

## **Cost of Community Services: A case study in the Township of Mapleton**

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## Executive Summary

### Cost of Community Services Studies

Cost of Community Service (COCS) studies were developed by the American Farmland Trust in the mid 1980's. COCS studies are a subset of the broad field of fiscal analysis. COCS studies break a municipality's land base into several distinct categories and allocate all municipal revenues and expenditures to these land use categories. COCS studies have been described as "snap shots in time" of each land use's fiscal impact on a municipality in a particular year.

COCS studies have been completed in a variety of townships, hamlets, and rural counties across the .U.S., with varying land use mixes. However, COCS studies have traditionally been most effective in rural municipalities.

### the Township of Mapleton

"Rooted in tradition, growing for the future" is the mission of 11,000 residents living in Mapleton. The township of Mapleton is one of the lower-tier municipalities that form Wellington County. The Mapleton area was originally a part of the Queen's Bush held by the government of Upper Canada as Clergy Reserve. Drayton, Moorefield, and Alma make up the urban centers of the township. In 2021 the township of Mapleton was ranked as one of Canada's best communities to live in by Maclean's magazine. It is an attractive community for new residents due to its well-tended urban areas and prosperous farm community

### Study Objectives

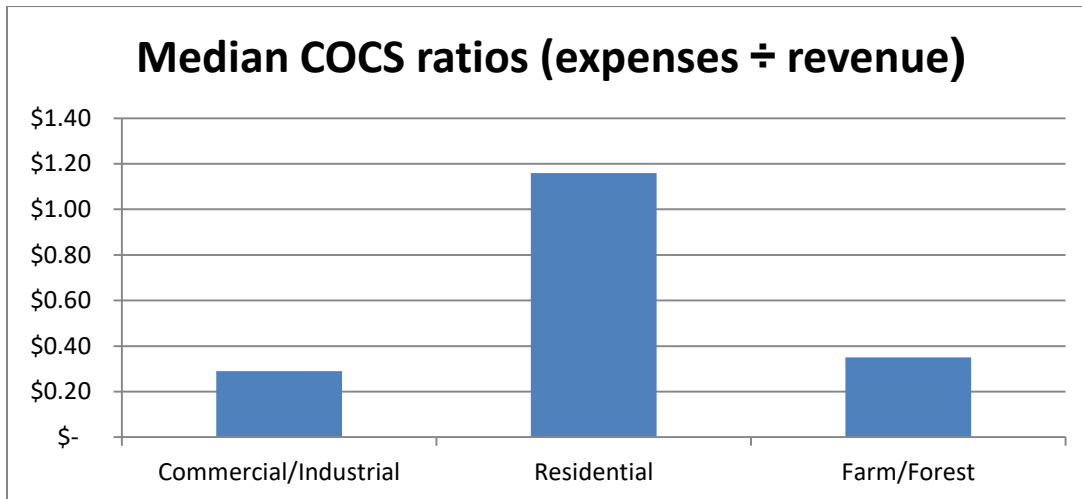
#### **Objective #1: Find the net fiscal impact of each land use in Mapleton.**

This study uses the following land use categories: residential, commercial/industrial, and farm/forest. After allocating all municipal revenues and expenditures to the three land use categories, ratios were calculated showing the servicing cost incurred by the municipality for every dollar of revenue associated with a particular land use.

U.S COCS studies are remarkably consistent and have revealed interesting and intuitive facts about the fiscal impacts of different land uses on rural municipal budgets. Given residents consume a much higher proportion of municipal services, the residential land use category was revealed to typically contribute a fiscal net loss to local government. To put it simply; based on the municipal services consumed and the revenue to the municipality associated with the residential land use category, the residential land use category does not “pay its own way”.

The cost of “people services” consumed by residents such as recreation facilities, health and social services are subsidized by the other land use categories, Commercial/Industrial and Farm/Forest, who do not consume nearly the same level of municipal services compared to residential and have been found to “more than pay for themselves”.

**Median results of 151 COCS studies completed in the U.S.**



**Objective #2: Evaluate the appropriate revenue source for government services.**

By allocating municipal revenues and expenditures to each land use category, COCS studies can illustrate which municipal services are most heavily related to property. This report investigates the appropriateness of revenue sources, emphasizing where property tax dollars are the best source of revenue, and where provincial funding is needed.

Adapting this research to the Ontario context required background research on the history of municipal finance in Ontario, with a primary focus on property taxes and varying service delivery and funding agreements between the municipalities and the province.

Two common principles with respect to the efficiency and fairness of revenue for government services are the “ability to pay” principle and the “benefit” principle. A municipality’s primary recourse for raising funds for service delivery is through property taxation. A long list of economic literature has shown that using property value as a method of determining property taxes (the method currently employed in Ontario) has a weak correlation to income, and thus fails the “ability to pay” principle (Rosengard 2012). Since they fail the “ability to pay” principle, property taxes are best suited to fund services that meet the “benefit” or “use” principle. On this basis, property tax revenue should primarily be used to fund government services related to property such as critical infrastructure like roads and bridges and other property related services such as building inspection and planning and development. Services that are primarily used by people should not be funded through property taxes.

While the province’s decision to upload certain social and health service costs has been a net-fiscal gain to Ontario municipalities, rural municipalities have not seen the direct benefit that urban municipalities have experienced. This is because many lower-tier rural municipalities were not spending on such programs while the Ontario Municipal Partnership Fund (OMPF) phase-down has caused significant financial strain for many rural municipalities across the province.

### Results and Conclusions

#### Objective #1: Find the net fiscal impact of each land use in Mapleton.

After analyzing the data, consulting with municipal staff and the advisory committee, all revenues and expenditures were allocated amongst the three land use categories. A final ratio ( $\frac{\text{Sum of Expenses}}{\text{Sum of Revenues}}$ ) was calculated to determine the net fiscal impact of each land use. When all expenses and revenues were included the final ratios are as follows:

Residential	(\$8,538,987 / \$10,608,823)	0.8
Commercial/Industrial	(\$1,788,422/ \$2,256,200)	0.79
Farm/Forest	(\$985,137/ \$2,894,106)	0.34

The above ratios indicate: the municipality spent \$0.80 to service the residential category for every dollar of revenue associated with the residential category; the municipality spent \$0.79 in servicing costs on the commercial/industrial land use category for every dollar of revenue associated with the

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commercial/industrial land use category; and the municipality spent \$0.34 servicing the farm/forest category for every dollar of revenue associated with the farm/forest land use category.

**Objective #2: Evaluate the appropriate revenue source for government services.**

**The province must address the inequity in provincial gas tax funding**

One glaring provincial policy issue that needs to be addressed is that rural communities are not receiving their fair share of provincial gas tax funding.

The issue stems from the eligibility requirement that all provincial gas tax funding can only be used for public transit. This effectively excludes rural municipalities from receiving any of the gas tax funding. In 2019 rural municipalities received less than 1% of the \$365 million in Provincial Gas Tax Funding.

This is in stark contrast to the federal gas tax program which provides funding on a per capita basis and allows municipalities the choice to spend the funding on a wide range of infrastructure projects, based off local needs. In 2019 rural municipalities received approximately 7% of the \$1.6 billion in federal gas tax funding provided to Ontario municipalities.

For example, in 2019 Mapleton received \$0 in provincial gas tax funding and \$637,509 in federal gas tax funding. If the provincial government adopted the eligibility criteria used in the federal gas tax program, Mapleton would have received approximately \$145,000 in additional infrastructure funding in 2019. This is equal to 2% of Mapleton's property tax levy for the same year.

***Recommendation 1: To ensure all municipalities equally share in the provincial gas tax funding to address critical infrastructure projects, the provincial gas tax funding criteria need to be aligned with the federal gas tax funding criteria.***

**The province must deliver a new property assessment**

In Ontario property taxes are based on the current market value of properties and the value of properties can be volatile. When one property within a property class or an entire property class within the municipality's jurisdiction increases at a faster rate than the average property, additional property tax burden will fall on those properties. That is exactly what has happened with farmland in rural communities across Ontario over the past 10 years. Farmland values increased rapidly while residential and commercial values in many rural communities remained flat. In 2012, farm property taxes accounted for 13.6% of Mapleton total tax levy, by 2020 farmers were paying 23% of the tax levy.

This type of assessment volatility can lead to inequities in the property tax system where non-residential property owners pay an increasing share of the property tax levy without a corresponding increase in the amount of services provided to these non-residential taxpayers.

This issue has been exacerbated by the provincial governments decision to delay implementing the news province-wide property reassessment. The new assessment cycle was supposed to be delivered in 2021 with property values reflecting a January 1<sup>st</sup>, 2021, valuation date. Due to impacts of COVID-19, the provincial government announced in 2020 that it would delay the implantation of the reassessment. In the fall economic statement, the provincial government announced that it would further delay property reassessments until at least 2024 despite a strong rebound in economic activity in 2021. In the meantime, property values in Ontario continue to reflect their January 1<sup>st</sup>, 2016, values for property tax

purposes. In the absence of county/single-tier municipalities adjusting their local tax ratios, this freezes the tax burden at a level where farmers are paying a higher-share of the tax levy than they ever have.

***Recommendation 2: Given the rebound in economic activity and the reopening of the economy, the provincial government must deliver the next wide property reassessment without delay.***

**The province must increase OMPF funding by 75% to provide the same level of support it did in 2005**

The OMPF has seen consistent budget cuts since it was introduced in 2005. In 2005, it provided rural municipalities with \$656 million in annual funding. In 2021, that funding has dropped to \$500 million. Adjusted for inflation, the OMPF would need to provide rural municipalities with \$875 million in annual funding to provide the same level of support it did in 2005.

The uploaded social programs include the Ontario Drug Benefit (ODB), the Ontario Disability Support Program (ODSP), Ontario Works (OW) and court security and prisoner transportation. These uploaded services were estimated to save municipalities approximately \$2.1 billion throughout the province in 2018.

In aggregate, these changes represent a net benefit to municipalities. However, these changes have created “winners and losers”. Many lower-tier, rural municipalities are negatively impacted by these changes, while larger, upper, and single-tier municipalities in urban areas are coming out as winners. This becomes evident when you consider who benefits most from the uploading of social services and who is hurt by the OMPF phase-down.

Lower tier municipalities in rural areas, such as Mapleton, are typically not responsible for the delivery of any of the social programs uploaded to the province. These rural municipalities enjoy little to no direct financial gain from these uploads. Most financial gains from uploading these social services will be enjoyed by Toronto, Ottawa, Hamilton, London, and other large, urban municipalities as well as upper-tier municipalities.

In 2005, Mapleton received \$1,215,495 in OMPF funding, which would be equal to \$1,621,036 after accounting for inflation. In 2019, Mapleton received only \$837,400 in OMPF funding.

Small, rural, lower-tier municipalities such as Mapleton have not fared well under the current financial relationship between the province and municipalities. The province must do more to provide financial support to rural municipalities.

***Recommendation 3: To provide the same level of funding as 2005, the province must increase funding under the OMPF program by 75% and adjust funding levels to match inflation in subsequent years.***

**Fully upload Education property taxes**

Given municipalities do not play any meaningful role in the delivery of educational services in Ontario, having local property taxes remain a funding source for the provincial education system is questionable.

Property tax is not an appropriate source of funding for “people services” like education. The Provincial government, the entity responsible for delivery of educational services, has more options to generate revenue (through income tax, for example) than municipal governments, whose, primary source for generating revenue is through property taxation. As detailed in section 5 of this report, educational property tax burden falls disproportionately on business properties, which reduces investment, employment, and local economic activity.

In 2019, Mapleton collected \$3,460,168 in education taxes from local residents, farms and businesses on behalf of the province. If the province were to fully upload the cost of education, Mapleton could potentially increase its own tax revenue by as much as 44% by absorbing the usual educational tax levy into the municipalities lower-tier tax levy. If these tax revenues were reinvested into local infrastructure and other services that benefit businesses, the property tax regime in Ontario would become much more economically efficient.

***Recommendation 4: The province should fully upload the remaining cost to finance educational services.***

**Ensure Development charges cover the full cost of development and discourage urban sprawl**

Only 5% of Ontario’s land base is suitable for agriculture. And since we have no way to make more soil, we need to hold on to all the productive land and soil we have. And if the supply of available, productive agricultural land continues to dwindle, everyone will suffer.

Every day, 175 acres of prime agricultural land is lost to non-agricultural uses like housing and commercial developments and aggregate extraction. Whatever the reason, Ontario cannot sustain this level of land loss and continue producing enough food, fiber and fuel.

In addition to creating financial incentives to preserve agricultural land, exempting farm structures from paying development charges makes sense given the purpose of development charges are “to pay for increased capital costs required because of increased needs for services arising from development”.

New farm residences should be treated the same as other new residences with regards to development charges. Growth-related capital needs can be attributed to all new residences. The construction of new farm buildings/structures, however, does not generate growth-related capital costs. Therefore, development charges should not apply to farm buildings/structures. If they do, farmers are bearing more than their share of the municipality's additional capital expenditures.

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Standardizing the application of development charges to agriculture through a province-wide exemption would prevent farmers from facing inequitable treatment in a minority of municipalities that have inadvertently not provided an exemption.