

O. Unrealized “Heads and Beds Levy” hurts Ontario’s Economic Competitiveness

Authored by the Greater Kingston Chamber of Commerce and the Greater Peterborough Chamber of Commerce

Issue

There has been an unacceptable period of inaction to raise the annual payment in lieu of taxes or “heads and beds levy” (Section 323 of the Municipal Act 2001) on specified public institutions (i.e. provincial correctional facilities, hospitals, and universities). As a result municipalities are forced to compensate in other ways, including hiking property taxes.

Background

The payment in lieu of taxes made by the Province of Ontario on behalf of post-secondary education institutions and hospitals was \$50 per student or hospital bed in 1973. This rate changed to \$75 in 1987 and has not changed since.

This rate of \$75 per student/bed does not reflect the change in cost of delivering services to Ontario municipalities. The result is undo pressure on all tax classes, particularly the commercial and industrial classes which are taxed at a ratio that averages about 1.5 times the residential rate.

Payments in lieu of taxes tend to be a controversial issue, but with all of the pressures on municipalities, including the arbitration system, this levy is an unrealized resource. The Ontario Chamber of Commerce (OCC) asked in 2012 to increase the heads and beds payments to \$140 per student/bed to reflect inflation. However, given the current provincial financial pressures we are suggesting an increase of the levy to \$100 per student/bed then attach it to the Consumer Price Index (CPI).

Using the \$100 to reflect inflation:

- *In Kingston, it has been estimated that an increase in the heads and beds levy to adjust for inflation would provide approximately \$1 million in additional funds to the City’s annual budget.*
- *In Peterborough, based on current expectations, an increase in the heads and beds levy would result in approximately \$1.1 million in additional funds to the annual budget.*

The economic impact of such funds in municipalities would be immediate.

Post-secondary institutions across the province are working on the premise that full-time enrollment numbers will continue to increase. A number of reports on health care system predict the number of acute beds will remain stagnant, but that does not mean the amount of the payment in lieu of taxes should. As a result of the levy remaining at 1987 levels, Ontario municipalities with post-secondary institutions are facing significant competitive disadvantages and ultimately, this will have an impact on Ontario's economic recovery.

The Province has seen fit to attach Minimum Wage to an economic factor such as the Consumer Price Index (CPI) based on an argument from the Ontario Chamber of Commerce Network. We feel this mechanism would be effective for the "Heads and Beds Levy" as well.

Recommendation

The Ontario Chamber of Commerce urges the Ontario Government:

To reflect inflation since the last levy increase in 1987, increase the "Heads and Beds Levy" to \$100 per student/bed and then tie future yearly increases to the Consumer Price Index (CPI).

Effective Date: May 2, 2015

Sunset Date: May 2, 2018