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**Wednesday 6 March 2002**

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

## COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 6 March 2002

Mercredi 6 mars 2002

*The committee met at 1050 in room 151.*

2001 ANNUAL REPORT,  
PROVINCIAL AUDITOR  
MINISTRY OF FINANCE

RAPPORT ANNUEL 2001,  
VÉRIFICATEUR PROVINCIAL  
MINISTÈRE DES FINANCES

Consideration of section 3.07, community reinvestment fund.

**The Chair (Mr John Gerretsen):** I'd like to call to order the standing committee on public accounts. We're here today to discuss section 3.07 of the 2001 Annual Report of the Provincial Auditor, specifically dealing with the community reinvestment fund. We have with us today the Deputy Minister of Finance, Bob Christie, and a delegation with him.

Please start by making your opening statement, and perhaps introduce the other members of your ministry. It will be followed by questions from the members of the various caucuses. Good morning.

**Dr Bob Christie:** Thank you, Mr Chair. To my left is Liz Harding, who is a manager in our Provincial-Local Finance Secretariat, and Nancy Naylor to her left, who is the assistant deputy minister in the Provincial-Local Finance Secretariat.

I believe we've handed out hard copy, as well, of the slides. What I'd like to do here is provide an overview of the community reinvestment fund and some of the recent changes following the review of the fund that were under way when the Provincial Auditor and his staff came in to begin this audit. His report notes that that process was under way. The presentation will explain how it works and the kinds of changes that have been adopted since the review process.

The community reinvestment fund is part of local services restructuring, which was the first major reform initiative, in terms of provincial local service delivery, of its scale. It was implemented January 1, 1998, and involved the assumption by the local sector of a number of program costs in selected areas, which we'll note later. That was matched by residential education tax room that occurred from the province taking on the financing of education, and also from the provision of the community reinvestment fund. There was also transitional restructuring

and other kinds of assistance provided for the restructuring.

The community reinvestment fund is provided to balance the costs and benefits related to local service restructuring and to ensure that the exchange of services is at least revenue-neutral. The balance is achieved for many municipalities when they meet a certain level of savings. For many of them, it does not require meeting that level of savings to qualify, but we'll get into that a little later in the presentation.

Savings targets play a role. There was a good deal of discussion of them in the report, so I think it's worthwhile to spend a couple of minutes on them. All municipalities were expected to find savings as part of local services restructuring. I'm sure the committee will recall the process that all levels of government were going through in the mid-1990s in terms of trying to deal with fiscal difficulties, in terms of restoring the structure of their finances. All levels of government achieved, and had the target to achieve, efficiencies in the way they provided services, and it was expected that local governments would do the same. The targets in this case might almost be thought of as thresholds in the sense that they aren't something to be achieved by each and every municipality; they are levels at which qualification, in a sense, for the CRF begins. For small areas, less than 100,000, the target was 1.7%. To capture the fact that larger areas will have more diversity of services and more chance to achieve efficiencies through economies of scale, the target was 3.2% between 100,000 and 500,000 of population, and 4.2% for population over half a million.

The list of services that were exchanged is shown on this slide; as you can see, social assistance, child care, public health, land ambulance etc. These were costed at the time and were the basis on which the initial revenue-neutrality equation, if you like, was set. The next slide shows that structure, so, for example, if LSR costs were \$110 and the savings target was \$10, then there would be a target net of the savings of \$100. If the residential education tax room was \$75, then of course the CRF would have been \$25.

There's also some additional funding in the community reinvestment fund. There's about \$62 million in additional funding over and above the funding that's described by the previous equation. It's provided to address other government priorities, so there are objectives

that are related to but not strictly part of those of the community reinvestment fund.

The first one is what's known as the CRF bonus of \$21 million. In 1999, the province accepted a municipal proposal to share public health and land ambulance costs on a 50-50 basis. Because these are part of the costs that are addressed by the community reinvestment fund, without the bonus a large number of municipalities would have lost from the CRF what they gained from the change in funding for these services. That was felt to be inappropriate, so the CRF bonus was put into place to ensure that all taxpayers continued to benefit from that decision.

The second source is what's known as supplementary assistance, and this is provided to municipalities with relatively low assessment bases. Generally, these municipalities have a relatively large proportion of farm or forest properties, or they have quite a low presence of commercial and industrial properties, which tend to be taxed more heavily.

I noted earlier transitional funding for local services restructuring, and slide 10 shows some of the sources of that. There was a special circumstances fund to capture the fact that some municipalities may have encountered extraordinary circumstances in making the transition to the newly realigned services. There was a municipal restructuring fund to help municipalities that have restructured under the provisions of the Savings and Restructuring Act. It covered up to 75% of municipal expenses related to restructuring. There were highway transfers. There was \$335 million in funding for the transfer of a number of provincial highways—

**Mr Gilles Bisson (Timmins-James Bay):** A \$50-million shortage.

**Dr Christie:** Sorry?

**Mr Bisson:** You said \$335 million.

**Dr Christie:** Yes, OK, and \$50 million for a three-year maintenance allowance and assistance for bridge construction. There's also the municipal capital and operating restructuring fund for transportation, non-profit housing, and water and sewer initiatives.

**Mr Bisson:** Those were one-time as well?

**Dr Christie:** Yes. The consultations that I referred to earlier were undertaken in the summer of 2001. All municipalities were invited to participate. They were invited to give us written submissions. We received about 125 submissions. There were regional workshops attended by nearly 90 municipalities and there were round-table discussions with associations. Workshops were held pretty much across the province: Kingston, Ottawa, GTA, Thunder Bay, Sault Ste Marie, North Bay, Windsor and London.

**1100**

Eight-two per cent of the municipal respondents advised us that they would not be favourable to significant change in the current system. They certainly wanted administrative improvements to the CRF, but their concern certainly at the moment was for stability in the financing that the CRF represents. So their preference

was to leave the program in its current form in order to achieve that stability.

The administrative improvements included making it more timely—this was of course a concern echoed by the Provincial Auditor; improving on the transparency and consistency of data, also noted by the auditor's office; and providing stability and predictability. The province accepted that advice. The CRF continues to be linked to local services restructuring. Improvements have been made to address timeliness, data transparency and stability. With respect to timelines, there will be early notifications of CRF allocations each fall. There will be year-end reconciliations in the fall. If there are decreases, there will be adjustments made in the first quarter of the next year.

With respect to data transparency, updated costs will be included for cost-shared and assessment-based costs using provincially verified numbers. Trading sessions for provincial regional offices and municipalities will be supplied.

As I noted, the dominant theme and the dominant piece of advice received from municipalities in this regard was toward stability. One of the things that meant that we would not update fully devolved programs or point-in-time transfers, including residential education tax room. The CRF bonus and supplementary assistance would be retained. With the announcement of provincial transit funding, there was the creation of a \$14.5-million transit bonus for the same reason as the initial CRF bonus, which was to assure that all municipalities benefit.

The reporting requirements adopted for this year include assuring accountability, while avoiding duplication, reducing red tape and streamlining the reporting process. Certainly one of the things we've heard from municipalities, both on this program and on property tax overall, is their desire that we work wherever possible to reduce, minimize compliance costs, and we will be doing that with respect to improved accountability. Municipalities also must submit a council resolution and various tax and financial data. Some of the contents of those will address some of the comments made in the report of the Provincial Auditor. The decision was, I think, well received by municipalities, who have a lot on their plate, as do all levels of government. I think they were pleased that their desire for stability had been heard.

With respect to how this addresses the Provincial Auditor's report, we just tried to show here graphically a little bit what those recommendations were. I'll just give you a short sense of what we've done in each of these areas. Some of them will be obvious from what we've said to date.

In terms of assessing changes in local service delivery needs and municipal taxing capacity, what we heard as part of the consultations was that people were happy with the structure of the CRF per se but they wanted some of the supplementary programs, particularly the supplementary assistance which addressed the issue of need and taxing capacity—primarily taxing capacity—maintained as part of the program portfolio, if you like.

The need to review the currency of costs that go into the formula, the reconciliation of costs and payment adjustments, implications of changes in assessment etc.: as noted, the LSR program costs will be updated daily—excuse me.

*Interjection.*

**Dr Christie:** Yes, I hadn't told you about that yet, had I?

The LSR program costs will be updated annually. As I noted before, this will be for the fully devolved program, and the nature of what we will be updating was something that was under discussion and came out of the consultations with the local sector.

Conducting regular reviews of the bonus and supplementary assistance is typically done each year as we review the structure and particularly the amount of the program as it pertains to the next year, and that takes place through the existing cabinet review process. There was special effort this year in terms of reviewing these matters as part of the discussions with the local sector. But it would be looked at every year, in any case, as part of the determination of the annual amount.

With respect to reviewing municipal finances, starting in 2002 we will be requiring municipalities to provide a council resolution, as we noted before, stating that community reinvestment fund monies will be used for the benefit of local taxpayers, which is clearly the objective here.

Together with the Ministry of Municipal Affairs and Housing, we will be reviewing the financial information returns that the municipalities give us to provide a detailed description of those expenditures.

With respect to tax increases and the recommendation that we look at those that occurred between 1998 and 2000, all municipalities with tax increases in 2000 were asked to provide an explanation and supporting documentation of why this was necessary, and that was undertaken by the two ministries in the summer of 2000.

With respect to windfall gains and the recommendation in that regard, the tax practices of municipalities, including those that don't receive CRF because their residential education tax room is high enough, their tax activities are monitored through this program and we take note of the uses, particularly on the tax side.

With respect to reserve funds, beginning in 2002 we have streamlined the reporting requirements. The council resolution that we noted, among other things, will state that the CRF funds will be used for the benefit of taxpayers. How they do that will be their decision but they will be disclosing the information to both the Ministry of Finance and the Ministry of Municipal Affairs and Housing.

With respect to recovery of overpayments, in early November 2001 we told municipalities that there would be a reconciliation in respect of 2001 and that we intended to recover overpayments if they arose.

Finally, with respect to timeliness, municipalities were informed of their 2002 allocation in the fall of 2001, and

we will continue that practice of informing them of their allocation before their calendar year begins.

With that overview and that commentary, I'll turn it over to you.

**The Chair:** Thank you very much. We have about 50 minutes left in this morning's session. We'll start today with the government side, so about 16 or 17 minutes per caucus in the first go-round.

**1110**

**Mr Ernie Hardeman (Oxford):** Thank you, Deputy, for the presentation. I guess we all recognize the magnitude of the relationship between the city of Toronto and the province of Ontario as it relates to our realigned services and joint services that are being provided for the citizens. We've heard a lot of discussion about the positives and negatives of the city. I noticed in reports in the last number of days that in fact the problems they're having with budgets in the city of Toronto seem to somehow still relate, at least in the paper, to the transfer of services in 1998.

Could you fill me in, from the ministry's perspective, as to where we're at with the local realignment of services with the city of Toronto. The target and the goal of this whole process was to provide more effective and efficient services and to make sure that we weren't passing a problem from one level of government to the other. What has happened in the city of Toronto, from your perspective, to make this thing work?

**Dr Christie:** From our perspective, the city of Toronto experience as we have observed it within the framework of the current community reinvestment fund program—as a relatively large municipality, quite obviously one of the largest, their savings target was 4.7%. They didn't require anything close to that for revenue neutrality, but nevertheless the indication, because of their size—I had the 4.7% there. Excluding savings, there was a shortfall in the first year, in 1998. But our information indicates that that difference had closed quite substantially in 1999 and 2000 to about \$20 million in each year.

We have certainly looked at the activities of the city in trying to find savings, and we've looked at their reports of savings achieved through amalgamation and other activities. On the amalgamation side alone, the report that the city has put forward, their June 1999 report on the status of amalgamation, reported annual savings of about \$120 million in 1998-99, and an additional \$29.3 million expected in the year 2000. That level of savings is well in excess of any cash shortfall, excluding the savings. I think their reported savings in the next year were \$136 million.

As best we can determine now, four years after this occurred, the savings being achieved by the city are significantly in excess of any difference in costs that we can measure. I think those costs themselves have been looked at a number of times by a number of people, and we're quite confident in those numbers.

**Mr Hardeman:** On that same question, and obviously we're talking here today about the auditor's report and

the CRF funding, there have been a number of other areas where the province has been able to assist the city in some of their activities, and I think some of them relate to some of the different envelopes in the CRF funding that you mentioned in your report, and there are some others. Could you just give me in ballpark figures where the money is coming from and where it is going?

**Dr Christie:** Sure. In addition to the annual CRF process, there has been a substantial amount of additional assistance to the city in the last several years. Close to \$1.5 billion in grants was provided; \$829 million to support the TTC at the beginning; an additional \$50 million announced about a year ago in support of the TTC, a \$50-million grant in 1998 to help with transportation and communication projects, \$500 million committed for waterfront redevelopment, \$53 million for municipal capital and operating restructuring through the previously mentioned MCORF program, and there has also been \$200 million in interest-free loans provided to the city. In addition, the province's program of reducing business education taxes and residential education taxes has meant very substantial savings for both residential and business taxpayers in the city of Toronto.

**Mr Hardeman:** Just one more question, and then I'll turn it over to my colleagues. Obviously in the auditor's report Mr Peters comes out with the conclusion that if we don't deal with the savings—over the three-year period, I believe, it's \$142 million short, somewhere in the \$140-million area over a three-year period. Have we got the information that would support the fact that they were able to find sufficient savings, that in the services we're talking about there are sufficient savings to cover that, that at the present time they're not—if we were to do a re-evaluation of the total package today based on the same parameters only in 2001 figures, could they actually make ends meet and not be detrimentally impacted by this CRF funding process?

**Dr Christie:** As I indicated, the reports we have—we don't independently audit the city of Toronto ourselves, nor, I'm sure, would they see us having a role in doing that. I doubt there has really been that kind of review of their finances. What we've relied on, in part, has been both the undertaking before amalgamation—there was an estimate from the mayors of an ability to save, I think, between \$185 million and \$240 million per year from amalgamating services—and the two reports I mentioned from the Toronto CAO. The December 2000 one identifies cumulative savings of \$305 million between 1998 and 2000, which is significantly in excess of the \$140 million that is identified in the auditor's report.

**Mr Raminder Gill (Bramalea-Gore-Malton-Springdale):** Thanks again for coming by this morning. I happen to live in the regional municipality of Peel. We haven't heard them complain about any savings they cannot realize, or that they were overimposed upon. I know the biggest municipality, Toronto, is always complaining that they were imposed upon by this 4.2%—I think you mentioned 4.7%, but I think it was 4.2%.

**Dr Christie:** I'm sorry if I misspoke that.

**Mr Gill:** That's OK. In your opinion, what things is Peel perhaps doing better than Toronto, or how can they benefit from sharing those good, practical experiences?

**Dr Christie:** Certainly the implementation of best practices can be very powerful in saving money for the cities. There are a number of examples of the adoption of best practices, where cities have very effectively done this. For example, Burlington and Halton region entered into a joint purchase and service agreement for hardware and software consulting services etc, where they were able to extract savings so that the city was able to acquire access to the region's software, which would have been much more expensive if they had done it alone. The region of Peel has a managed competition program, which it's developed in order that the public sector will have a continuing check from the private sector as to the cost-efficiency of what they're providing and the region can be assured they are receiving cost-effective services. It allows municipal staff to bid against other service providers to determine who will provide the defined package of services.

I understand that the Ministry of Municipal Affairs and Housing, in association with AMO, will be promoting the adoption of best practices. I think they recently announced establishing a virtual centre for best practices, and that, I think, should be helpful in the broader adoption of these by other municipalities.

1120

**Mr Gill:** In one of the slides—I guess it was the last slide, slide 20—on the ministry's action since the auditor's report, the first bullet point, "Determine why municipal tax increases between 1999 and 2000 were necessary," you've got a checkmark against that. Can you explain what that means?

**Dr Christie:** What we have done in that regard is inquire into the reasons for the tax increases in all those municipalities that did increase taxes in the year 2000. Those municipalities were asked to provide an explanation for their tax increase and supporting documentation of why this increase was necessary. Obviously there are different factors in each case, but that material was provided and reviewed. Perhaps I could ask Liz or Nancy to expand on the information.

**Mr Gill:** My concern is, are you satisfied with the reasons, or are you happy that some reasons are given?

**Dr Christie:** The first purpose of this, I think, is to ensure accountability and disclosure around these matters, particularly when substantial tax room has been freed up by the province for the local governments. The disclosure is critical. We certainly were looking at it to see if there were trends. I don't think we've identified anything systemic in the tax increases. I think the purpose of this, from our perspective, and really underlying the LSR program initially, was to permit more cost-effective delivery of public services at the municipal level and create the opportunity for municipalities that did adopt cost-saving measures to actually lower their taxes. We were certainly interested in instances where that didn't seem to be

happening. Perhaps you could expand on that, Liz, if there is more information.

**Ms Elizabeth Harding:** Sure. The Deputy Ministers of Finance and Municipal Affairs and Housing, in the summer of 2000, required that municipalities provide an explanation of extenuating circumstances to support this kind of action. We have reviewed those. Follow-up contact has been made by regional staff at the Ministry of Municipal Affairs and Housing with those municipalities that had tax increases. We respect municipalities' obligations to make these decisions, but we certainly were asking for an explanation and followed up to make sure we had one in cases where there had been a tax increase.

**Mr Gill:** You're satisfied with the reasons they gave you, or are you just happy to have them?

**Dr Christie:** I think the latter is probably the best description of our role in this.

**Mr Gill:** I think my colleague has some more questions.

**The Vice-Chair (Mr Bruce Crozier):** Mr Dunlop, you've got a minute and a half, but there will be another round as well, so go ahead.

**Mr Garfield Dunlop (Simcoe North):** I've got a couple of quick questions, Dr Christie. In the consultations, you mentioned 82% of municipal people basically support the CRF model. We're going into the fifth year of it, and my question on that is—

**Mr Richard Patten (Ottawa Centre):** By the way, did you determine that correctly?

**Mr Dunlop:** It's on one of the slides.

**Dr Christie:** Because of their desire for stability, they preferred the model we have now over the models we discussed with them. There were several alternative models put forward that would have been more like an equalization program etc, but this is the one they preferred.

**Mr Dunlop:** He used a minute of my time, so I'll take a minute of his.

The question is, we're going into the fifth year of the CRF. What type of increases have we seen across the province? I know that in my region I have not seen a lot of large tax increases of any kind. It's been 1% or 0.5%, that type of thing. That's one question. If I can just follow up with the second one right now, will the \$100 million we started announcing just recently for the transit renewal program have any impact on CRF allocations for next year?

**Dr Christie:** It will have some impact, because it is one of the costs that go into the calculation. The reason the CRF transit bonus was introduced was to allow the municipalities that would be affected by that not to take back from the CRF what was being given in the transit announcement. That's the goal of that extra grant.

With respect to the first one, I'll ask the experts here what province-wide information we might have on that. We certainly monitor it on a municipality-by-municipality basis, but I'm not sure how much roll-up we've done of that.

**Mr Dunlop:** It may be an unfair question too. I just was curious, because I haven't seen a lot of huge increases of any kind in the Simcoe county area. They talk about downloading, but I haven't seen it affecting the tax bill.

**Mr Crozier:** They see it in service cuts.

**Mr Bisson:** They just see it on the service side.

**Mr Dunlop:** We saw it on services through 1985 to 1995 too.

**The Chair:** We can get into an extensive debate this afternoon, but we'll listen to the answers now. Go ahead, ma'am.

**Ms Nancy Naylor:** I'll answer very briefly, in light of the time. It's fair to say there haven't been a large number of municipalities in Ontario that have implemented tax increases. As the deputy said, as ministry staff in both finance and municipal affairs have reviewed those, it's clear that the councils have put a lot of thought into the necessity of doing those, where that has been required. Their explanations to the ministries have often been accompanied by a fair amount of explanation about the cost-efficiencies that were pursued prior to moving to a tax increase and also the value to the community of the public services that were meant to be supported by the tax increase.

**The Chair:** We'll move on now to the official opposition.

**Mr Patten:** This becomes very complicated to figure out. I'd like to know whether you know at this point, after four years, how much the province has saved in transfer payments. On a net basis, what is the financial position of the province related strictly to municipalities on transfer payments and programs? What is the net situation for the province's financial position?

**Dr Christie:** I'll ask the folks here if they've done a full roll-up of that. In doing so, we'd have to include the transition funds we talk about and the enhancements that are above and beyond the CRF as well. I don't have the number off the top of my head, so I'll ask if Nancy does.

**Ms Naylor:** I think it's fair to say that the province's position is that in the trades the province took on more than the municipal sector was asked to assume. Our best numbers at this point aren't final, because we'll be reconciling them. But in terms of the net LSR costs to municipalities, they remain very stable at about the \$2.5 billion that was originally intended as part of the trade. In terms of what the government took on, the government assumed an additional \$2.5 billion of education funding responsibility that had previously been carried by the residential education tax base. In addition, the government committed to provide the community reinvestment fund on an ongoing basis. As of the 2001-02 budget year, that figure was \$561 million. On a net basis, the net LSR costs to the province were closer to \$3 billion. So the province's net costs—sorry, the total costs that the province assumed were about \$3 billion, so the net cost was about \$460 million.

1130

**Mr Patten:** So that means that it really is costing the province, out of its annual budget, more money than it did when they implemented this arrangement. Is that what you're saying?

**Ms Naylor:** I think what I'm saying is that the province has assumed more responsibilities out of this trade than the local sector was asked to assume.

**Mr Patten:** I know, but financially—well, I'm not sure either is true. They've accepted less responsibility—more control, perhaps—but I think less program responsibility.

What I'm trying to get at is that one of the objectives of the government was to find money to give a tax break and, at the same time, balance the budget. They looked at increasing revenues, and they've got to look at, "Where can we cut costs?" Transfer payments make up a major part of the expenditure side of the budget. One of the areas to look at was, "What do we transfer to the municipalities, and what are the arrangements with our programmatics, and how can we get a better deal?" or whatever it is. So you devise a whole program on how you can make municipalities more efficient.

I'd like to know what, then, has been, as far as you can tell, the improved fiscal position of the province's budget by virtue of this exercise.

**Dr Christie:** If that is a cumulative number, we'd have to go back and roll up the various components. Because of the way it is structured, the consideration of the additional—as Nancy noted, the LSR cost side that has been absorbed at the municipal level has dropped in the last few years and the province has put additional money in through a number of these restructuring initiatives and through several supplementary funds. My understanding of the numbers is that the province's position, certainly on an annual basis and I'm sure on a roll-up basis as well, would be that it would be a net cost.

As I recall, at least, the purpose of local service restructuring was to create opportunities to better array the provision of public services, and certainly the assumption by the province of education funding responsibilities was a pretty significant part of that. Within that, the community reinvestment fund had as its purpose continued revenue neutrality in the sense in which it's implemented in the program, as we've described.

Depending on how you measure it—as you noted, this is very complicated and you can measure it any one of a number of ways. I'm quite sure that we're talking about a net cost to the province, not a saving.

**Mr Patten:** I'd like to ask you for an estimate of that at some point. If indeed at the end of the day this is more costly to the province and the pattern for municipalities, at least the larger municipalities, is actually tax increases—I pay more municipal taxes now than I paid before. A reassessment system was put in—I'm talking about municipal taxes—that increased the residential tax, and then there was the stated 10% deduction. I'm talking about Ottawa, in my situation. The municipality is saying

that they were behind the eight ball by something like \$70 million or \$90 million in this whole exchange by virtue of what was now imposed upon them, the target that was set by the province—in their view, somewhat arbitrarily.

The increase in user fees I think is universal pretty well around province. Things that contributed to families, especially low-income families, for baths and little swimming pools and the use of fields, now there are charges all over the place. While it's only \$2 a head for some of these costs, it adds up on a summer afternoon for a mother who doesn't have a cottage, who doesn't have a car and tries to bring her three little children to the pool. That's \$6, just for that particular period. That's pretty tough for someone on meagre wages. So there are increases there, and you can see the pressure; again, my municipality is going through it and so is Toronto.

I suspect the larger municipalities are facing major problems. I'd like to ask you if you have a fix on that. The 82% figure—whenever I see that, knowing something about statistics, you give a percentage because 82% keeps out, what, 15 or 20 municipalities or whatever it is? It's probably the larger municipalities, I would suspect, that are having the greatest difficulty with this overall program.

Just in terms of larger municipalities—let's say the top five, the top 10—what is the status with them? How many of them are in that 82%?

**Dr Christie:** Perhaps I'll ask Liz, who I think participated in the consultations, to address that.

**Ms Harding:** The 82% is 82% of the 125 municipalities that provided written responses. I'd have to check to see whether the larger ones were included in that, but that's something that we can check.

**Mr Patten:** Could you check and let me know that? I would suspect that Toronto is not in there, Ottawa is not in there, London is not in there—your top five, 10 top. I'd be surprised if more than two were in there.

I have some more questions, but I'll wait until this afternoon. I'll pass it over to my colleague.

**Mr Crozier:** I'd like to go through your presentation and ask a few questions relative to it. To begin with, you said that it's the first major reform initiative for municipalities to manage and fund key services. What was the initiative behind this reform initiative? Who really came to the fore and said, "This is something we have to do?"

**Dr Christie:** There had been discussions for several years of what used to be called "disentanglement" being pursued by both levels, so it has been an ongoing topic of discussion. I'll ask my colleagues to comment as well.

This was looked at, for example, by Mr Crombie, who was asked to look at how this was being done. It was commented on and discussed in depth with the municipalities. As I recall, and I'll stand to be corrected, the initial proposal or the initial model here was one to which the municipalities said, "No, we'd like to do it another way. We would like to have a different mix and a different set of configurations." So the initial model that had been discussed was actually replaced by the one that

the municipalities had suggested. That was then the basis of what went forward for implementation.

I'll ask Liz or Nancy to add anything that they have to that.

**Ms Naylor:** It is fair that the impetus for going forward with local service realignment came at a point in time when the government was looking at a number of interrelated problems. There were problems in education finance, there were problems in property tax policy, there were problems in the property assessment system that had been long-standing and that municipalities had raised a number of times.

As the deputy mentioned, there had been attempts in previous years to look at the arrangement of expenditure and program responsibilities on the municipal government side and the provincial side and whether or not that could be streamlined or sorted out in a more efficient way.

A number of reports had converged recommending that the government act on a number of these problems, and around the same time they did ask Mr Crombie to take on what was then known as the Who Does What commission. As a result of his group's recommendations, the government put forward an initial proposal in January 1997, which was subsequently modified to reflect some municipal advice in the spring of 1997, to implement what is effectively the trades that are in place today, with some modifications in the subsequent years.

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**Mr Crozier:** Do you see this as going on? Unlike some of the suggestions the government has made where there would be a sunset clause, I don't recall a sunset clause being part of the services improvement act. Do you recall whether there is one or not?

**Dr Christie:** Certainly with respect to the community reinvestment fund, I don't believe there's a sunset clause. I'm sure that municipalities would have made us very aware of their concerns about this program sunseting, because it's a very helpful program and it's concentrated on the areas, as we noted, with the lower assessments and some of the higher needs. Because of what it's intended to address, I don't believe the program is sunsetted.

**Mr Crozier:** So just help my memory, then. Are both the local services realignment and the community reinvestment fund part of the services improvement act?

**Dr Christie:** I believe so.

**Ms Harding:** If I could answer that, the community reinvestment fund isn't founded in the legislation. It acts as a balance to the programs that are cost-shared through that legislation.

**Mr Crozier:** Thank you. I didn't think so. So the services improvement act really involved the local services realignment. Of course, we all understand that a sunset doesn't necessarily mean something is going to end; it only means it's going to be looked at. So do you see any review of this, or is it just to go on forever?

**Dr Christie:** As I noted, it was reviewed this year, and we talked about the outcome of that review. It's looked at internally every year as part of the business planning

process and part of the cabinet approval process. I think our approach to this has been to work as far as possible with municipalities to have this be as functional and useful for them as it can be within the purposes of the program as laid out. I would think that if municipalities wanted to discuss a different model—as I said, we talked about two or three models with them last year. If at some time in the future they expressed interest in revisiting those, I'm sure that it would be reviewed again, and I'm sure it will be reviewed again, as are all government programs.

**Mr Crozier:** As we go through this exercise, we see various words used. In a presentation by the Thunder Bay regional workshop that was given to us, under "Resource Equalization Grant" it says, "The purpose is to equalize the fiscal capacity among municipalities." Then we see information here where the ministry says that equitable treatment is not an objective. So we've got "equalize," we've got "equitable" and we have "neutrality," where neutrality is to be achieved, and then in your presentation today it's to "balance" costs.

Now, considering all those words—"equalize," "equitable," "neutrality," "balance"—which is it?

**Dr Christie:** The word "balance" is synonymous within the program with "neutralize." One achieves neutrality by balancing the costs and the benefits. So I don't think those are inconsistent.

The presentation that you are referring to and the notion of a resource equalization grant is one of the options; it's one of the alternatives to the community reinvestment fund that was discussed with the local sector. It's not currently what the community reinvestment fund does. So the "equalization" and "equity" words for which you're looking for a place would pertain more to a re-designed grant that focused on equity, which the current program doesn't do. The sense of "equity" in the current program is that it balances or provides revenue neutrality for municipalities as part of the LSR trades.

**The Chair:** We'll have to leave it at that for now, Mr Crozier, and go on to Mr Bisson. But I'm sure we'll get back to it later on.

**Mr Bisson:** First of all, I have just a point to the clerk. I notice we don't have translation devices here for the—

**Clerk of the Committee (Ms Tonia Grannum):** We do.

**Mr Bisson:** We do? Where are they? OK. Because I have some questions specifically to represent the communities in my riding. In the majority of them the administration is in French, so just to make sure they have them and I can come back to those in a minute.

Let me start with the first one. First of all, welcome. How does it feel walking into the lion's den?

**Dr Christie:** We'll see.

**Mr Bisson:** OK. Let's put this all back at the very beginning. In the auditor's report on page 10 it says in the conclusions, "We concluded that the ministry did not have adequate procedures to measure and report on whether the CRF," the consolidated revenue fund, "was meeting its revenue-neutrality objective. In addition, we

found that the CRF did not ensure the ongoing revenue neutrality of the LSR initiative,” which means all those downloaded services that the municipalities now have to do that the province used to do or used to share with the municipalities. What’s interesting is that the end says, “We also noted that ensuring that all municipalities are treated equitably is not an objective of the CRF or the funding formula,” and that’s according to the stated response from the Ministry of Finance.

Is it still your position that the objective of this CRF fund is not to treat municipalities equitably? Yes or no?

**The Chair:** We’re talking here about the community reinvestment fund?

**Mr Bisson:** I’m reading out of the auditor’s report.

**The Chair:** I believe you said the consolidated revenue fund.

**Mr Bisson:** Oh, sorry, I did. CRF to me always meant that big pot of money. Thank you very much for the clarification.

**Dr Christie:** The objective of the community reinvestment fund is to provide revenue neutrality for municipalities in aggregate and individually within the LSR trades.

**Mr Bisson:** So revenue neutrality but not necessarily equity. What intrigues me is that in your response to the auditor you’re saying, and this is in the auditor’s own words, “We also noted that ensuring that all municipalities are treated equitably is not an objective of the CRF.” That’s according to the ministry. Do you still stand by that, or have you corrected that position?

**Dr Christie:** We have said what the purpose of the community reinvestment fund is.

**Mr Bisson:** And it’s not to treat them equitably?

**Dr Christie:** In fact, that option, through various kinds of approaches to equalization, was put in front of municipalities last year as one of the alternatives to the community reinvestment fund and, as noted, they preferred the current structure, which is focused on—

**Mr Bisson:** I just want to say you are dancing better than our gold medal winners at the Olympics—and I think they did a wonderful job. My question to you is, do you still stand by that comment in the report, that it is not meant to be equitable? That’s what I want to know, that the CRF is not meant to be equitable.

**Dr Christie:** I don’t think we’ve changed our position on anything.

**Mr Bisson:** So basically the comments made by the auditor reflect the position of the ministry, that it’s not to treat municipalities equitably?

**Dr Christie:** The auditor’s report talks about what the purpose of the community reinvestment fund is and, depending on how you define equity, its purpose remains what it was at the time of the Provincial Auditor’s report.

**Mr Bisson:** I’m going to go back again because you’re still skating as well as that gold medal pair. I just want to get this clear. I just find it somewhat amazing that the Ministry of Finance would say, in response to the auditor, that you basically don’t see the CRF as a fund that should treat municipalities equitably.

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**Dr Christie:** The concept of equity and the application—the community reinvestment fund is something that is applied equitably; that is, it’s applied consistently to all municipalities.

**Mr Bisson:** But in the end it may not be equitable, is what you are saying.

**Dr Christie:** There’s not a concept of equity per se built into the program. The program as structured addresses revenue neutrality, and as I indicated earlier when asked about changing the structure of the program, people preferred the current structure.

**Mr Bisson:** But in the end, you would agree that your position is that the CRF in itself does not treat municipalities equitably. Municipality A and municipality B may be better or worse off at the end of this exercise, depending on where they happen to be with the municipal assessment or other costs, right?

**Dr Christie:** Actually, Liz, I think you had something to add to that so I’ll ask you to comment and then I’ll come back in if there continues to be a question.

**Ms Harding:** I’ll try.

**Mr Bisson:** I hope you’re at least as good as the women’s hockey team.

**Ms Harding:** Don’t count on it.

What we made clear to the auditor when he visited us is that the principal objective of the community reinvestment fund is revenue neutrality. It’s equitable in that it’s applied consistently to all municipalities. You asked if some might be better off and some might be worse off. The point of revenue neutrality is that no one is worse. CRF ensures that the LSR is at least revenue-neutral for everyone. Some, however, as we’ve said, are better off.

**Mr Bisson:** That’s right, and some are worse off, obviously. That is implied.

**Ms Harding:** No, it’s revenue-neutral.

**Mr Bisson:** Well, some are better off depending if you’re one of the 72 communities whose municipal assessment—anyway, we’re not going to get into that. The point is, in the end, not all municipalities are treated equally based on the CRF and other factors, right? That’s what you’re basically saying.

My question back to the deputy is, I find it interesting that the Ministry of Municipal Affairs, in their estimates briefing book—and I refer you to page 86—goes on to say, “The community reinvestment strategy provides support to municipalities in implementing the realigned provincial-municipal services and ensure that the benefits are distributed equitably across the province.” I find it interesting that municipal affairs is saying one thing and you’re saying the other. So which is it?

**Dr Christie:** I can’t speak for the Ministry of Municipal Affairs. My interpretation of that would be that by assuring revenue neutrality, the benefits in terms of the capacity to make savings are available to all municipalities. I think as well I’d supplement that with some of the additional funds that were added that we described that address specific problems that may have existed—

**Mr Bisson:** But my simple question is, has the Ministry of Finance talked to the Ministry of Municipal Affairs in regard to making sure that you both have the same policy when it comes to the implementation of the CRF?

**Dr Christie:** I'm not aware of any differences in policy in that regard.

**Mr Bisson:** I want to go to the auditor on this. At the end of the day, as we well know, it meant that for some municipalities that ended up on the plus side of this because of the assessment base, they have a little bit less trouble trying to make ends meet at the end of the year to pay for services. For other communities, such as Toronto, it's one heck of a mess in the sense that you're having to make the decision between raising municipal taxes and at the same time reducing services in order to balance out, which is a municipal assessment problem because of the new municipal assessment system. Some are winners, some are losers.

The downloading exercise, as we like to term it—you call it something else—has not been revenue-neutral for some. On top of that, amalgamation, for example, in the city of Toronto or Ottawa or elsewhere has meant costs as well. So overall, it hasn't been, because some municipalities are far worse off at the end of this process than others. Toronto is probably one of the worst off. There are other communities in my own riding that probably ended up not positively but at least not as negatively affected.

My question is to the auditor. Am I understanding correctly that there seem to be two different positions here between what municipal affairs is saying and what the Ministry of Finance has responded to you when it comes to the issue of whether municipalities are being treated equitably on the part of the CRF?

**Mr Erik Peters:** We became aware of the municipal affairs estimate only this morning, only when the researcher put the material together. It struck us that the word "equity" was used in theirs, while the finance objective was strictly on the revenue neutrality. One of the areas that was of concern to us was that in the calculation, at least when we looked at it, the savings target was assumed as achieved in the calculations, and that raised in our mind the question of equity. That was the origin of our concern about equity. Our concern, when we looked at the savings target, was that the savings targets were really not set based on analytical and empirical information that was available at the ministry.

**Mr Bisson:** Chair, do I have time for a second question to the auditor before we break? I can't see the clock from here. Do I still have time?

**The Chair:** Yes, you have about three or four minutes left.

**Mr Bisson:** OK, I can do this to the auditor. In looking at your report, basically as I understand it, you say, "Here are all the recommendations that we are giving to the Ministry of Finance to make things better," after the auditor's report came out. They said, "Yes, we agree with all those recommendations and we'll move on them, but

we wanted to do a review." We now hear from the ministry this morning, coming in, they reviewed all of those issues. In your mind, does that respond to your concern about not hearing back from the ministry as to where they were at with your recommendations?

**Mr Peters:** That's really a matter of timing. This is certainly the status that the ministry indicates now. Our first look-see will occur in two years when we do the follow-up. So we accept that as their presentation.

**Mr Bisson:** Were all of your recommendations covered here this morning by way of the presentation, or were there some that were omitted?

**Mr Peters:** Certainly every one of the recommendations was covered and there was action indicated by the ministry.

**Mr Bisson:** Now I go back to the deputy, which brings me to the LSR. In the downloading exercise, as I like to call it—and you'll call it something else; one calls it "tomayto," the other calls it "tomahto"—municipalities were transferred services that used to be either wholly or partly paid for by the province and are now transferred or downloaded on to the municipalities. Up until now, when you calculated the CRF, you froze your calculation based on those downloaded costs in the year 2000. I noticed in your presentation this morning that you're saying now you're looking at some other mechanism in order to reflect today's cost of those downloaded costs. Can you tell us where you're at with that? That's extremely important to our communities.

**Dr Christie:** We're entering into the technical side in which Liz is more proficient by far than I.

**Ms Harding:** It's true that while the review was underway, costs were maintained at 2000 year-end levels. Following the review, when it was determined that this was the model we were going to use on a going-forward basis, it was announced that there would be a reconciliation for 2001. That's going to take place in the fall of 2002. Municipalities were informed of this by a deputy's letter this fall. So the programs that have always been considered active and actively updated throughout the history of the program are going to continue to be updated. Those are social assistance, social housing, policing—the 16.

**Mr Bisson:** Even in social housing, there are questions as to what you guys did with the monies from the feds, but we'll get to that later. The question I'm getting from the municipalities within my riding and others I've dealt with—their big complaint is everything was frozen on downloaded costs in the year 2000. Those costs have increased because of natural pressures and they are now having to make decisions, if they're part of a DSB, district service board, or a larger municipality, "Either we reduce those services or we have a tax increase." So they're saying, "Is the ministry going to adjust the 2000 cost to 2002-03?"

**Ms Harding:** And the answer is yes.

**Mr Bisson:** Fully or just a portion of it?

**Ms Harding:** There are 16 programs. Those which were active previously are going to be updated, yes. So

the ones that they've always had updated are going to continue to be updated.

**Mr Bisson:** And that will take effect for the 2002-03 budget year?

**Ms Harding:** Well, they have different budget years than we do.

**Mr Bisson:** Yes, I realize, but we're trying to overlap our budget with their budgets.

**Ms Harding:** Right.

**Mr Bisson:** When can the municipality expect to get the readjustment and the CRF based on the LSR costs?

**Ms Harding:** In the fall of this year.

**Mr Bisson:** My question was, are you contemplating fully covering off that cost, the increase that they have?

**Ms Harding:** Yes.

**Mr Bisson:** Yes? I want that on Hansard. The answer was yes?

**Ms Harding:** That we will be updating the active costs as we always do, fully, yes.

**Mr Bisson:** Thank you. That's what I wanted.

**The Chair:** I think we'll have to leave it at that for now, except I just want to make one correction. I think a statement was made earlier that the page 86 that was referred to was from the Ministry of Municipal Affairs estimates book. That statement that Mr Bisson referred to earlier was actually from the Ministry of Finance estimates book. There are two estimate booklets stapled together and what you were referring to was the Ministry of Finance.

**Mr Bisson:** It was finance, so it's contradictory to their own position. OK.

**The Chair:** With that, we'll recess until 1 o'clock this afternoon.

*The committee recessed from 1200 to 1303.*

**The Chair:** Let's call the meeting to order.

**Interjection:** It seems we have a quorum.

**The Chair:** Yes, we do have a quorum here. The government side would start this afternoon, but it's been agreed that Mr Bisson should go first and that we'll have at least two rounds of 20 minutes each.

**M. Bisson :** Merci beaucoup, Monsieur le Président.

Comme j'ai dit plus tôt—vous m'avez donné une chance de ramasser des appareils—dans la circonscription de Timmins-Baie James, dans la majorité des communautés l'administration de la municipalité est faite en français : des communautés comme Fauquier, Kapuskasing, Val Rita et toutes les autres. Je sais que leur préoccupation avec le transfert des services aux municipalités est un peu différente des autres, donné la réalité d'où ils se situent dans la province et de la grandeur de ces municipalités.

Plus tôt ce matin, quand on a siégé ici, le vérificateur de l'Ontario nous avait dit qu'il avait fait des recommandations au ministère faisant affaire avec ce que vous autres au ministère des Finances pourriez faire pour être capables d'adresser certaines préoccupations qu'a le vérificateur lui-même. Ce matin, dans votre présentation, vous avez répondu à ces préoccupations. Une de ces préoccupations, c'est toute la question de ce qui se passe

avec ce qu'on appelle le RSL, le programme de remaniement des services locaux, ce que vous autres appelez « LSR ».

Dans les réponses que vous m'avez données, le problème est ceci : quand on a fait le transfert de ces services à la municipalité, services qui étaient payés par la municipalité et la province dans le passé, avant l'an 2000, ou qui étaient entièrement payés par la province, la province a basé l'ajustement de l'autre programme qui fait l'affaire, le FRC—le fonds de réinvestissement communautaire—sur les transferts de l'an 2000.

Là, le problème qu'on a, c'est que les coûts ont augmenté pour ces services : les ambulances, les coûts pour maintenir les aéroports, tous les 11 ou 12 services—je ne me rappelle pas lesquels—qui ont été transférés aux municipalités. La formule était basée sur les coûts de l'an 2000. Il y a eu des augmentations faisant affaire avec le fait qu'on paie plus pour les salaires, on paie plus pour de différents aspects des programmes. Le problème, c'est que les municipalités n'ont pas été capables de récupérer dans le FRC l'argent nécessaire pour balancer ce qui était transféré dans l'an 2000.

Si j'ai bien compris, puis ça a été très clair ce matin—vous êtes la sous-ministre adjointe, je pense, madame ? Je n'ai pas poigné votre titre. Vous êtes la sous-ministre adjointe ?

*Interjection.*

**Mr Bisson:** No? OK, excuse me. Pour le record, c'est quoi, votre titre ?

**Ms Harding:** I'm the manager of provincial-local funding.

**M. Bisson :** Vous êtes la gérante ; excusez-moi.

Quand je l'avais demandé plus tôt aujourd'hui, vous avez dit que le ministère va faire un ajustement au FRC basé sur les coûts pour ces programmes qui ont été transférés faisant affaire avec cette année-ci. En d'autres mots, si les coûts pour les services d'ambulance ont augmenté de 3 % commençant en l'an 2000 allant à l'an 2003, il va y avoir un ajustement dans le FRC. J'aimerais pour le record savoir si vous êtes capable d'expliquer comment vous allez faire ça. À la fin de journée, en l'an 2003, est-ce que ça veut dire que les augmentations vont être complètement reflétées dans l'ajustement que vous faites au FRC ?

**Ms Harding:** I'd be happy to answer that. Land ambulance services are one of the active costs that are going to be part of the year-end reconciliation that we're going to do for 2001 in the fall of 2002. Land ambulance is a bit of a special case in that the municipalities and the province have been working on a new template for sharing costs through the land ambulance implementation steering committee. It's a joint municipal-provincial group. The government decided that, with the adoption of the new template, the exception that was made for updating costs in 2001, the only exception—as you know, they were maintained at 2000 year-end levels, with the exception of land ambulance, due to the adoption of the template. So we have already adjusted all municipalities' CRF to reflect any increases—

**M. Bisson :** OK, on va revenir sur ces ambulances. Si on prend comme exemple ce qui est arrivé avec les transferts, on va dire pour les aéroports ou d'autres services qui n'ont pas été ajustés, moi, la question que je demande : est-ce qu'on va ajuster complètement l'augmentation qu'il y a eue à ces services-là sous les chiffres de 2003 dans le FRC ?

**Ms Harding :** The reconciliation is going to be for services that are cost-shared and for assessment-based services. So that will include land ambulance, social housing, social assistance, policing, child care and public health. In addition, we're going to update Provincial Offences Act revenues in the CRF to reflect the exit audits that the Ministry of the Attorney General is doing. We are also going to update our managed forest tax rebate and conservation land tax rebate programs.

**M. Bisson :** Quand vous faites ces ajustements, ça va être pour être capable de balancer complètement l'augmentation des coûts de l'an 2000 à l'an 2003 ?

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**Ms Harding :** Eventually. However, in 2002 we will be reconciling for 2001.

**M. Bisson :** Je comprends. Mais ce que je dis, c'est que ça va refléter les augmentations de coûts que les municipalités ont vues pour ces services, année par année.

**Ms Harding :** It will look at the net change in costs, whether they're upwards or downwards, and it looks at them as a package, so it looks at how they've changed as a group.

**M. Bisson :** L'autre partie, c'est que je comprends que le ministère s'organise pour faire des séances avec les municipalités dans les prochains mois pour expliquer les nouvelles formules. Savez-vous les dates qu'ils vont être dans le nord-ouest de l'Ontario ?

**Ms Harding :** We're actively planning for those sessions at this point. We're hoping to hold them sometime in the spring of this year.

**M. Bisson :** Ça va être où ? Savez-vous à ce point-ci ?

**Ms Harding :** No, other than that they will be held in all regions of the province. But we haven't determined specific sites yet.

**M. Bisson :** Si je comprends bien, à cette séance, quand vous avez un ministère et les municipalités ensemble, vous allez expliquer la nouvelle formule, comment elle est ajustée pour l'an 2002 et l'an 2001 aussi.

**Ms Harding :** Yes, with a focus on the 2001 reconciliation that will be done this fall.

**M. Bisson :** Si les municipalités, à ces réunions-là, trouvent qu'elles ne pensent pas que vous ayez reflété adéquatement les augmentations de coûts, est-ce que c'est aussi une consultation où vous êtes capables de retourner pour faire des ajustements à la formule ?

**Ms Harding :** The formula is set as a result of cabinet decisions. That's not something that staff would change at a—

**M. Bisson :** Vous avez répondu à la question. Les séances que le ministère va avoir au printemps, ça ne va

pas être une consultation sur la formule ; ça va être une présentation de la formule.

**Ms Harding :** That's right. We conducted an extensive consultation last spring, and one of the things we heard from municipalities, in addition to requesting that we keep the CRF, with administrative improvements, is that there is still a need, as staff turns over and as the formula changes with administrative improvements, for further training on it. So one of the commitments we made coming out of it is that we will be out providing hands-on training to municipal staff.

**M. Bisson :** OK. Si je décide, comme député provincial, que quelqu'un de mon staff pourra aller à ces séances-là, est-ce que c'est ouvert à n'importe qui ou sont-elles fermées, seulement pour les greffiers et les trésoriers des municipalités ?

**Ms Harding :** They are certainly geared toward the municipal staff who have to work with the numbers, but I don't think they would be closed.

**M. Bisson :** C'est ce que je pensais. Donc, si on décide d'aller comme participant, comme n'importe qui d'autre, pas de problème. Parce que dans nos bureaux, l'affaire qu'il faut comprendre—c'est un peu différent. J'imagine que c'est la même affaire pour les députés qui représentent les comtés ruraux. Parfois ils n'ont pas les connexions ; ils n'ont pas le bureau d'un ministère dans leur communauté pour répondre à leurs questions, et parfois ils communiquent avec le bureau de leur député pour avoir de l'information. Pour moi, il serait intéressant d'être là pour mieux comprendre la formule et pour mieux l'expliquer au monde quand on nous pose des questions ou qu'on demande de l'assistance.

**Ms Harding :** I'm certainly happy to provide any kind of technical briefing on how the formula works at any time.

**M. Bisson :** Mais pour les séances elles-mêmes, c'est possible qu'on peut y aller. C'est ça que je vous demande. Quand vous avez les séances au printemps quelque part au nord de l'Ontario, si quelqu'un dans mon bureau se pointe vers les meetings, vous n'aurez pas des objections ? C'est fait d'une manière positive. On ne parle pas de—

**Ms Harding :** Certainly.

**M. Bisson :** Avez-vous un mécanisme pour aviser les bureaux des députés quand c'est fait ? Quand les invitations sont mises aux municipalités, allez-vous vous assurer que les bureaux des députés seront contactés au moins pour les aviser des dates de ces réunions et des locations ? Je demanderais ça.

**Ms Harding :** I'm sure that our minister's office will follow up with you to provide you with any information you might need in that regard.

**Mr Bisson :** The other question is in English. It's in regard to First Nations communities. You've undertaken a transfer of airports that used to be provincially funded over to municipalities. As I understand it, most of the provincial airports have now been transferred, or down-loaded, as I like to call it, to municipalities. Are there provincial airports other than airports in First Nations

communities still owned by the province and not transferred?

**Ms Harding:** I'm not sure I know the answer to that question. I can be in touch with the Ministry of Transportation to find out.

**Mr Bisson:** So MTO would have the answer. The reason I'm asking that is because the airports up on James Bay or up in the northwestern part of the province are provincial airports that are run by the province itself. Is there any intention to download those on to the First Nations communities?

**Ms Harding:** Again, that's not a question that I can speak to.

**Mr Bisson:** Does the deputy have an answer of any type?

**Dr Christie:** No, I can't add to that.

**Mr Bisson:** Then I guess my question is to the clerk or to the Chair. Is it the purview of the committee that I can get an answer to that question through public accounts? I would request that I get some sort of formal answer from the ministry if there is any intention of transferring over provincial airports that are now in First Nations communities. Are there any plans for transferring those on to the First Nations communities?

**The Chair:** What we can certainly do is that with any questions that arise as a result of these hearings, we normally formulate a letter back to the ministry in the hope of getting an answer to those questions. So we'll certainly—

**Mr Bisson:** I'm hoping I get an answer because—

**The Chair:** Our legislative research assistant makes note of those, and all of these items are covered in the letter that we send.

**Mr Bisson:** I only raise it because all First Nations communities in my riding except one don't have roads, so they are only fly-in communities. I know in Kashechewan and in Fort Albany at the local airports I've heard some discussion of those being transferred to the municipalities, and they ain't got the money to run most of the services in those communities, let alone airports.

**Ms Harding:** Those airports aren't in municipalities.

**Mr Bisson:** No, they're not. Well, technically you've got a piece of provincial land. Basically you have, for example, Kashechewan, where the reserve is, and the airport strip is on provincial property. But what I'm hearing up in Kashechewan is that there are ongoing discussions to try to transfer the airport over to the local band council. I've got some real worries about that because they don't have the funds to adequately maintain those airports over the longer term, unless you've got some sort of funding arrangement.

**Dr Christie:** The people who would be familiar with plans in that regard would be the Ministry of Transportation and the Native Affairs Secretariat. If you wish to convey a question, either we can check with them or you could convey a question to them.

**Mr Bisson:** I look for an answer to that, because I'm not sure the province really wants to go there, but those are the rumours I'm hearing up north and they worry me

greatly. They don't have the funding to maintain them, and you've put those band councils in a terrible position.

The next question is on the services. For example, when you downloaded or transferred, the highways on to the municipalities, as you like to say, or the transit costs etc, you gave a one-time adjustment to those communities. Is there any contemplation whatsoever to put an adjustment in the CRF at one point in order to deal with what is an increased cost to the municipalities? As with those services like ambulances and others that the manager listed a little while ago, there is an increased cost for municipalities to maintain highways and other services that were transferred, where one-time funding was given. So is there any attempt on the part of the ministry to put an adjustment in the CRF so that municipalities such as the city of Timmins, which probably got more highways than anybody else, or pretty darn close to it, have some sort of adjustment to offset the increased costs they have on an ongoing basis to maintain what used to be provincial highways?

**Dr Christie:** The highway transfers were not part of the exchange of services under LSR, so the community reinvestment fund, which addresses that set of programs, would not have the capacity to address the highway needs.

**1320**

**Mr Bisson:** So for those services that were transferred and there was only one-time funding put forward—you had given some money, if I remember, for transit and airports. When you transferred highways and a few other services, there was one-time funding put forward, and that was more to adjust the capital cost over a longer period of time, if I remember the way that was done. My question is—and I think you've answered it—you don't contemplate making an adjustment to the CRF in order to compensate municipalities for increased costs attributed to maintaining those services?

**Dr Christie:** Just a couple of points: the way this is structured, there was residential education tax room provided for the aggregate of these costs, including transit costs. There's also been additional transit money supplied independently of the community reinvestment fund. So those two sources are available for support.

**Mr Bisson:** Let me be clear here. If we just take highways as an example, they were transferred, I forget, in 1998 or something like that.

**Ms Harding:** Earlier than that.

**Dr Christie:** It would be 1996 or 1997.

**Mr Bisson:** Quite a long time ago. When they were transferred over, the municipalities were given one-time funding to offset the capital cost to reconstruct those highways. Arguably, is that enough money? I don't even want to go there at this point. The issue is that the city of Timmins has to pay plow operators to plow what used to be provincial highways that are now municipal roads. Fuel costs have gone up, contracting costs have gone up etc. Is there any contemplation of adjusting the ongoing maintenance costs of the municipalities?

**Dr Christie:** Maintenance costs of municipalities for municipal roads were not part of the trades in LSR. GO and municipal transit were. So the CRF will continue to track transit, but local roads are outside this set of programs and would not be addressed.

**Mr Bisson:** So they won't be adjusted. What others were there? I'm trying to remember; there were airports, there were roads. What else was there that was a one-time cost that was adjusted? I don't remember what they all were.

**Dr Christie:** I don't recall offhand.

**Mr Bisson:** If I remember correctly, one of your slides—and I'm just trying to find it very quickly—listed the various services. Yes, right here on slide 5: there is the whole issue of the LSR programs that were transferred over, when we were talking earlier with your counterpart, the manager of provincial-local finances. It lists all the various services that are LSR programs. Is it the intention, if there are increases in any of these 16 programs, that they will be offset in the CRF for the adjustments that you make?

**Ms Harding:** Some, but not all.

**Mr Bisson:** Can you go through and tell me which ones are not, just so I'm clear?

**Ms Harding:** Certainly.

**Mr Bisson:** Or those that are; maybe that would be easier. Whatever way is easier for you.

**Ms Harding:** I'll show you those that are not: property assessment, airports, septic inspections, the municipal support grant and gross receipts tax. That's it.

**Mr Bisson:** So those five will not be adjusted into the new CRF calculation?

**Ms Harding:** They are still in the CRF calculation, but they're maintained at the point at which they were devolved.

**Mr Bisson:** That's what I'm saying. You're going to maintain them at year 2000 cost.

**Ms Harding:** Not even at 2000 in some cases. They're maintained at the point at which they were devolved.

**Mr Bisson:** I see what you're getting at, because some of them were before or after. I get it. So all the other ones—and I'm not going to go through them, but as you said earlier, child care, social services, public health, land ambulance etc will be adjusted.

**Ms Harding:** That's right.

**Mr Bisson:** My question is, how are you going to do that? For example, if you transferred land ambulance to a municipality and they provided X amount of service to people in that community, and they decided to either increase or decrease services to the community, ie response time, how are you going to determine how you're going to make the adjustment?

**Ms Harding:** I'm happy to explain that. What we use is the approved land ambulance budget that's negotiated between the municipal service provider and the Ministry of Health.

**Mr Bisson:** Explain that so most people understand what we're talking about: it's whatever services are stipulated in the agreement.

**Ms Harding:** There's a funding template that is used by land ambulance providers—there are 50 of them across the province—that is used to cost-share with the province. It's that approved template that we get from the Ministry of Health that's entered into the CRF calculations.

**Mr Bisson:** On the social housing issue, there is some debate going on right now that the province is taking back some of the money that was flowed to the municipalities or the local service boards. I don't have all those documents with me; I remember sitting down with some of the municipalities and going through. Is there an attempt to readjust that so they're not on the negative side, as they fear they will be this year?

**Ms Harding:** Social housing is in the process of devolving to the municipalities. As it devolves, the costs will be maintained at that point in the CRF formula. For example, the Ontario Housing Corp stock has already been devolved. As part of the year-end reconciliation, we'll be fixing that point. The rest of the stock hasn't yet devolved, but the policy direction we have is to maintain social housing costs at the point of devolution.

**Mr Bisson:** There's some concern as to what's going to happen with the ability local housing authorities are going to have to maintain housing stock over the longer period, because the money they used to be able to set aside in their capital reserve funds—they're greatly affected on the negative side in what they can put into them, from what I understand, by what's happening with discussions between the province and now, I guess, district local area service boards. Can you speak to that a bit? Is there an attempt to try to reconcile that?

**Ms Harding:** I believe the Ministry of Municipal Affairs and Housing is doing that, but that's not something I can speak to.

**Mr Bisson:** It's not something your ministry is directly involved in?

**The Chair:** Can we leave that, Mr Bisson, for the next round? Mr Hardeman.

**Mr Hardeman:** Just quickly for clarification, I wanted to go to the roads issue that Mr Bisson raised, about the fact that the transfer of roads from provincial highways to municipal highways was not part of the local service realignment. I think it was done the year prior to the service realignment. I stand to be corrected by you, but I think at the time they got 65% of five years' capital cost projections for the road that was transferred and a number of years for maintenance cost. It was done on roads across the province that were no longer considered part of the provincial road network but fit into a more regional or local type of road. In some parts of the province those roads were already being maintained by local governments, and in other parts the provincial road network was putting forward transportation for local purposes. That's why it was felt that was an appropriate way to make sure everyone in the province was paying their fair share for local roads.

My understanding is it was presumed that in that transition period when the funding was provided for

maintenance and upgrades, the local economy would take up that cost and then make it part of the municipal road structure. Is that reasonably close to—

**Dr Christie:** That's essentially my understanding of it.

**Mr Hardeman:** Going back to the CRF and the auditor's report, it was mentioned this morning about the recommendations in the auditor's report, and the ministry in their presentation pointed out that they were meeting all the requirements or were working on all the recommendations put forward by the auditor. One of those there has been some discussion about is the recommendation to reconsider or revisit the CRF funding. As the discussion was going on, I got the impression that some may think that in revisiting or redoing we're talking about redoing the local realignment, as opposed to re-evaluating or auditing or benchmarking the actual amount for each year.

I just wanted to make sure I understood that we're talking about making sure the values used are the appropriate values year to year. If that's the case, I'd like to hear a little bit more about the process you used to come to the conclusion of what you need to do and how you're meeting the recommendations the auditor made in his report.

1330

**Dr Christie:** I would just distinguish between two sorts of processes or discussions. The consultation that was held last spring was really on the design and structure of the CRF, as opposed to the operation or the administration, the specific numbers that went in. It was in that spring discussion that ideas or possible approaches, like a resource equalization model or an expenditure need model, were discussed with the local government. It was that more policy-directed discussion that resulted in the feedback we described earlier. There are also discussions on the numbers themselves, the process for getting them, the administration of the program; those will continue on as part of doing the business. I'll ask Liz, who's the direct participant, to describe how that's done.

**Ms Harding:** Sure. We informed municipalities in the fall of 2001 as to what their 2002 CRF allocations will be. In previous years we hadn't been able to let them know until some time well in the first quarter of their fiscal year. This way we allow them to carry out their budget planning, knowing what their CRF allocation will be. In the fall of 2002 we plan to reconcile the 2001 costs in the way that Mr Bisson was asking me about and tell the municipalities what their 2003 allocation will be. If as a result of the reconciliation we find that their LSR costs have gone up, we will be adjusting upwards in respect of 2001 and 2002 in the fall of this year. If as a result of the reconciliation we find that their LSR costs have gone down, we will be recovering that money in the first quarter of 2003, again in respect of their municipal budget cycle.

**Mr Hardeman:** This is a little parochial, I guess, but it relates to one of the items that we're going to reconcile

at the end of the year, and that's the farm tax rebate program. I just want to understand how, and it relates to a previous question about social housing and how you reconcile the difference in costs. The farm tax rebate program was, of course, sending 25%—in the calculations that were done in 1998—of the eligible tax paid on farms back to the farmer. We then changed that and took that same amount that went into each municipality and sent it to the municipality and then they would charge only 25% on the value of the farmland.

In part of the province, what's happened in the last few years is that the price of farmland has gone up dramatically. So the cost or the amount of taxation paid by farmers has gone up quite dramatically compared to taxation in other elements of the community, other tax classes. Is the reconciliation at the end of this year going to include 75% of the taxes paid by farmers in the year 2001?

**Ms Harding:** Yes. What we're doing is updating for the reassessment that recently occurred. The policy isn't changing, the 25%-75% split is the same, but what we heard when we were out doing our consultations is that this is one of the programs that's affected by re-assessment. A lot of rural communities were concerned about it and they've asked that we update those figures to reflect the values after reassessment, and we've agreed to do that.

**Mr Hardeman:** You say you're going to do that based on the reassessment. Is that also going to include increased spending of that same municipality that applies now totally to that increased reassessment of agricultural land?

**Ms Harding:** I'm sorry, I'm not sure I understand the question.

**Mr Hardeman:** The problem is that because of the tax classes—between industrial-commercial and farm-residential—you can't increase the spread. We'll take an example of a municipality: their tax expenditures went up 15% last year, and that's all applied to farmland because they can't increase the burden of the industrial-commercial sector. So now we are going to have a 60%, 70% or 80% tax increase on the farmland. Is the farm tax rebate going to cover 75% of that?

**Ms Harding:** We're still in the process of getting technical direction on how that will proceed.

**Mr Hardeman:** OK, but that is all part of what you're going to reconsider in the reconciliation to make sure that it's fair to all the classes.

**Ms Harding:** That's right.

**Mr Hardeman:** The other thing: in trying to get an opinion as to whether we should carry on with the CRF in its present form or go to a resource-based grant program, whom did we talk to?

**Dr Christie:** There were a number of groups involved in the discussion. We selected the municipalities themselves geographically so that we were sure we had a balance to get input on those regional issues. We made sure that the workshops had a mix of municipalities that included some who did and some who did not receive the

CRF, and it was a mix of small and large. There were also discussions with municipal associations that included AMO, the Northern Ontario Municipal Association, the Federation of Northern Ontario Municipalities, the Rural Ontario Municipal Association, Ontario Small Urban Municipalities, the Association of Municipal Managers, Clerks and Treasurers of Ontario. Those were the groups that we consulted with.

**Mr Hardeman:** If we were able to get the response from all the municipalities—I think you mentioned in your presentation earlier that 82% of the municipalities supported the principle of the CRF in its present structure—if we were to do an individual analysis of who said what, is it possible that the 18% who didn't support the present structure would generally be the ones who were presently not getting CRF?

**Dr Christie:** That matter came up this morning and we'll look at the breakdown of that. I think we indicated then that we'd have to go back and look at the breakdown, but you provide the opportunity to clarify that these consultations were not only with people who received CRF; they were also with some who did not receive CRF. So it's certainly possible that some of that 18% contain people who were not recipients.

**Ms Harding:** If I could just add, the ministry contacted all municipalities directly. A letter went out from the assistant deputy minister announcing that we were doing the consultation and asking for written input. We got written submissions from 125 municipalities, and it's on the basis of an analysis of those presentations that we were able to say that 82% wanted to keep the CRF basically in the form that it's at but with administrative improvement.

**Mr Hardeman:** Finally, obviously in the consultation 82% said they liked the principle of the CRF rather than going to the resource-based grant program. Of the recommendations that they made on individual items, how well were we able to meet their needs or requests based on what they wanted done, such as earlier notification and some security in knowing how they could budget and so forth? How are you meeting the requirements?

**Ms Harding:** Both the municipalities, when we went out and consulted with them, and the Provincial Auditor, through this report, raised the issue of the timeliness of the grant when we release it. As I mentioned, this year, for the first year, we announced the 2002 CRF allocations just at the beginning of the municipal budget planning process, in the fall of 2001. This gives them the information they need to enter into their budget planning cycle. As I said before, we intend in 2002 to do the 2001 reconciliation and give them their 2003 allocations, again, in the fall so that we're respectful of their budget planning cycle.

**Mr Hardeman:** Thank you. I'll turn it over to Raminder.

1340

**Mr Gill:** Carrying on with the same thought as my colleague Mr Hardeman, in terms of the 18% of municipalities that did not quite enthusiastically agree with the

CRF, would Toronto be one of the municipalities in agreement or non-agreement? Are you able to say that?

**Ms Harding:** That's one of the pieces of information that we'll go back and provide. That was asked this morning, too: what the positions of the top five, the largest municipalities, were. We'd have to go back and look at the database.

**Mr Gill:** My concern is, what is the population being served by these municipalities that did not agree and how does that impact the population at large?

One of the things you've said, coming back to the ministry's actions, is, "Review municipal finances to ensure CRF funds are being used according to provincial intent." Slide 19, the last bullet. How do you ensure that?

**Dr Christie:** We referred this morning to some of the changes that had been put in to require a council resolution that the funds would be used for the benefit of local taxpayers and that they file an information review with us that gives us a detailed explanation and review of municipal expenditures, so that the Ministry of Finance and the Ministry of Municipal Affairs receive the undertaking from the local council and have the information at hand to review how they spent it and flag any difficulties with what they might be doing.

Liz, do you want to add to that?

**Ms Harding:** Sure. Around the time of the allocation in early November, a joint deputy ministers' letter went out to all municipal clerk-treasurers, and it had an attachment that dealt with the conditions of CRF funding for 2002. Municipalities were asked to submit to the Ministry of Municipal Affairs and Housing a council resolution declaring their municipality's intent to use the CRF allocations for the benefit of taxpayers and acceptance of the CRF allocations in accordance with the terms and conditions set out in the letter. In addition, they were asked to provide the 2001 financial information returns in accordance with the deadline set by municipal affairs and housing and provide their tax rate bylaws by a certain date, as they usually do. This was done, and one of the things we heard in the consultations was that we should, to the greatest extent possible, streamline the reporting requirements and make sure we aren't asking for the same information in different forms twice. We were largely able to do that through the financial information returns, but we have asked upfront that they provide us with this council resolution.

**Mr Gill:** I've seen in one of the charts that the CRF funding was, I believe, \$197 million in 1997. Then it went up to \$500 million, and it's staying at about \$500 million. That's a dramatic increase. Is there any basis to that? There's a chart in there somewhere that says it was \$197 million in 1997.

**Dr Christie:** I think 1998 would have been the first year. It became effective January 1, 1998.

**Mr Gill:** It could have been the 1997-98 year.

**Dr Christie:** There would have been three months in fiscal 1997-98, which is why the figure is—I'll have to rely on the eyes here a bit; I may be out—\$169 million for 1997-98, \$678 million for 1998-99. That discrepancy

reflects the fact that it was only effective for three months of the 1997-98 fiscal year, because it started January 1.

**Mr Gill:** OK, that explains it. I thought it was a dramatic increase.

**Ms Harding:** Just the difference in fiscal years.

**Mr Gill:** In terms of giving the municipalities earlier indication—they seem to be quite satisfied or happy with that; I know Ann Mulvale seems to be in agreement with that. Is that Ann Mulvale as head of AMO, or is that Ann Mulvale as an individual? Is she happy that all the municipalities under her jurisdiction are happy with that?

**Ms Harding:** Actually, it was Mrs Mulvale in her role as president of AMO. I don't believe her home municipality is a CRF recipient.

**The Chair:** That may make a difference.

**Mr Gill:** Yes.

The 2002 CRF reflects the results of the consultations. How did that decision come about? I think you might have touched on that. Perhaps you want to explain that a little more.

**Ms Harding:** Sure. As I said, and as the deputy explained, we conducted quite an extensive consultation with municipalities and reported the findings of the consultations to cabinet, as we do to the government every year. Decisions were made to essentially keep the program in its current state, except that we were able to deliver on some of the requests for administrative improvements that the municipalities had requested. We were able to improve the timeliness of the announcements, so that we don't hold up their budgeting process. We were able to tell them in the fall what their allocation for the next year would be.

In addition, in response both to what we heard from municipalities and to what the Provincial Auditor said, we've agreed that for the programs that reflect cost-shared and assessment-based costs, as well as the programs for which service delivery has not been transferred, we will do a year-end reconciliation for 2001 in the fall of 2002. This was something that municipalities had been requesting but hadn't known about until that point.

**Mr Gill:** As a result of LSR, some municipalities have had windfall gains, if you want to call it that. What percentage of municipalities might be there?

**Ms Harding:** The percentage varies a little bit, year to year. In 1998 there were 43 municipalities whose net LSR costs were exceeded by the residential tax room. The auditor identified those municipalities as having received a windfall gain through LSR. There were 43 municipalities that benefited by \$54.5 million. In 1999 there were 72 municipalities, whose gains totalled \$134.3 million, and in 2000 there were 65 municipalities, with a benefit of \$125 million.

**The Chair:** Mr Patten.

**Mr Patten:** I'd like to go back, if I may, to the municipal savings target and get a better sense of how that was established. What was the underpinning of the rationale for that?

**Dr Christie:** I think the rationale for the presence of a savings target was, as I noted this morning, the actions of all levels of government to pursue efficiencies, to pursue better value for money for taxpayers. The federal government had certainly done that, the provincial government had done that and there was an expectation that local governments should also do that as part of contributing to the overall improvement in the operation of the government sector.

There was some recognition of the effect of size on municipalities in establishing the level of the savings targets. The smaller municipalities, which I think consisted of about 95% of municipalities, were at the 1.7% level. The other 5% were in the two other levels of 3.2% and 4.2%.

### 1350

The basis for the specific numbers—as in any case like this, these things are more art than science. These numbers are, in effect, a floor; they're not a singular target that people are to accomplish. In fact, I think it is very much hoped that municipalities would be able to do more than that and thereby free up some money either for additional priorities in their area or for tax cuts, if that was their priority. So if a municipality achieves 2%, that's great. They've got that extra amount to deal with. In the case of the 4.2% area, 4.2% is really a threshold for receiving the community reinvestment fund, recognizing the enhanced ability of the higher areas. Basically, these were based on sensitivity testing—looking at different ratios and doing a sensitivity test on the outcome.

**Mr Patten:** Were there any discussions with the municipalities in the establishment of those percentages?

**Dr Christie:** In terms of the specific ratios, I'm not aware. These discussions would have happened in 1997, so I don't know whether we're aware of any specific discussions.

**Ms Harding:** My understanding is that this was a decision made by the province, but that it was made public before the trades were announced.

**Mr Patten:** I'm aware of that too. I saw the announcements.

On page 156 of his report, the auditor talks about that as it affects the community reinvestment fund. He states: "The CRF allocation formula takes into account only those LSR costs that remained after the deduction of approximately \$500 million annually to reflect a provincially imposed savings target." As we just said, "That target is a percentage of total municipal spending." He goes on to say, "The imposed savings target varies by size of municipality, and the ministry had little empirical or analytical support for this approach." So you haven't disagreed with that, I suppose, and suggest it was a rule of thumb and a floor, and presumably that would pick up any grave variations in negative end results. He says, "Furthermore, since \$1.3 billion in LSR programs are still administered by the province, the savings target presents municipalities with the challenge of finding savings in programs they do not control."

He goes on to say: "The ministry did not update the residential-education tax-room component of the CRF

payment formula to reflect recent changes in assessment data, including changes in the latest province-wide current value assessment. Property assessments increased by an average of 14% above those used for CRF purposes. Updating the tax room component to reflect these changes would have increased the CRF entitlement of some municipalities and decreased the entitlement of others." Presumably it was the ones that were in greatest need.

My colleague to the right of me will deal with the 82% factor, but what is your response to that? It sounds like at each stage you begin with a target that the province says municipalities should have, then you work on a fixed rate, which is not actual costs as incurred over a period of time, and then you come up with a formula that is perceived by many municipalities as likewise arbitrary and unrelated to the reality of their living circumstances. Would you disagree with that?

**Dr Christie:** I think for the community reinvestment fund, as we pursued the discussion with the municipalities, the purpose of that discussion was to hear from the municipalities what they did think about the community reinvestment fund and possible alternatives to it. As I noted, the dominant response from that was that people preferred the stability that was given by the current formula with the current cycle of updating, in particular things like the residential education tax room—

**Mr Patten:** When was that consultation?

**Dr Christie:** The consultation was spring 2001.

**Ms Harding:** That's right.

**Mr Patten:** You mentioned some groups before; those were the groups you were talking about, the groups of CFOs or CAOs and clerks—

**Dr Christie:** Yes. There was a regional size, a mix of municipalities etc, plus those organizations.

**Mr Patten:** So it sounds, numerically, in terms of numbers of municipalities—I don't want to get into the numbers per se, but I do want to come back to it. It would appear to me, as I said this morning—and I'd like some kind of verification of that—that the larger municipalities are the ones that are really struggling the most with this particular formula. We can hear from Toronto and we hear from Ottawa in particular and some of the others that there is still a discrepancy in their particular arrangement. Would you agree with that?

Where is it that there are still problems with municipalities? Is it not correct to say that, frankly, most of them are the larger municipalities?

**Dr Christie:** We hear from a wide range of municipalities about the program, and some of the municipalities will talk a good deal about the administration. Even municipalities that don't receive necessarily a lot of the community reinvestment fund are concerned about the timeliness; they're concerned about the predictability, because of the impact on their budgeting.

Toronto, which does not receive the community reinvestment fund, has certainly made its views clear. We talked this morning about what the numbers were in terms of costs versus the benefits to them on the

residential tax room side, noting that that had not been updated. I think things would be better still for Toronto if you used the updated numbers. So the numbers I was giving you probably understate the strength of the Toronto position. They have received substantial restructuring help, grants etc, that we also mentioned this morning, as well as realizing, according to their CAO's report, substantial savings from amalgamation and restructuring.

I'm sure my friends and colleagues at the city, who we have dialogues with and have worked with for some time, face a number of budgeting challenges, as do most governments today, but to the best of our determination, the budgeting challenges do not appear to arise out of the community reinvestment fund. There are of other sources, I think, potentially.

**Mr Patten:** So it sounds to me like you're saying, "Listen, our goal is to arrive at a point where a municipality in actual terms is not suffering by virtue of the imposition of amalgamation, the imposition of cost savings, and there's a formula." You say you are committed to—forget about the equality question—talk about just the revenue neutrality of it. But unless there are mechanisms of adjustment in terms of actual costs that recognize the ongoing living organism of a municipality, it's never going to work.

**1400**

Therefore, I implore you—because the auditor points out that there were no adjustment mechanisms that took into account the reality of what was happening over time. But I understand you to say, "That is our goal." If you're saying that, then great, because that's what I think the municipalities would like to hear and it may require getting together to agree upon the final numbers and how they're calculated. But if the province sticks with a fixed point of view in time that never was related to the reality of changes in program costs etc—for example, I understand the province bills a municipality for its tax collected for certain programs and it's based on actuality, and the municipalities are saying, "But you're not doing this the other way," that it's a struggle to do it the other way. What's your reaction to that?

**Dr Christie:** Whether programs are adjusted to current costs or not depends on, among other things, some of the factors that Liz talked about. There will be adjustments to current costs and the reconciliation that's done in the fall of this year will be on the basis of current costs. There are some programs that are fully devolved to the municipalities, where the province doesn't share any of the costs, and I believe those are not re-costed every year because the municipality has total control over what is spent in those; there's no provincial cost-sharing, no provincial input pertaining there.

**Mr Patten:** Well, some of those had no option. They have no control over them, but they now have the responsibility to pick up the funding of everything, when it was a joint arrangement or a provincial responsibility heretofore. So in that sense, presumably, you would have to consider that: the rising demographic growth and the

influx of new Canadians, the requirements, you know, all those kinds of costs. It seems to me that that should be part of the consideration.

**Dr Christie:** I'm not sure I'm understanding, but let me try, and I'm sure you'll tell me if I'm not. If the suggestion is that there should be a recognition of cost escalation as opposed to program expansion or program enrichment or something like that—

**Mr Patten:** Program expansion by virtue of having to respond to things.

**Dr Christie:** The difficulty of measuring, of disentangling those costs and determining what is attributable to what would be pretty significant. Given the design of it, there may be implications for other parts of the formula, like the res tax room, and some of these haven't been updated by discussion with the municipalities in terms of the stability of the result. But I'll ask Liz to expand on that.

**Ms Harding:** The only thing I would add to that is that the big-cost drivers are still among the active programs. Social assistance, for example, is an item which was temporarily maintained while we reviewed it, but we've agreed that we will continue to update those costs. Land ambulance, public health—those are the big cost-drivers. The ones that have devolved to this point are fairly small. Certainly what we heard from municipalities is that the big-ticket items in here are the ones that they want to see us reconcile, and we've agreed to do that.

**The Chair:** Mr Crozier, you've got about five minutes on this round.

**Mr Crozier:** How many municipalities are there now, in total?

**Ms Harding:** There are 447.

**Mr Crozier:** Just to get it in context, then, if there are 447 municipalities, 125 of them answered your questionnaire or communicated with you, and 82% of those were in favour—I'm just laying out some figures here. That means, then, that about 23% of the municipalities have indicated that they're in favour—less than a quarter.

**Mr Patten:** Representing what population of the province?

**Mr Crozier:** Less than a quarter have indicated that they're in favour. I just want to make sure the figures present the issue as it should be. Now, I don't know why some 322 municipalities didn't reply, but one could assume that they're all happy, as Mr Hardeman says, or one could assume that they've simply thrown their arms up and said, "Look, this government does what it wants to anyway." That's pure conjecture, I'm sure. I just wanted to make sure that we understood that, the same as 38% electing a government is really only 38% of 50%, and that's less than a majority.

I want to go to your presentation on slide 4 this morning, where you laid out the percentages of savings targets relative to the population of the municipality that's represented. Can you tell me, without going into too many figures again, roughly what percentage of the municipalities are 100,000 or less?

**Ms Harding:** Over 95%.

**Mr Crozier:** Over 95%?

**Ms Harding:** That's the way it was in 1998. There are fewer of them now.

**Mr Crozier:** Since they only have to attain 1.7% efficiency—or if they attain 1.7% or more, then they don't participate in the community reinvestment fund. Is that correct?

**Ms Harding:** Yes, they do.

**Mr Crozier:** OK, good. Why then—or no, you can't tell me why I misinterpreted that, but if they overachieve that, they can still participate. How did you arrive at those percentages, 1.7%, 3.2%, 4.2%? Can you tell me how you arrived at those percentages?

**Mr Bisson:** With a dartboard.

**Dr Christie:** We talked about the scaling, if you like, in terms of the levelling up with population. The choice of a particular number was, and is, as I think I indicated earlier, a matter of—there's no formula-based way one can do this. What we're trying to do, in doing this, is look at the impact on various municipalities of these savings targets and the ability to compensate those municipalities to ensure revenue neutrality. What was done was to look at a variety, to sensitivity-test the numbers, to determine the ranges where it made a difference or didn't make a difference in terms of where the number was. These were chosen basically based on the detailed look at the impacts across municipalities of the particular targets.

**Mr Crozier:** I sincerely wish—I mean this, there's no other intention, but I wish you had ended by saying, "In other words," and made it more simple. I'm still not sure that I understand how you arrived at those percentages, in other words, to determine whether they're fair. If there are no other words, that's OK, I'll accept that and I'll review Hansard, and maybe I'll be able to understand it a little better then.

I want to just talk briefly about overpayments. In the research information that we were given, it says, "In cases where year-end reconciliations identify actual costs as being below those forecasted, municipalities have been allowed to retain excess funds provided which have totalled about \$98 million over three years. The auditor concluded that to give due regard to economy, recovery of overpayments needs to be addressed." What has been done regarding overpayments?

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**Ms Harding:** In November of this year, municipalities were informed of a number of administrative improvements that will be made to the program, and in the memo that went out from the two deputy ministers at that point municipalities were told that as a result of the 2001 reconciliation that will be done in the fall of 2002, municipalities whose LSR costs have fallen will see their overpayments reduced by the province.

**Mr Crozier:** In this reconciliation, would there be any overpayments, or perhaps underpayments, for that matter? But we'll focus on overpayments. Would there be any overpayments that were just simply errors?

**Ms Harding:** If errors are found—

**Mr Patten:** It's only the federal government.

**Mr Crozier:** I'm getting there.

**Ms Harding:** If errors are found, they're corrected. But I think what the auditor was referring to was that in previous years, largely I think due to the timing of when we were doing the reconciliation, the minister chose to allow municipalities to retain the overpayments. It was a total of \$98 million over the three years.

**Mr Crozier:** I understand what the auditor is referring to. I'm referring to errors. Has the reconciliation been carried out?

**Ms Harding:** The reconciliation for 2001 has not yet, but 1998, 1999 and 2000 have been done.

**Mr Crozier:** Did you find any simple errors?

**Ms Harding:** We certainly have occasionally found errors.

**Mr Crozier:** When the errors have resulted in an overpayment, are they part of that \$98 million? Have the municipalities been allowed to keep them?

**Ms Harding:** No, the numbers that make up the \$98 million were overpayments, not errors.

**Mr Crozier:** OK. So there have been errors. What's your policy if there are errors on overpayments?

**Dr Christie:** The errors are found in the process of doing that year. So it's within the year, just as any other program, but as you go through the year, if there is an error and you find it, then you correct it.

**Mr Crozier:** And if it went beyond a year?

**Dr Christie:** We do this year by year, so I don't—

**Mr Crozier:** An error can be found any time, inadvertently. I think my colleague gave you a hint as to where I was going. As I said the other day when you were before us, I'm certainly on the province's side when it comes to some of these errors that pop up.

But in anticipation, I really wonder what our policy is, and if we do it on an annual basis, then whether it's an error or a legitimate overpayment, because of the figures that come in and are reconciled, the policy of the ministry would be to pay for underpayment and collect for overpayment?

**Ms Harding:** That's right.

**Mr Crozier:** Pay if errors resulted in an underpayment and collect if they resulted in an overpayment, generally speaking?

**Ms Harding:** That's right.

**Mr Crozier:** OK. That's fair. I think that's all I have right now. Thank you.

**The Chair:** Then we get back to Mr Bisson.

**Mr Bisson:** I want to get back to something I raised earlier this morning. I just want to make sure that I clearly understood what you told me. On the LSR programs, I'm still having a bit of difficulty believing what I heard, and I just want to make sure that I'm right. I've talked to some of the municipalities since we last had our go-round here, and they were a bit surprised when I called them and mentioned what you had said earlier in regard to the LSR adjustments, or the adjustments you'll make to the CRF based on what the cost of the LSRs were back in, let's say, the year 2000. So I just want to be clear.

You're a municipality. You were transferred the responsibility for policing, let's say, social housing, land ambulance, public health, and the cost was X in the year 2000. The government then made a calculation and created a formula called the CRF and said, "This is how we compensate you for revenue neutrality between the downloading, the tax room that you got on taxes, plus whatever your costs are at the end." If I understood you correctly, what you said earlier this morning was that if the cost of those services increased between the time they were downloaded and when they go back now and do the new calculations, whenever you make that adjustment—if, for example, public health costs have gone up because there has been a collective agreement that says wage costs have gone up 3.5%, lighting has gone up X per cent, heating has gone up X per cent, there will be an adjustment for that in this fall's numbers.

**Ms Harding:** We will adjust this fall for public health, as for other active programs, and we'll do it on the basis of the public health budget that's shared with us by the Ministry of Health.

**Mr Bisson:** I want to be clear here. What you're saying is that up to now it was based on the numbers as they were when those services were transferred.

**Ms Harding:** No.

**Mr Bisson:** For the LSR programs.

**Ms Harding:** Some programs, and I'll go over them if you like, are inactive because they have been completely devolved to the municipalities. But public health, for example, has been active up until this point. It was frozen in 2001 while we did our consultation and it will be updated. Just so I'm clear, it has been updated in regard to 1998-99 and 2000 now.

**Mr Bisson:** And the same would hold true for social housing, land ambulance, policing etc.

**Ms Harding:** That's right.

**Mr Bisson:** So there will be an adjustment. If there was a cost and that's associated to those things that would normally be the inflationary pressures on that program, you'll make an adjustment on that.

**Ms Harding:** That's right. For the record, municipalities were told of this on August 19, 2001. There was a news release that our minister put out just around the time of the annual AMO conference.

**Mr Bisson:** That's interesting, because I just spoke to four CEOs from communities within my riding and that took them for a complete loop. So they've asked me to come back and ask again. "You must have got the wrong answer." So you're confirming what you told me this morning.

**Ms Harding:** I am.

**Mr Bisson:** All right. I get back to the question because I'm not clear, and again just for the record—I'm going to take this cellphone and throw it away. It throws you off. That's the CEOs who are calling back who didn't get me before. There are two of them. I know who they are already.

On the question of level of service, for example, if there is an increase in a budget because a municipality

decided to increase or decrease services that were originally transferred to the municipality whenever, how are you going to take that into account?

**Ms Harding:** For public health and for land ambulance, we take into the account the approved budgets that we get from the Ministry of Health.

**Mr Bisson:** What about policing, housing?

**Ms Harding:** For policing, we reflect actual costs.

**Mr Bisson:** And the same thing then would be for social housing?

**Ms Harding:** For social housing, up until the point of devolution, we get our numbers from the Ministry of Municipal Affairs and Housing.

**Mr Bisson:** So that answers that question.

I'm going to come back to one issue that Mr Hardeman raised, because it's one of the ones on my list. When the provincial government decided to basically freeze taxes on industrial-commercial assessment so that, for example, in the city of Toronto, municipal taxes for residents would have to go up a significant amount before they're allowed to raise taxes on industrial and commercial assessment, I didn't realize that was also true for farmland. I would like to get a little bit of clarification, because I just got the tail end of that. Maybe you could explain for my benefit.

**Dr Christie:** I'll take a shot and then I'll ask Nancy to follow up. I think the point that was being made is that farmland is taxed at 25% of the residential rate, and that in municipalities where commercial-industrial rates are extraordinarily high and therefore they're prevented from raising them further, revenue raising occurs in the residential sector. Therefore, because farm tax is part of residential for those purposes, the farm property picks up its share of the residential cost.

**Mr Bisson:** So the exclusion is for industrial-commercial only?

**Dr Christie:** Yes.

**Mr Bisson:** I always thought that farming was also excluded for some reason. I thought that was the case. Anyway, I'm sure you'll want to speak to that when it comes back to your turn.

Obviously it's a political decision, not a bureaucratic decision, that there is not going to be the ability for municipalities to increase industrial-commercial assessment. How was the percentage or the number arrived at? By which logic did you get to the actual numbers?

**Dr Christie:** Nancy, do you want to do that?

**Ms Naylor:** Is your question in terms of how the ranges or why the limits on levies—

**Mr Bisson:** The ranges and the limits are what I'm looking for.

1420

**Ms Naylor:** When the government introduced the reforms to property tax, they identified the existing tax burden on the individual property classes at that time. The government defined what was termed "ranges of fairness," and that was meant to express the ratio of tax burden carried by individual property classes. For municipalities where, for example, the tax burden on com-

mercial classes was three or four times the tax burden on a residential class, that was defined to be beyond the range of fairness, so in future tax decisions the municipality was limited to moving toward a more equal or more equitable tax burden among the property classes. In some cases, municipalities are restricted from introducing increased taxes on their commercial or industrial classes. As the deputy said, they would have to look for additional tax revenue from their residential or multi-residential taxes.

**Mr Bisson:** We'll just take one; let's say the city of Timmins. At what point are they able to say, "Now whatever tax increases we have in our municipality apply to all classes of assessment"?

**Ms Naylor:** That would be when they brought the relative tax burden on different property classes within the provincially defined ranges of fairness.

**Mr Bisson:** What are those ranges for industrial, just ballpark? I won't hold you to it. Just so that I understand it better.

**Ms Naylor:** I'm sorry. I don't want to guess.

**Mr Patten:** We won't hold you to it; it's just on the record.

**Ms Naylor:** We could find that out and communicate it back to the—

**Mr Bisson:** Just the range, just so I understand it.

**Dr Christie:** I know what I think it is, but I'd rather give you the right number and not mislead you.

**Mr Bisson:** Could you get that? I'm asking the Chair of the committee if we can get an answer to that particular question. That's something I would like to have, specifically for the city of Timmins, and then I can extrapolate from that what it means. At what point in the taxation cycle will industrial-commercial taxes be in the position to be augmented at the same rate as residential and rural?

**Mr Hardeman:** They already are.

**Mr Bisson:** No, that's not the way I understand it.

**Ms Naylor:** Purely as an example, in a municipality where the starting point was that the tax burden on commercial classes was 2.5 times the tax burden on a similar value of a residential property, and if the range of fairness was two to one, they would have to either reduce the taxes on their commercial classes or raise the taxes on residential, or shift the burden without a tax increase. So there are a number of—

**Mr Bisson:** And some of them have done that. Kapuskasing, for example, I believe did that with Tembec.

**Ms Naylor:** A number of municipalities have been moving to introduce greater equity among the property classes through a range of tax-setting mechanisms—

**Mr Bisson:** What is that ratio? That's the part that I don't understand.

**Ms Naylor:** That's what we'll get for you.

**Dr Christie:** I believe it's 0.6 to 1.1, but we'll confirm that for you.

**Mr Bisson:** So when the industrial-commercial tax burden is from 0.6 to 1.1 of residential, then at that point. OK.

**Dr Christie:** No. Let's be—

**Mr Bisson:** Just so I understand.

**Dr Christie:** There are two classes of things happening. One is, as Nancy described, the ability to still increase industrial and commercial rates, but only in a way that gets you moving toward the range of fairness. It's also the case that in some municipalities that have extraordinarily high tax ratios for those sectors, above the provincial average, they can't raise those until they get back down to the provincial average.

**Mr Bisson:** I take it that part of the reason that all started is, for example, that in the city of Toronto you had a much higher concentration of commercial assessment, office buildings and stuff. That's more where you would have seen that?

**Dr Christie:** It wasn't so much the concentration. The concentration of the assessment would most affect the distribution of their revenue base. The tax ratios that you see reflect the cumulative effect of decisions of council over a very long period of time as to who should be taxed and who shouldn't.

**Mr Bisson:** We aren't going to go there, but that's a fairly interesting decision in itself. In the last part of your report—I forget what page it was; I think it's actually on the last page under "Recommendations"—your response to the recommendations of the auditor, you talked about determining why municipal tax increases between 1999 and 2000 were necessary, and you said you were taking that action. First of all, where is that at?

**Ms Harding:** All municipalities were asked, via a joint deputies' memo dated June 27, 2000, to provide an explanation and supporting documentation of why this increase was necessary. In addition, regional staff from the Ministry of Municipal Affairs and Housing were in contact with all of them to make sure that they could work with them to understand why those increases had been necessary.

**Mr Bisson:** Is that the first time the province has actually gone to a municipality and said, "Tell us why you raised taxes"? I don't remember that ever happening before. Anybody? In collective memory, did you ever hear it? I understand where that comes from, but it just seems to me that we're sticking our hand into their business far more than we probably should. That's just my comment.

My second question is, what are you going to do with it now that you've got the information? Is it the intent to go back and get that money back? What are you going to do at this point? If municipalities said 33.7%, and you come to the determination that there was no logical reason—according to the government's view—to do this, what the hell are you going to do at this point? Will you take the money back?

**Dr Christie:** The reason for asking for the information was, in part, to let us understand; if there were systemic things driving tax burdens in certain places, that we understood why that was. Also, because of the exchange of services, because the province is the other side of that exchange, I think it was certainly important for us to

understand what was happening on the other side as we continued to go forward with the review etc.

**Mr Bisson:** So it's the position of the ministry that it was only for information purposes, to better understand what the costs of the municipalities are etc? It wasn't with the aim of saying, "I want to go get that money now" by way of reducing transfers further to those winning municipalities?

**Dr Christie:** No.

**Mr Bisson:** Which brings me to the next question: what are the plans now with regard to those 72 communities that ended up on the positive side of the tax room argument? What is the plan there? Are you planning to make some sort of adjustment to their transfers?

**Ms Harding:** They don't get transfers.

**Mr Bisson:** In those services that we jointly share costs with, such as public health etc, my question is: for those communities that have been the winners in the tax room argument—the 72 that you listed; and you came back and gave other numbers. You broke it down in years at one point, and I wrote it down. Are you planning to do anything on that side with regard to making some kind of adjustment to the winners in order to compensate the losers?

**Dr Christie:** If I understand, the only way in which we could do that would be to have the degree of our cost-sharing vary with the amount of residential tax room, which we really don't know until after the fact. I think the design of this and of the community reinvestment fund was to have a uniform cost-sharing practice across these various services.

**Mr Bisson:** That's why I asked the question. At what point are you going to take this information and say, "Now we understand why those that had tax room were the winners, and we understand now those that are the losers, and now we are going to attempt to make some kind of an adjustment by an adjustment on the monies that are transferred"? Is that where this is going, or is this just purely for getting the data so that we better understand? I'm trying to figure out why we need that.

**Dr Christie:** As we indicated, it's important as part of this and also because a lot of this has to do—I mean, Municipal Affairs and Housing uses these data as well in terms of the specific numbers that came with this as opposed to the explanation.

1430

**Mr Bisson:** Maybe I have to ask the question of the auditor, just so that I understand what the purpose of those two recommendations was, because maybe I'm misconstruing what the recommendation is.

**Mr Peters:** It was part of the program.

**Mr Bisson:** Excuse me. I didn't hear. Sorry.

**Mr Peters:** I'm going by memory here at the moment, but my recollection was that it was part of the program, that the benefits should benefit the municipal taxpayer. That was part of the intention.

**Mr Bisson:** So the idea is that if they were the winners, was that winning then passed on to the ratepayer?

**Mr Peters:** That's the point, to the best of my recollection.

**Mr Bisson:** OK, so then my question back to the deputy minister is, is that what the plan is at this point, that if they were the winners in the tax room, is it your plan now to say, "No, you can't raise taxes because you have this room"?

**Dr Christie:** The auditor's reference to its being a benefit to the municipal taxpayer I don't think necessarily means that there would be tax action. What we've done in terms of that aspect of it has been, in these undertakings, to have—I think we mentioned earlier that in the forward-going undertakings the municipalities are being asked to provide us with the assurance that the auditor has mentioned.

**Mr Peters:** May I just—

**Mr Bisson:** Yes, go ahead, please.

**Mr Peters:** I'm referring to page 163 of our report. The intention was to avoid municipalities actually using the—

**Mr Bisson:** The tax room.

**Mr Peters:** No, the CRF funding they received and put it into reserves or otherwise use it in the municipal accounts. In other words, the government didn't want to give them the money so that they could put it to future use somewhere, into a reserve; they wanted it to benefit the ratepayer.

**Mr Bisson:** When I looked at the recommendation and the way the ministry presented it, you could almost read in that that there are other reasons why you would want to have that information.

**Dr Christie:** These are all sort of sub-points under one general recommendation. If we could find a better way to present a chart—

**Mr Bisson:** That's why I asked the question. That's why we have this process after you make your presentation.

The other thing is, we say about 72 municipalities gained due to the tax room that was provided by way of the changes we made. I take it, then, that means the difference between 72 and 447 were on the losing side? Is it straight math, as simple as that, that people who didn't have tax room ended up having to more or less rely more substantially on the CRF fund? I take it the answer is yes.

**Dr Christie:** We'll have our expert here address that.

**Mr Bisson:** I have to assume the answer is yes. While we're looking that up, at any point—are you ready? I'm going to go to the other part of the question if—

**Ms Harding:** I think I'm ready. Part of what is a little confusing is that the number of municipalities has changed every year; it has gotten steadily lower. Which year were you referring to?

**Mr Bisson:** I'm just asking, am I to assume when you say 72 municipalities were on the winning side of the tax room, that the rest of them were losers?

**Ms Harding:** I believe from reading the auditor's report that 72 municipalities had residential-education tax room that exceeded their gross LSR costs.

**Mr Bisson:** Do we have a sense of how many communities, in the process of the downloading and in the process of everything that has happened, are on the negative side of the revenue neutrality argument? The auditor is very clear in his report in saying this has not been revenue-neutral. Does the ministry have a handle on how many communities are affected and are on the negative side of that revenue-neutrality argument?

**Ms Harding:** I don't think I'd characterize them as being on the negative side.

**Mr Bisson:** OK, I'll ask the auditor.

**Ms Harding:** There are 468 municipalities whose net LSR costs are higher than their residential tax room. Every one of those municipalities receives CRF to make up the difference.

**Mr Bisson:** Just to be clear, from the auditor and the report, the way I read the report, you're saying this has not necessarily been as clear as the government would make it out to be as a revenue-neutral exercise.

**Mr Peters:** It may be a little bit more complex than that.

**Mr Bisson:** That's why I fudged the question.

**Mr Peters:** My recollection—and I gladly stand corrected by you, Bob—was that these were the municipalities where the tax room exceeded, as Ms Harding said. For the other ones, there is a mix where revenue neutrality can be achieved through giving them funding out of the CRF if they achieve the savings target. There are three: those that achieve the savings target and, even after they achieve the savings target, are still entitled to CRF funding, and others who don't need CRF funding to make them revenue-neutral.

**Mr Bisson:** I understand that part, but the question is, are there municipalities that are losers in this process? Are there municipalities that have gone into this entire downloading exercise—restructuring, all of that—who have been on the losing side? In other words, it ain't revenue-neutral, in simple English?

**Mr Paul Amodeo:** I think the answer to that question depends on how you interpret the savings targets. If you assume the savings targets are part of the equation, then all municipalities have been brought up to revenue neutrality. If you don't buy that argument, then every municipality that has had a savings target imposed is a loser to some extent. It depends on how you want to interpret that information, I think.

**Mr Bisson:** It could be construed that the numbers, as far as the savings targets that were imposed on municipalities, from 1.7% to 4.2% depending on size, were a way to get around the argument that it was revenue-neutral. I can construe it that way; I'm not saying you would say that, but the public or a municipality—and I take it you're agreeing.

**Mr Peters:** Some municipalities have certainly picked up the argument and said, "We didn't achieve any of it, and therefore we didn't get any money," and for others the government may have argued, "Yes, you achieved it, and therefore what we're paying is fair."

**Mr Bisson:** Are there municipalities that weren't able to achieve the targets? As I remember, the answer was yes, right? In your audit, there were municipalities that couldn't reach the savings targets, or didn't.

**Mr Peters:** Why I'm hesitating with the answer is the fact that we did not audit the books or examine the records of any municipality, so we can't really say. I would give you an answer that is based on newspaper reports or others, and I'm not quite comfortable doing that.

**Mr Bisson:** To the deputy minister, then, the question would be, were there municipalities that couldn't reach their targets or didn't reach their targets, for whatever reason?

**Dr Christie:** The targets were part of the design of the program. The municipalities were free, and continue to be free, to organize their budgets as they see fit. If they chose not to use the potential to find savings, that was their decision. The structure of the program and, if you like, the definition of revenue neutrality, upon which the program is based, includes savings targets for most of the municipalities that receive CRF—as we said, about 95% of municipalities are at that 1.7% level. If a municipality argues that it did not achieve its savings target, then in those cases, depending on what the savings target was—

**Mr Bisson:** Either reduce services or increase taxes.

**Dr Christie:** If it is arguing that it could not find, in this case, 1.7%.

**Mr Bisson:** Consequently, that municipality would have had to either raise taxes or reduce services, or do both, in order to adjust. Do we have a sense—in the work you did with regard to the recommendations, you must know which municipalities were in a position where they've raised taxes in the last year.

**Dr Christie:** I think we have those records, but one can't tell whether it's because—

**Mr Bisson:** I realize that. The other thing I'm asking is if we can get a list of the municipalities in the province that were in a position of having to raise taxes last year. How many were there, who were they and by how much? That would be interesting.

**The Chair:** It's right in the report. I think it's 245.

**Mr Peters:** It was 245.

**The Chair:** It's on page 163.

**Mr Bisson:** I didn't see that. Are there ranges?

**The Chair:** Yes, they range from 0.1% to 49.4%.

**Mr Bisson:** What?

**The Chair:** To 49.4%.

**Mr Bisson:** Oh, I heard "49." I would have—

**The Chair:** That's what I said: 49.4%.

**Mr Peters:** With an average of 6%.

**Mr Bisson:** Did you say 49.4? I'd like to know—

**The Chair:** That's what the report says.

**Mr Bisson:** I'd love to know where that was. Where was that?

**Interjection:** That's a percentage.

**Mr Bisson:** Oh, OK. I see what you're getting at.

1440

**The Chair:** We gave Mr Bisson about 25 minutes, so you will have 25 minutes, Mr Hardeman.

**Mr Hardeman:** I'm sure Mr Bisson had much more to say than I've got to say. I just want to very quickly make sure I understand it. I thought I had it fairly clear in my mind until I heard Mr Bisson speak about it. Now I want to make sure—

**Mr Bisson:** I either confused the heck out of you, or the question was really good.

**Mr Hardeman:** It's the issue of the tax rate, as I refer to it, under the farm tax rebate program. I don't know what the range of fairness is, the right numbers for that. But I do know that in my own community the industrial rate is 3.2%, farm residential is 1% and commercial is 1.9%. The problem isn't that without reassessment the municipalities under those circumstances can put an increased tax burden across the board. They're not changing the range at all. The 3.2% stays the same in comparison to the 1%. The only problem they ran into—and that's where my question came from—was, because the assessment went up on farms and the assessment went down on industrial-commercial properties, they can still not change the 1% and the 3.2%. So automatically, without changing the mill rate—if all had gone down at the same time, they would reduce the mill rate on all and they would not generate new money; they would generate the same amount of money with a lower mill rate on a higher assessment. But because we have a higher assessment in one class, we find the tax burden falling on that one class until we get it back to the 1%. We can't take the one down without increasing the spread between the two. That's why it's not the capping on any class; it's the fact that one class has grown much more than the other class. So to make it fair to all, you end up having a higher burden on that class because their values have gone up.

I really wanted to go on and question—I was going to avoid doing this again, but I want to know. Because the farm tax rebate program is being created as an active element as opposed to the dormant one, when we do the assessment for 2001 at the end of 2002, are we going to have a way to attribute that benefit to the property class that is getting the benefit?

We have a major shift, shall we say, because of the increased assessment. When the province picks up that 75%, does that go to the people who paid the extra tax or does that go across the board as part of municipal revenue? I don't need an answer on that, deputy. I just want to make sure that as we're going through this reconciliation we address those issues, in fairness, and that the people who paid it are the people who are going to benefit from it.

**Dr Christie:** That's a helpful clarification. The situation you're describing, of a significant shifting between classes, is not unique to farmland. It's something that is a matter of what are called transition ratios. When you have a reassessment that changes the distribution across the classes, there are transition ratios, which may or may not be adjusted in terms of dealing with that.

The farm tax rebate is part of the community reinvestment fund program. To the best of my knowledge, it does not interact with the tax structure, it does not determine what tax a municipality raises or how it manages its tax ratios. So what will happen is that if the value of the farm property has risen in that municipality, there will be a higher cost attributed to the farm tax rebate program and they will then be within the design of the community reinvestment fund. They will be eligible to capture that part of the cost, assuming that they're getting full CRF compensation, which has been one of the things that municipalities have worried about, particularly the rural ones, with the farm tax not being updated in those municipalities. Where the farm values were going up faster than the commercial values, they felt that they were losing out on CRF. So that is being addressed.

How they use that money in terms of what property tax they establish for the various classes is the decision of the municipality within the range of fairness and other features of the property tax system.

**Mr Hardeman:** The other one that kind of troubles me a little bit is the relationship between the upper and lower tiers, when we talk about the total number of municipalities, those that benefit from it and those that we talked about earlier that need the CRF in order to balance the fairness in the program. When we talk about the realignment of services in Oxford county, except for the farm tax rebate and policing, all the others went to the upper tier, so there was no relationship between the two. When we talk about 447 municipalities, that includes the county and the eight lower tiers. Does that mean the eight lower tiers are in the 70-some that had no impact and the upper tier has all the impact, or the other way around? How do we keep that straight?

**Ms Harding:** I'll try to explain. I think your question is a fairly technical one.

**Mr Hardeman:** I studied all night for that.

**Ms Harding:** OK, let's see if I did. In designing the model, you're right, there are two kinds of municipalities: upper tiers and lower tiers, as well as single tiers. Some costs are typically paid for at the upper-tier level and some at the lower-tier level and we had to have a model that was flexible enough to deal with all of those situations. The way we've done it is through residential education tax room. Residential education tax room at the upper tier is essentially a construct. The way it works is that the upper tier is assumed to need enough residential education tax room to cover upper-tier services: ambulance, child care, social assistance, that kind of thing. The upper tier gets all of the residential education tax room, or enough to cover all of its services, whichever is lower, and anything else goes to the lower tiers to split up between them. That's how that works.

**Mr Hardeman:** OK, thank you. I was really going somewhere else with that. I was going to the size of the savings and how it impacts differently: are the numbers different for the size of the municipalities? I wanted to get to Ottawa and I wanted to make sure we didn't get

through this whole discussion without mentioning Ottawa. In restructuring municipalities, we know that the rate if you're below 100,000 people is 1.7%, and if you're over 500,000 you are at 4.2%. I wanted to make sure I understood that the pre-restructuring numbers of the size of the municipalities are being used in the CRF funding.

**1450**

**Ms Harding:** In the savings targets? They are.

**Mr Hardeman:** So in Osgoode township, what was previously Osgoode township, in the CRF funding, the number used for their savings would be 1.7, as opposed to the over 100,000 that are now part of the city of Ottawa.

**Ms Harding:** We didn't adjust them.

**Mr Hardeman:** So in all cases where they were at the smaller size before restructuring, the CRF funding is based on the lower of the cost savings.

**Ms Harding:** It's based on their original savings targets. They have not been adjusted.

**Mr Hardeman:** OK. I just wanted to make sure.

The other one: in the reconciliation, the policing one was mentioned earlier by someone else, and I wanted to make sure I understood it, that in fact we would use actual costs in reconciling the figures for 2001. I didn't get a clear answer on improved services. If the municipality decided since 1998 to dramatically increase the size of their police force after the transfer, do we cover the increased cost in the reconciliation, or is that based on the level of service that was provided? I think that's rather important. I think it's where Mr Bisson was coming from too, as to what we can use to cover the cost.

**Ms Harding:** It depends on the type of police force that's in place. If the municipality is receiving services from the OPP, the costs entered in are based on actual costs. If there's a municipal force, the costs are maintained at the point of devolution.

**Mr Hardeman:** I think my colleague has some questions.

**Mr Gill:** Thank you for leaving me some time.

**The Chair:** There's lots of time.

**Mr Gill:** The LSR implemented about five years ago in terms of the city of Toronto, the biggest municipality, if you want to call it that—how have they benefited or not benefited from it?

**Dr Christie:** The city, in terms of the exchange itself—we talked earlier about the balance on the numbers and what they had talked about in terms of the gap, or lack of a gap, in terms of the gross LSR cost minus the residential education tax room. We also noted the levels of savings that the city itself has identified, over \$300 million over the same period of time as the auditor identified, \$140 million on the other side.

Of course, there are a number of other investments that have been made in Toronto as part of the number of transitional activities that were underway that we mentioned earlier. So, for example, Toronto received \$829 million with respect to transit, and that was supplemented by another \$50 million about a year ago; they received

\$50 million—and this is all over and above LSR in particular—to finance transportation and communications projects; there was \$500 million for the city for the waterfront; there was \$53 million through the municipal capital and operating restructuring fund with respect to GO Transit; and there was \$200 million in interest-free loans.

**Mr Gill:** I understand there was also \$100 million in interest-free loans and subsequently another \$100 million?

**Dr Christie:** That's right. That's the \$200 million I referred to.

**Mr Gill:** Do you know the terms on that, when they hope to repay that?

**Dr Christie:** It's repayable in instalments. I think we've received the first instalment, have we not?

**Ms Naylor:** I'm not sure. There's a preferential pay-back schedule on those loans that's staggered over time.

**Mr Gill:** Despite what you hear, all the doom and gloom in terms of the city finances whenever they come up with a budget, I understand that for the first three years there was no tax increase to the homeowners in Toronto, and then there was 5% and now they're talking about 4.6%. Using the opposition's wording, if the downloading was so bad, why was there no tax increase for the first three years?

**Dr Christie:** For the first three years, if they were short in the larger amounts that they've talked about—they've identified much larger amounts than the Provincial Auditor's report did. If they were short in those amounts, I can't tell you how they were able to avoid increasing taxes. The only way I could see would be significantly changing their service structure, which I didn't see happen. So I can't explain how they did it. I'll certainly follow up with them, because we may need some of those tricks.

**Mr Gill:** Last year a 5% increase, this year a 4.6% increase; what does it mean in finite dollars? How much extra revenue is it going to be?

**Ms Naylor:** We met with the city staff and they explained their proposals for the budget, so their estimate was that the 4.6% tax increase on residential properties this year would raise just short of \$50 million. That would go in to the types of pressures that they've identified for the council members.

**Mr Gill:** Thank you. I think my colleague has further questions.

**Mr Hardeman:** A quick question. Earlier, we discussed the roads, that were not a part of the LSR. Am I wrong or right in assuming that the supplementary special circumstance funding, particularly in northern Ontario but also in eastern and southwestern Ontario, where there was an extensive transfer of roads, was used to help municipalities accommodate the transfer of the roads?

**Dr Christie:** I'm not sure what use the municipalities put the special circumstance funding toward. We'll check with municipal affairs and see if we can get the answer to that for you.

**Mr Hardeman:** I have one other question I'd like to ask the auditor, and maybe he doesn't want to answer this because it's not directly related to the auditor, but it's related to my colleague's question about the city of Toronto and the cost of the realignment. As they have suggested a number of times, there's a massive cost of doing that. Your audit shows that if we don't take the savings into consideration, it's \$142 million. But from a budgeting and auditing process, when you find a year when you have an added cost, regardless of what the cause of it is, you increase your budget to cover that cost. Does that cost keep creating the need to increase your budget, or because you increased it last year, isn't the next year the base budget to cover all of the expenditures? From an auditing point of view, can you increase the budget more than once for the same expenditure?

**Mr Peters:** I think the way you put the question, you shouldn't.

**Mr Patten:** You do it, you just don't talk about it.

**Mr Peters:** When you do increase the base budget, then that means of course you have this budget increase in the next year, and the next year and the next year. That's fairly clear. That is often very much the idea behind cost-cutting, because you are saying, "We are going to cut so much this year, but that means we are going to cut that out of the budget in perpetuity." That's the idea and it would be the same in reverse, in the example you have chosen. If you have a cost increase, then that cost increase is in the base budget until you take it out.

**1500**

**Mr Hardeman:** So it's reasonable to assume, if last year's budget increased by 5% to cover all the costs, regardless of where they came from, that will increase the amount of money, the 4.6% we'll raise this year, because it will also be another 4.6% on the 5% that we increased last year.

**Mr Peters:** If it's an add-on, yes, of course it will increase it. In the one year, it increased by 5%. This year it will increase by 4.6% on top of that. I hope I understand your question.

**Mr Hardeman:** I think you do, yes. Thank you very much.

**The Chair:** The Liberal caucus, and after Mr Patten gets through, I would ask him to take the chair so that I could ask some questions as well.

**Mr Patten:** Absolutely. Going back to the point of the impact on neutrality, the auditor concluded at one point, "The CRF as structured at the time of our audit was working against its objective of ensuring the revenue neutrality of the LSR." Anybody following this on TV is going to have a difficult time. "It has led to differing impacts on individual municipalities."

As I read the report, while the auditor did not say this was conclusive, the indications were pretty strong that there was a growing concern about revenue neutrality. But that's not my question.

My question is related to this: as I hear all of this information, I hope the auditor, in the follow-up to his

audit in 2003, will look at the cost of this total program and what this has meant, because it seems to me, with all of the variables, the responses, the additions of this, making adjustments for that and all the efforts to at least convince somebody that this is all very good for them—presumably the taxpayers and the voters—at the end of the day, most municipalities and certainly most individuals in Ontario have experienced an increase in user fees, an increase in property tax and a lower quality of service. I get this by talking to not only individual friends, neighbours and people in my riding but to people in other communities and at the municipal level.

One of the reasons for the pressure on Toronto today is because of the fixed terms in their relationship of funding with the province which don't take into consideration the growth factor. You're always asked for more every year. If you're a growing community, what are you going to do if you have responsibility for welfare and you have more people coming in? As welfare drops, there should be a reflection of a drop, and that's fair enough. So that could be a shared arrangement—which it is—with the province, and that could be reflected and certainly justifiable, but the fact of the matter is that Toronto keeps growing, Ottawa keeps growing and most of the major centres keep growing.

I don't want to leave behind conceptually people who are not in this category, but the people who are not in our towns and cities have a very important contribution to this province, because many of them are farmers. They are the people who grow our food and are extremely important to Ontario and to any jurisdiction, for that matter.

Interestingly enough, Ottawa now has the largest geographic percentage of land mass. It's the largest municipality that has a farming community, in other words. I'm sorry Mr Hardeman isn't here, because I think it relates somewhat to the pressure on farmland and farm residents. That, in and of itself, pushes and increases the propensity toward agribusiness and massive pig farms and all that kind of thing, which we're going to have to face in another fashion.

When I look at the relationship between the federal government and municipalities and the municipal government and municipalities, the responsibilities that municipalities have, in and of their own right, and they have only this narrow band of taxation, in other words, revenues, to generate, with increased pressure to produce and cover their programs, it's difficult not to conclude how paternalistic we really are at the provincial and federal levels. I will say that personally. It is a very arrogant and paternalistic relationship. We know best for somebody else, or at least we have the control, we maintain the control and we'll keep the squeeze on the municipalities. Something has to give when 90% of the people in this province, and most Canadians, live in towns and municipalities. Is there any discussion going on in finance or in the Ministry of Municipal Affairs and Housing talking about re-engaging with municipalities on a different basis of either decision-making—you'll

probably say you are, on decision-making—or cost-sharing or making decisions or on sources of revenue that are not available to municipalities at the moment?

**Dr Christie:** I'll just make an observation about municipal affairs. I know there's a new Municipal Act that's trying to address that in very large part. The general tone of the relationship that you flagged is part of what the Municipal Act is trying to deal with. The Ministry of Municipal Affairs is, I know, working very hard to establish a good working relationship, a good interchange of information with all of our municipalities.

In terms of the cost side, the short-term answer I guess was the consultation we talked about last spring. The longer-term answer may well deal with the bigger questions around distribution of responsibility and of taxing authority. It may well be that the federal government would need to play there as well, given the imbalance between some of the federal revenue sources and their responsibility.

**Mr Crozier:** I want to go way back to Who Does What. The original exercise was to give Mr Crombie—I can't even recall, it's so far back, whether he acted alone; he certainly consulted to some great extent. It was all about accountability. The question I'm going to ask, I don't expect you to just say absolutely yes, but maybe you can tell me that we're working toward it or that it isn't perfect yet. We took that accountability, we went through the process to find out who is responsible for what, we determined that, or at least Mr Crombie did, but then we started to convolute it with, "If you're not totally accountable, we'll give you some money; and if you reach certain savings, we'll give you some money." Help me. Is it something we're still in the process of and working toward?

**Dr Christie:** I would characterize some of the discussions that Nancy and Liz have talked about with the municipalities in terms of implementing CRF, in terms of thinking about where to take it, as a microcosm of working toward that. This program clearly covers only a small portion of municipal activity and isn't broad enough in itself to address the question you ask, which is a very broad question and a very broad issue to deal with. I think within the realm of what we're trying to deal with, municipalities are very concerned about improving accountability, as are we. As you can tell, there's a formidable amount of detail in these things when you become involved in it, and we're working through the detail with them to try and make this work well and make the kinds of changes they want to improve their ability to administer the program.

Nancy, do you want to add anything to that?

**1510**

**Ms Naylor:** The only thing I would add to that is that the province and the municipalities have agreed to some quite formal mechanisms for holding ongoing discussions. We've recently concluded a memorandum of understanding with the Association of Municipalities of Ontario that provides for very regular meetings between the representatives of the province and the representat-

ives of the municipal sector, and that also represents an undertaking by the province to consult in advance on anything that would affect the financial health of municipalities within the current fiscal year. That's a formal mechanism.

There are also a number of informal mechanisms, and it would probably not be a stretch to say that we're in touch with them almost daily on one aspect of the financial health of municipalities or another.

**Mr Crozier:** I'll just conclude by saying I wish us all luck, because I just don't get the feeling that we're there yet. We have 95%, as we said earlier, of municipalities that are under 100,000, and I don't know what the other breakdown is. We've got rural; we've got urban. It certainly was a broad question and it's a broad problem, so I just hope we're going forward and not backward.

**Mr John Gerretsen (Kingston and the Islands):** I've got enough questions here that we could be here until 9 o'clock tonight.

On this last point, I suppose there's a tendency for every government when it comes along to think that they're doing something for the first time. I'm sure that Mr Hardeman can agree with me, because he and I attended many of these meetings back in the 1980s, that the notion of AMO representatives meeting with ministry folks on a regular basis has been going on for years. We used to have monthly meetings with the Minister of Municipal Affairs back in the 1980s, during the Davis years, the Peterson years. I wasn't there during the Rae years, but I'm sure they happened as well at that time, and other ministers were brought in to discuss the issues of the day.

I have some great difficulty with this whole notion of the provincial government feeling that it's part of its mandate to make municipalities more accountable. I dare say that most municipalities have been extremely accountable and are much closer to the people on a day-to-day basis. I can tell you that the kind of scrutiny that a municipal budget gets on an ongoing basis in all of our municipalities, particularly at this time of year, would beat any process that takes place here at the provincial level, where the estimates process is just a laugh, where by rules and regulations you're limited to X number of hours and you can only really ask questions that delve into one part of a particular ministry. When I compare that to the municipal level, where most councils that are conscientious—and I'm sure you've got the odd council that perhaps isn't—go over each expenditure item or classification in a very, very thorough fashion, I take great exception to the fact that somehow municipalities aren't accountable and the province has to jump in to make them more accountable.

I find it kind of interesting, for a government that wants to make things easier, that in the whole notion of the way we fund local municipalities with all of these different programs, we've certainly made it a lot tougher. Anybody out there who's been watching this for the last three or four hours must be shaking their head at this point in time.

I'll give this government one thing: they've been very smart. They've been extremely smart in bringing in restructuring, realignment or downloading and re-assessment all at the same time, because it made it almost an impossible target then as to who to blame for what any more. I think the people out there, the taxpayers out there, are extremely frustrated about that.

Let me just ask you this. Right now the province of Ontario sets the education tax. This is one issue we haven't talked about at all today. At one time the education tax, as far as the property taxpayer is concerned, used to be set by all the various boards of education. The province of Ontario does that now. Will you not agree with me, sir, that with one stroke of the pen, the Minister of Finance, after having talked with his staff and what have you, can make the total amount of money that the provincial government wants to raise at any given time for education purposes on the property tax base of this province—he can change that amount on a moment's notice, with the stroke of a pen. Would you not agree with that?

**Dr Christie:** I'm not sure about the moment's notice. I think there are probably some—

**Mr Gerretsen:** Twenty-four hours' notice, whatever.

**Dr Christie:** It is certainly the case that the province has the control of that rate.

**Mr Gerretsen:** Right. And how many dollars are we talking about that are currently raised on the property tax base of the province for education purposes?

**Dr Christie:** Nancy knows it exactly to the hundredth of—

**Ms Naylor:** It's \$5.7 billion in the current school year, 2001-02. That's the estimate.

**Mr Gerretsen:** So \$5.7 billion of the property taxes of this province collectively are completely controlled by the Minister of Finance, who, by regulation from year to year, can set the total amount of that, and then how it's worked out to the various municipalities obviously will take some doing. But he or she can do that on a moment's notice. If, for whatever reason, it were necessary to have a drastic increase in any given year, then all of these other programs that we're talking about become meaningless, don't they, or they won't really affect that decision at all?

**Dr Christie:** Certainly the funding of municipalities through the community reinvestment fund is by and large unaffected by decisions made on education financing. I'm trying to be sure I have the point and I'm not getting off the line. As education funding currently works, as you know, there's a funding formula that determines on a certain basis resources by school board. The education property tax provides some of that amount and the province pays the residual in cash. I'm not quite sure of the situation that you are describing, but—

**Mr Gerretsen:** The situation I am describing is that you could follow all of your formulas and try to be as equitable as possible under the CRF and the whole business, but if the Minister of Finance in his capacity of raising education tax dollars on the property tax base

were to make a decision that is drastically different from the \$5.7 billion in any given year, that entire equilibrium could be changed overnight with that decision.

**Dr Christie:** With respect to the municipal side, there's no direct impact of either a large—well, the government has announced large tax cuts in both business and residential education property tax, and those have not interfered with municipal funding. There is an impact on the amount of cash that's paid to school boards under the education funding formula—if there's less tax, there's more cash. But I'm not aware of a direct linkage between changes to the education property tax rates and—

**Mr Gerretsen:** Let me put it as simply as possible. If the province decided this year that it wanted to raise \$6.2 billion instead of \$5.7 billion for education purposes on the property tax rate, that extra \$500 million would be immediately reflected in the year that it applies to the tax bills that the real estate taxpayers of Ontario get.

1520

**Dr Christie:** There are places in the year where you'd have to do it for timing purposes, but the Minister of Finance does have the authority to change the property tax rates. Yes, he does.

**Mr Gerretsen:** Right. And as a result, property taxes would go up if he were to do that.

**Dr Christie:** Or down, if he cut them.

**Mr Gerretsen:** This isn't a trick question.

*Interjection.*

**Mr Gerretsen:** Oh, no. Hopefully more than that, please.

What is the status currently of the municipal performance measurement program? Maybe it's been talked about earlier. What's the status of that?

**Dr Christie:** That's a program that the Ministry of Municipal Affairs and Housing is running with the municipalities. I don't think we could tell you. We're not involved in that. I don't think we can help you directly.

**Mr Gerretsen:** Isn't that part of the report card mechanism that you've introduced that the municipalities like so much? I'm being facetious when I say that. Isn't that part of that? Don't you have an interest in that?

**Dr Christie:** The Ministry of Municipal Affairs and Housing has accountability mechanisms and reports and performance objectives etc that they deal with the municipalities on. But as I say, that occurs through municipal affairs and housing.

**Mr Gerretsen:** So you, as the Ministry of Finance, have no interest in that?

**Dr Christie:** We have a general interest, as the Ministry of Finance, in how public money is spent. We have, again, a general province-wide interest in high standards of good financial reporting, high standards of accountability and good financial management, including dissemination of best practices. But we don't have a specific focus on municipalities. Our concern would be more if there was a provincial framework or provincial standards that were felt to be valuable throughout the broader public sector. But individual application in an individual sector would be done by the responsible ministry; in this case, municipal affairs and housing.

**Mr Gerretsen:** OK. I've got a number of other questions.

In the revenue neutrality purposes of the community reinvestment fund—and let's take as a given the fact that you're trying to make it revenue-neutral, or that's what the program is all about—what is built into it is the fact that there will be municipal savings targets of \$500 million. Is that not correct?

**Dr Christie:** That's correct.

**Mr Gerretsen:** So is the net result not the fact that if you want the municipalities, through savings, to come up with this \$500 million, this is \$500 million that the province no longer has to come up with if none of this had ever taken place?

**Dr Christie:** In terms of the arithmetic of the formula, if the province had not structured it in this fashion, there would have certainly been—it's possible as a result of that that it couldn't have afforded to do the community reinvestment fund to deal with the impacts in some of the smaller municipalities. So how you assign dollars is—

**Mr Gerretsen:** I guess what I'm saying is that when the province keeps saying that all of these things are revenue-neutral, it is based on the premise that local municipalities will find \$500 million in municipal savings that, if none of this had ever happened, they still would have had in one way or another. In other words, the government is paying to local municipalities in effect \$500 million less than they used to at one time.

**Dr Christie:** Do you want to comment on that, Nancy? I don't think I'm explaining it clearly, so we'll take another—

**Mr Gerretsen:** If it's part of the equation and the equation comes out to zero, and you expect municipalities to save \$500 million, if none of these changes had ever taken place, then the government would still be paying that \$500 million into programs that it paid for prior to implementing the local services realignment plan.

**Dr Christie:** If municipalities had never saved any money as a result of the restructurings, the amalgamations and the opportunities to restructure programs that were part of this; is that—

**Mr Gerretsen:** Yes. So do you agree with me or not?

**Ms Naylor:** I think we would take a different view of how that arithmetic worked. But I think what's also fair to say is that when the province laid out the mechanism by which the local service realignment would take place and the expectations that realignment would include in terms of savings targets for municipalities, they were reflecting the fact that at both the provincial level and the federal level, and certainly in other jurisdictions, what was facing all levels of government was a need to look at their own services and the opportunities that were presented—for example, by technology—to deliver comparable services or better services for perhaps less money. Some of those efficiencies had been realized at the time of the trade; some of them were yet to be realized. We have seen that the cost of some of the programs that were devolved have declined since the

devolution. So that has been a benefit to the municipalities that perhaps doesn't show up in very concrete terms in the arithmetic.

**Mr Gerretsen:** OK. Dealing with page 163 of the auditor's report—and I'll just read it to you in case you don't have it right in front of you—it said, "A summary of the submitted tax rate data indicated that 245 municipalities had increased tax rates between 1999 and 2000. The increases ranged from 0.1% to 49.4%, with an average increase of approximately 6%. Only 43 of these municipalities voluntarily provided information on the circumstances surrounding their tax rate increases, and there has been no follow-up by the ministry to obtain information on the reasons for the remaining increases." Why? If you only heard from 43 of these municipalities, why did you never follow up on that?

**Ms Naylor:** I think what's fair to consider too is the timing of when municipalities submit their financial information returns to the Ministry of Municipal Affairs. Those FIRs obviously detail the municipality's financial position and any changes in their position over the course of the year; for example, transfers in and out of reserves, and any levies that they may have gone to their community for. I believe that the figures in the auditor's report preceded the action taken by the deputies recently when they wrote to the municipalities to ask for the explanation of the tax increases. So we're getting those in. Certainly, the regional offices of municipal affairs and housing are also following up, because we're quite interested in that data.

**Mr Gerretsen:** Another area: municipal information requirements. I'm surprised that Mr Hardeman, as a former municipal councillor, didn't ask this. You know how municipalities always feel that they are getting advice too late in the game—what, in effect, they're getting from the province in one way or another. I'm reading from page 10 of the—no, actually these are our research notes—but this comes out of page 166 of his report. The Provincial Auditor recommended, "To improve municipalities' ability to accurately project provincial funding when they set municipal tax rates and to facilitate the accurate reporting of such funding in municipal year-end financial statements, the ministry should work to improve the timeliness of the information it provides to municipalities regarding community re-investment fund entitlements." Can you tell me anything about the timeliness? Do municipalities know now, as of today, what they're getting this year?

**Dr Christie:** Yes, sir, they do.

**Mr Gerretsen:** When were they advised?

**Dr Christie:** That was given to them last fall.

**Mr Gerretsen:** Are you going to do this on a yearly basis?

**Dr Christie:** That will be done on a yearly basis.

**Mr Hardeman:** We discussed that.

**Mr Gerretsen:** I just wanted to make clear that I heard that correctly. If that is so, I would like to congratulate you on that because this has always been a stickler, as far as municipalities are concerned. Thank you very much.

**Mr Hardeman:** Just a couple of comments. I won't want the 20 minutes. In response to Mr Gerretsen's comments, I have no reason to disagree with him on the accountability of municipalities, but I think it's important that the reason we're here today to discuss the CRF funding and the program with the ministry—and we commend you for the way you've explained it to us today—is because the auditor says it's very important that we follow up where government money is going. I've been a municipal politician for 14 years. I think it's very important to recognize, as Mr Gerretsen said, that most municipalities will do exactly what they should and do a very good job, but we have a responsibility on behalf of the provincial taxpayer to make sure that all municipalities are meeting the goals of the program. I think the auditor pointed out that there are some areas where we were not as diligent as we might be in following that up, to make sure that we follow the money to its final conclusion. I think it comes out in the report.

It's not good enough to just look after those who need to get more money through the CRF funding. What about those who are getting a windfall in this program? Is that also not taxpayers' money that needs to be looked at? I think that's why it's so important that you have addressed the issue of the reconciliation, not only in the negative, but on the positive side of it too. People who got more than they should get will have to come good for that in the first quarter of the following year. I do commend the Chair again for bringing forward the issue of the timing to make sure that municipalities do know considerably ahead of time.

The ministry has gone further than just trying to notify them as quickly as possible. They've actually put the timing in the previous year, as opposed to in the new year, to notify them how their grants will be this year. They notified them last fall what the money will be for the coming year. Then, when we reconcile the year 2001 at the end of this year, we'll fix that up in the following year, so they will always know at the end of the previous year what they would be entitled to in the next year. I commend them for that.

With that, again, just on behalf of the government, I want to thank the ministry staff for a job well done in making the presentation here and explaining some of the things that I didn't understand. I'm sure that my colleagues on both sides here are very much more enlightened with the discussion we've had today, and we thank you for that.

**The Chair:** Is there anyone else? Thank you very much for your attendance, not only today but also on previous days. We thank you for your attendance and answering the questions today. Undoubtedly, you'll be receiving a letter from us asking us for some of the information that came up during the meeting that you were going to provide us with.

With that, the hearings are adjourned until 1:30 tomorrow afternoon. Thank you.

*The committee adjourned at 1532.*

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