from privatization will not solve the underlying fiscal constraints of Ontario municipalities, which continue to receive only 9 cents of every tax dollar collected in the province. The inability of Ontario municipalities to meet their revenue requirements stems, in part, from a constitutional reality better suited to the 19th century than the urban realities of today, but especially from neoliberal policies of tax cutting that have reduced fiscal capacity. As a consequence, no order of government in Canada currently has the political willingness to address the infrastructure crisis that now besieges all Canadian municipalities.

Toward a Progressive Municipal Agenda in Ontario

Breaking the cycle of perma-austerity and retrenchment that has characterized the last three decades of municipal neoliberalism in Ontario will require the development of initiatives that propose alternative approaches to public policy — ones premised on an alternative political vision that challenges the continued reliance on tax cuts that jeopardize public fiscal coffers.

The first initiative is to simply raise revenues to correct decades of federal and provincial offloading of services and responsibilities. A variety of financial tools are needed if municipalities are going to repair Ontario's outmoded and ill-suited system of provincial-municipal transfers. Mainstream policy options have focused on increasing the scope of market imperatives through a continued ideological and political assault against public services and public sector workers (CFIB, 2013; University of Toronto Mowat Centre-KPMG, 2009). Business and development groups continue to influence municipal councils through lobbying, local business associations and bankrolling local campaigns for office.

In order to counter this race to the bottom, it is necessary to change the social attitudes about the role of taxation and make the connections between social justice and democracy. Ontario municipalities' current reliance on property taxes is unsustainable in the long run and merely shifts the burden of responsibility for infrastructure from one generation to the next. While municipal development charges are also an important revenue source, they tend to be cyclical and rely on the unstable fluctuations of real estate markets. It is necessary, therefore, to establish dedicated funding to municipalities by other tiers of government. The fiscal mechanism for this is straightforward: reverse the corporate and personal income taxes since the onset of the 2008 recession and raise the GST back to 7 percent, allocating dedicated funding to municipalities. These funds could provide consistent and secure funding, which could begin to redress decades of underinvestment and neglect across Canadian municipalities. Turning to wealthy individuals and corporations — which have benefitted the most from neoliberal tax reforms — and having them contribute more in higher corporate and income taxes would be a symbolic and significant step. But wider populist anti-tax sentiments must also be challenged, so that more goods and services come through public, and not private, consumption. The case for an expanded public sector through investment in healthcare, education and public infrastructure — services provided by local municipalities — has to be made.

A progressive municipal agenda also needs to consider a broader range of options for mobilizing revenues, especially if user fees are to be cut and eliminated for many services. The heavy reliance on property taxes as the major source of revenue is not the norm in other jurisdictions. Canada's local governments receive over 95 percent of their tax revenues from property taxation, whereas the Organization for Economic Cooperation and Development average is 36 percent. The Nordic countries, Germany and Switzerland, for example, receive over 90 percent of their tax revenue from income taxes, while Hungary and the Netherlands collect between 50 and 75 percent of local revenue from various sales taxes. The same is true in France, Japan, Korea and the U.S. where sales taxes comprise about 20 percent of local revenue. As the Federation of Canadian Municipalities has argued, there is no fundamental natural law dictating that local governments be exclusively dependent on the property tax. They argue that a multiplicity of revenue streams is needed to ensure diversity, balance and stable, long-term funding to Canadian municipalities (FCM, 2012, 15).

Extensive research has demonstrated the social and economic benefits of expanding the tax base and reinvesting in public services. Such initiatives include an employer payroll tax, high occupancy lane and highway tolls, land value capture, parking space levies, municipal sales taxes, downtown congestion fees, corporate and income taxes, hotel levies and an increase in development charges (AECOM-KPMG, 2013; TRBOT, 2013; FCM, 2003; TCSA, 2010; Broadbent, 2008; Hjartarson, Hinton and Szala, 2011). The establishment of new taxation and administrative powers could be accomplished by provincial legislation and new revenue streams. In the absence of dedicated municipal funding, however, these new revenue tools may produce unforeseen problems. If municipalities act on their own without extra-market and extra-local planning capabilities, beggar-thy-neighbour tax policies and intensified interlocal competition might result. So conferring new powers to municipal councils still requires forming a new urban planning orientation at other governance scales.

Since the federal and provincial tiers of government possess the major powers of taxation, they have a responsibility to ensure that the needs of municipalities can be met by appropriate fiscal capacities. But municipalities cannot go it alone in order to resolve issues related to climate change, public transportation, housing, waste water and so forth. These challenges require developing new, coordinated state planning capacities with at a minimum dedicated funding to launch a national transit strategy, a national clean water fund, community development strategies in self-governing northern and First Nations communities, and long-term municipal funding for social and physical infrastructure. The only realistic starting point in Ontario is to recognize that municipal downloading and austerity have created more problems than they solved.

Conclusion: Reimagining Ontario Municipalities

In Ontario, there is also a political imperative to do more thinking about alternative solutions. 'Rights to the city' campaigns in North America are focusing on free public transit, public spaces that are protected from commercialism, universal public recreation programs and many others. But only new organizational capacities will make such ideas politically viable. As such, the goal over the long-term must include dedicated organizing strategies intent on creating new inroads into spaces currently seen as private. These initiatives would need to emphasize the social value of extending public services and shift the debate from focusing solely on individual consumerist needs to creating livable cities that offer decent employment, public spaces, universal services and ecologically sustainable development.

Making the case for an expanded public sector fundamentally opposes the prevailing orthodoxy of neoliberalism. This means not only expanding the redistributive role of the state but actually taking the lead in ensuring access to housing, public transit, and community centres. Reducing public spending will increase unemployment and weaken consumption, thereby exacerbating income inequality. Likewise, reductions to public sector staff in the face of the private sector's unwillingness to hire erodes revenue generation and leads to additional private sector job losses. One of the silver linings of the recession has been the fact that governments can borrow money at historically low interest rates, making large-scale public reinvestments feasible. Thus the focus ought to be on enhancing public revenue by rebuilding the social and physical infrastructure from the bottom-up rather than cutting it. Rather than allowing the continued restructuring of municipalities to consolidate neoliberalism, municipal spaces have the potential to become progressive nodes of social justice and democracy, creating new pathways out of the crisis currently besieging local communities.

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Notes

1 For example, an Ontario municipality may issue long-term debt only if it is used for capital purposes but cannot borrow for operations, except by issuing promissory notes that require they be repaid when the current tax levy is received. Other levels of government are able to refinance their debt when it matures and engage in long-term deficit management with respect to fiscal capacity. But for municipalities the principal must be amortized over the term of the debenture or bond and repaid to investors or contributions made to a sinking fund that will provide for repayment when the debt matures (City of Toronto, n.d.).

2 This includes, for example, a moratorium on the development of non-profit housing and cooperatives; suspension of $234 million worth of spending on public transportation, road and highway maintenance; elimination of recycling funds and environmental grants to municipalities totaling $24 million; $290 million in funding cuts to the Ontario Municipal Support Program; over $12 million in cuts to public libraries; cancellation of the conversion of private-sector childcare spaces into non-profit spaces; and a reduction in transfers to school boards by $400 million (Government of Ontario, 1995ab).

3 As exception to this is the city of Toronto's Municipal Land Transfer Tax and (now defunct) Personal Vehicle Ownership Tax which, as a result of the powers conferred onto the city by the province in the *City of Toronto*, 2006 Act, allows for some more flexible forms of revenue generation.

4 Only 5 percent of the Canadian land surface is of dependable agricultural use and less than 1 percent is Class One land. More than 52 percent of Canada's best farmland (Class One) is in Ontario, most of it in southern Ontario where population growth is highest. Ontario's Class One through Three agricultural land represents about 6.8 percent of total land in the province and 16 percent of Canada's total agricultural land. By 1996, more than 18 percent of Ontario's Class One farmland was being used for urban purposes and effectively lost to agriculture (Government of Ontario, 2009).

5 This may, on the one hand, undermine pro-growth interests from dominating local councils given the broader scrutiny and administrative protocols of the provincial government. On the other, it may simply shift the focus of business lobbying to the provincial level, and intensify the worst effects of sprawl. Some greenbelt policies have succeeded to an extent in containing urban sprawl, preserving rural farmlands and increasing density, while others have led to sharp increases in the value of urban lands, such as residential and commercial real estate, in addition to pushing development to areas outside of the greenbelt where land is cheaper and building restrictions are often fewer (Ali, 2008).

6 It is estimated that 82 percent of municipal infrastructure across Canada has been exhausted. For example, more than half of all municipal roads are displaying advanced deterioration, 40 percent of pumping stations and storage tanks are in decline, with new federal water regulations expected to add some $25 billion over 20 years, and more than 30 percent of underground pipelines in need of replacement. Canadian municipalities now face an infrastructure deficit in the range of $125 billion, with combined provincial and federal infrastructural deficits more than double that amount (FCM, 2012; AMO, 2012).

7 The Residential and Civil Construction Alliance of Ontario (2010, 6–7) has recently argued: "Over the next 50 years there is the risk of public infrastructure underinvestment that could cost the Canadian economy 1.1 per cent of real gross domestic product (GDP) growth. The effect of this underinvestment on the Canadian public breaks down as follows: It will cost the average Canadian worker between $9,000 and $51,000, with the younger generation disproportionately at risk, and decrease the after-tax profitability of Canadian businesses by a long term average of 20 per cent... Results show that for every extra dollar paid in taxation revenue, the taxpayer is better off by $1.48 on average, in after-tax wage terms. That means mitigating the underinvestment risk is cost effective."

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