

**ONTARIO
MUNICIPAL
PARTNERSHIP
FUND**

Technical Manual

2005

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Ontario Ministry of Finance

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INTRODUCTION

This document outlines the Ontario Municipal Partnership Fund (OMPF) that is being introduced for 2005 to replace the Community Reinvestment Fund. It is intended to provide a technical overview of the new funding model and the accompanying transition strategy.

OVERVIEW

The Ontario Municipal Partnership Fund is replacing the Community Reinvestment Fund (CRF) as the province's main transfer payment to municipalities. The new municipal funding model replaces a model with a number of shortcomings with a clear and understandable system of grants. The Ontario Municipal Partnership Fund will assist municipalities with their social program costs; include equalization measures; address the challenges faced by northern and rural communities; and respond to policing costs in rural communities.

The OMPF will provide \$656 million to 386, or 87 per cent, of municipalities. This represents a \$38 million, or 6.1 per cent, increase over CRF funding received in 2004. As part of implementing the OMPF, the province is providing municipalities with \$233 million in one-time funding to meet the province's reconciliation obligations for 2003 and 2004 under the old CRF model and to ensure a manageable pace of change for municipalities.

Replacement of the CRF with a fairer funding model and the allocation of a transition fund to support its implementation are both part of the province's overall commitment to municipalities.

This commitment includes:

- \$680 million in gas tax funding over the next three years;
- Increasing the province's share of public health funding to 75% by 2007;
- \$298 million towards the \$1 billion fund for the Canada Ontario Municipal Rural Infrastructure Fund (COMRIF); and
- \$1.2 billion to date in infrastructure loans through the Ontario Strategic Infrastructure Financing Authority (OSIFA).

COMMUNITY REINVESTMENT FUND

The Community Reinvestment Fund (CRF) was introduced in 1998. Eligibility was based on the property tax and program exchange undertaken as part of the Local Services Realignment in 1998. Over time, additional grant components were added to the CRF to accompany the partial or complete upload of several programs.

There have been longstanding concerns with the CRF associated with its complexity, inequity, and administrative burden. In an attempt to understand these concerns, the government invited its municipal partners to participate in a review of the CRF as part of the Strong Communities initiative.

The discussion of municipal concerns through the Strong Communities initiative assisted the government in the design of the new Ontario Municipal Partnership Fund.

THE ONTARIO MUNICIPAL PARTNERSHIP FUND

The Ontario Municipal Partnership Fund will provide municipalities with \$656 million in funding through four grants:

I. Social Programs Grant — \$179 M

Provides funding to assist municipalities with limited property assessment to support the municipal share of social program costs.

II. Equalization Grant — \$170 M

Provides funding to municipalities with limited property assessment through two components:

- Assessment Equalization — \$138 M
- Farmland and Managed Forest Assessment — \$32 M

III. Northern and Rural Communities Grant — \$249 M

Provides funding to northern and rural communities to recognize their unique challenges through four components:

- Rural Communities — \$139 M
- Northern Communities — \$80 M
- Northern and Rural Social Programs — \$21 M
- Stabilization — \$9 M

IV. Police Services Grant — \$58 M

Provides funding to rural communities to support policing costs.

One-Time Funding

The province is addressing a key municipal concern in allocating \$100 million to reconcile to 2003 program costs and \$35 million to reconcile to estimated 2004 costs. Funding that municipalities receive will be final payments.

In addition, the province is providing \$98 million in one-time transition assistance to ensure a manageable pace of change for municipalities in the move to the new Ontario Municipal Partnership Fund.

The Stable Funding Guarantee announced in January 2005 will ensure that municipalities receive, at a minimum, as much funding in 2005 as they received through the CRF in 2004. The specific details of each municipality's Stable Funding Guarantee were included as part of the January 12, 2005 memo to Treasurers and Clerk-Treasurers from the Deputy Ministers of Finance, and Municipal Affairs and Housing.

I. SOCIAL PROGRAMS GRANT

This grant provides funding to municipalities with limited property assessment to support the municipal share of eligible social program costs (for a definition of eligible costs see Appendix A). This grant provides funding to municipalities whose costs for these programs exceed the revenue that could be raised by levying a 0.2% property tax rate on their assessment base.

This grant assists municipalities in meeting the municipal portion of the established cost-sharing arrangements for social programs. The province will continue to fund its portion of the cost-shared programs, as well as provide additional funding through the OMPF to help municipalities pay for their share of these arrangements.

Distribution: The Social Programs Grant is distributed to upper and single tier municipalities.

Example 1.1

Municipality A:

- Municipal share of eligible social program costs: \$125,000
- Total assessment: \$25,000,000

Threshold amount: $\$25,000,000 \times 0.2\% = \$50,000$

Grant: $\$125,000 - \$50,000 = \$75,000$

II. EQUALIZATION GRANT

This grant provides funding to municipalities that have limited property assessment through two components:

1. Assessment Equalization Grant Component

This component provides funding to municipalities with limited property assessment due to lower property values and limited non-residential assessment. Municipalities will receive funding if their total assessment per household is less than \$170,000.

An overall assessment differential for each eligible municipality is calculated in order to determine the grant amount.

If a municipality has a total assessment per household of less than \$170,000, it will receive funding based on the following scale:

 *Every \$10,000 increment in a municipality's total assessment differential will result in an additional \$62 in funding.*

(\$62 is the assessment equalization factor for 2005. It has been calculated by the Ministry of Finance based on the total assessment differential for all municipalities.)

Distribution: The Assessment Equalization Grant Component is distributed to lower and single tier municipalities.

Example 2.1

Municipality A:

- Total assessment per household: \$150,000
- Assessment per household below \$170,000 threshold: \$20,000
- Number of households: 5,000

Total assessment differential: $\$20,000 \times 5,000 \text{ households} = \$100,000,000$

Grant Component: $\$100,000,000 / \$10,000 \times \$62 = \$620,000$

2. Farmland and Managed Forest Assessment Grant Component

This component provides funding to municipalities with limited property assessment due to a significant amount of farmland and managed forest properties.

The grant provides funding equivalent to 150% of municipal revenue generated from farmland and managed forest assessment where these properties comprise more than 20% of the municipality's tax base. Municipalities that have between 5% and 20% of their tax base made up of these properties receive a portion of this funding on a sliding scale.

 *Every 1% increment in taxes generated from farmland and managed forest properties between 5% and 20% will result in additional funding equal to 10% of the taxes generated by these properties:*

Farmland and Managed Forest Assessment Grant Component																
Taxes generated by farmland & managed forest properties (%)	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
Taxes allocated as grant funding (%)	0	10	20	30	40	50	60	70	80	90	100	110	120	130	140	150

Distribution: The Farmland and Managed Forest Assessment Grant Component is distributed to lower and single tier municipalities.

Example 2.2

Municipality A:

- Taxes generated from farmland and managed forest properties: \$1,750,000
- Percentage of total taxes generated from farmland and managed forest properties: 25%

Grant Component: $\$1,750,000 \times 150\% = \$2,625,000$

Example 2.3

Municipality B:

- Taxes generated from farmland and managed forest properties: \$250,000
- Percentage of total taxes generated from farmland and managed forest properties: 7%

Grant Component: $\$250,000 \times 20\% = \$50,000$

III. NORTHERN AND RURAL COMMUNITIES GRANT

This grant provides funding to northern and rural communities in recognition of the unique challenges they face.

In order to support this grant, a rural and small community measure has been calculated for each municipality to determine the proportion of its population living in rural areas or small communities (see Appendix A).

The grant has four components:

1. Rural Communities Grant Component

This component provides funding to municipalities based on the proportion of their population that is living in rural areas or small communities.

Municipalities with a rural and small community measure of 75% or more receive the full per household amount of \$150. Municipalities with a rural and small community measure between 25% and 75% receive a portion of this funding on a sliding scale.

 *Every 5% increment in the rural and small community measure between 25% and 75% results in an additional \$15 per household, to a maximum of \$150:*

Rural Communities Grant Component											
Rural & small community measure	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75% +
Per household Amount	\$0	\$15	\$30	\$45	\$60	\$75	\$90	\$105	\$120	\$135	\$150

Distribution: The Rural Communities Grant Component is distributed to lower and single tier municipalities.

Example 3.1

Municipality A:

- Number of households: 400
- Rural and small community measure: 80%

Grant Component: $400 \times \$150 = \$60,000$

Example 3.2

Municipality B:

- Number of households: 600
- Rural and small community measure: 45%

Grant Component: $600 \times \$60 = \$36,000$

2. Northern Communities Grant Component

This component provides funding to all municipalities in northern Ontario (for definition see Appendix A) based on the number of households. The grant per household is \$225.

Distribution: The Northern Communities Grant Component is distributed to all northern municipalities.

3. Northern and Rural Social Programs Grant Component

This component establishes a limit on the share of municipal tax revenue needed to support the municipal share of eligible social programs in northern and rural communities (see Appendix A).

Funding is provided if the municipal share of eligible social program costs (net of the Social Programs Grant) exceeds a threshold of 15% of municipal tax revenue.

All northern municipalities are eligible for this grant if their social program costs exceed the threshold. Municipalities that are not in the North are eligible to receive the full amount of funding available through this grant component if they have a rural and small community measure of 75% or greater and their social program costs are greater than the threshold.

Municipalities with a rural and small community measure between 25% and 75% receive a portion of this funding on a sliding scale.

 *Every 5% increment in the rural and small community measure between 25% and 75% results in a 10% increase in funding for eligible costs greater than the 15% tax revenue threshold:*

Northern and Rural Social Programs Grant Component											
Rural and small community measure	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75% +
Residual social program costs funded	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%

For northern and rural communities, this grant provides additional funding to complement the support provided through the Social Programs Grant.

Distribution: The Northern and Rural Social Programs Grant Component is distributed to upper and single tier municipalities.

Example 3.3

Municipality A:

- Geographic designation: northern
- Municipal share of eligible social program costs: \$4,000,000
- Social Programs Grant amount: \$2,000,000
- Residual social program costs (costs net of the Social Programs Grant): \$2,000,000
- Tax revenue: \$10,000,000
- 15% of tax revenue: \$1,500,000

Residual social program costs above 15% threshold: \$2,000,000 – \$1,500,000 = \$500,000

Grant Component: \$500,000

Example 3.4

Municipality B:

- Geographic designation: non-northern
- Rural and small community measure: 60%
- Municipal share of eligible social program costs: \$10,000,000
- Social Programs Grant amount: \$6,000,000
- Residual social program costs (costs net of the Social Programs Grant): \$4,000,000
- Tax revenue: \$20,000,000
- 15% of tax revenue: \$3,000,000

Residual social program costs above 15% threshold: \$4,000,000 – \$3,000,000 = \$1,000,000

Grant Component: \$1,000,000 x 70% = \$700,000

4. Stabilization Grant Component

This component provides ongoing funding to municipalities that otherwise would see decreases in funding of more than \$150 per household, relative to funding received in 2004 through the Community Reinvestment Fund.

This grant component has been calculated on the basis of 2005 funding levels and will be maintained at this level in future years.

Distribution: The Stabilization Grant Component is distributed to upper, lower, and single tier municipalities.

IV. POLICE SERVICES GRANT

This grant provides funding to rural and small communities to support policing costs.

This grant provides funding equal to 50% of eligible police costs (for definition see Appendix A) above \$150 per household for municipalities that have a rural and small community measure of 75% or more.

Municipalities with a rural and small community measure between 25% and 75% receive a portion of this funding on a sliding scale.

 Every 5% increment in the rural and small community measure between 25% and 75% results in a 5% increase in funding for eligible costs above \$150 per household:

Police Services Grant											
Rural and small community measure	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75% +
Eligible costs above threshold allocated as funding	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%

For municipalities with a rural and small community measure of less than 75%, the Police Services Grant will be calculated as 50% of their 2002 eligible per household policing costs above the \$150 threshold — where this approach generates a greater amount than under the standard calculation detailed above. This is incorporated as a transitional measure that applies to only a small number of municipalities.

Distribution: The Police Services Grant is distributed to those municipalities that provide policing services.

Example 4.1

Municipality A:

- Rural and small community measure: 100%
- Eligible costs above \$150 per household threshold: \$550,000

Grant: $\$550,000 \times 50\% = \$275,000$

Example 4.2

Municipality B:

- Rural and small community measure: 40%
- Eligible costs above \$150 per household threshold: \$400,000

Grant: $\$400,000 \times 15\% = \$60,000$ **ONE-TIME FUNDING**

As part of implementing the Ontario Municipal Partnership Fund, the province is providing municipalities with \$233 million in one-time funding to meet the province's reconciliation obligations for 2003 and 2004 under the old CRF model and to ensure a manageable pace of change for municipalities.

The \$233 million in one-time funding has two components:

1. Funding for a 2003 and 2004 CRF reconciliation (\$135 M)

\$135 million in funding is being provided to municipalities for their 2003 program costs and their estimated 2004 costs. The 2003 and 2004 CRF adjustments represent the final closeout payments of the old CRF grant program.

Reconciliation (\$M)	2003	2004	Total
2003 reconciliation	\$50	\$50	\$100
2004 reconciliation		\$35	\$35
Total	\$50	\$85	\$135

2. Transition Funding (\$98 M)

\$98 million in one-time transition funding is being provided to municipalities that would otherwise see reduced revenue under the Ontario Municipal Partnership Fund compared to the funding they received in 2004 through the Community Reinvestment Fund.

This funding will ensure a manageable pace of change for municipalities in the move to the new OMPF.

Distribution: Transition funding is distributed to upper, lower, and single tier municipalities.

PHASE-IN STRATEGY

The Stable Funding Guarantee announced in January 2005 will ensure that municipalities will receive, at a minimum, as much funding in 2005 as they received through the CRF in 2004. As noted, the specific details of each municipality's Stable Funding Guarantee were included as part of the January 12, 2005 memo to Treasurers and Clerk-Treasurers from the Deputy Ministers of Finance, and Municipal Affairs and Housing.

The OMPF phase-in strategy will be supported, in part, through the \$98 million one-time transition funding outlined above.

The phase-in will ensure that the revenue impacts of the transition to OMPF will be limited by the following parameters:

Phase-In Parameters (\$)	2005	2006	2007	2008
Maximum Per Household Decrease	\$0	\$10	\$25	\$50
Maximum Per Household Increase	\$80	\$90	\$100	\$150

Revenue changes under the OMPF are compared to payments each municipality received in 2004 under the CRF and are expressed as the residential tax impact per household.

Total municipal reductions will be limited to: \$250,000 in 2006, \$500,000 in 2007, and \$1,000,000 in 2008.

IMPLEMENTATION

The Ontario Municipal Partnership Fund allocations will be announced annually in the fall and flowed in quarterly payments to municipalities. All OMPF allocations will be provided to municipalities as unconditional grants. One-time funding will also be provided to municipalities as unconditional grants from the province's 2004-05 Change Fund.

Municipal allocations will be calculated by the Ministry of Finance based on a defined set of data elements (see Appendix B).

Data elements will be either stable or live. The "stable" data elements will be established prior to the annual fall release of allocations, e.g. assessment data, number of households. Stable data elements will be based on the most recent data sets available as of July 30 of the year prior to the allocation year.

A limited number of data elements will be “live” throughout the allocation year. Specifically, costs for police services, child care programs and administration, and social assistance income support and administration (Ontario Drug Benefit, Ontario Disability Support Program and Ontario Works) will be live data elements.

Live data elements will be reconciled regularly to capture both increases and decreases in costs. This will result in adjustments to the Social Programs Grant, the Northern and Rural Social Programs Grant Component, and the Police Services Grant.

UPPER, LOWER, AND SINGLE TIER DISTRIBUTION OF FUNDING

Funding provided through the Ontario Municipal Partnership Fund is distributed to upper, lower, and single tier municipalities based on the level of government that is responsible for the service supported by the grant or grant component.

Upper, Lower, and Single Tier Funding Distribution	
Social Programs Grant	UT / ST
Equalization Grant	
– Assessment Equalization Grant Component	LT / ST
– Farmland and Managed Forest Assessment Grant Component	LT / ST
Northern and Rural Communities Grant	
– Rural Communities Grant Component	LT / ST
– Northern Communities Grant Component	ST
– Northern and Rural Social Programs Grant Component	UT / ST
– Stabilization Grant Component	UT / LT / ST
Police Services Grant	UT / LT / ST

Phase-in adjustments will be calculated independently for upper, lower, and single tier municipalities.

APPENDICES

Appendix A – Definitions

Eligible Municipal Social Program Costs

Eligible municipal social program costs refer to the costs that municipalities are responsible for under existing cost-sharing arrangements with the province. Social programs that are eligible for inclusion in determining a municipality's total social program costs for the Ontario Municipal Partnership Fund include:

- Ontario Works income support: 20%
- Ontario Works administration: 50%
- Ontario Disability Support Program income support: 20%
- Ontario Disability Support Program administration: 50%
- Ontario Drug Benefit: 20% of cost of benefit for Ontario Works and Ontario Disability Support Program recipients and dependents
- Child Care: 20% of cost of child care programs, 50% of administration
- Social Housing: 100% of the devolved costs as of 2002

Eligible Police Costs

Eligible police costs include policing services provided by the Ontario Provincial Police (OPP) or a local force to meet the service standards defined in the *Police Services Act*.

Non-eligible police costs include bylaw enforcement and cases where service levels exceed those required by the *Police Services Act*.

Northern Municipality

Northern municipalities are those that lie within any of the following Districts: Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay, and Timiskaming.

Rural and Small Community Measure

The rural and small community measure represents the proportion of a municipality's population that resides in rural areas or small communities. This approach recognizes that some municipalities include a mix of rural and non-rural areas.

The measure is based on Statistics Canada data and is calculated as follows:

1. Statistics Canada divides municipalities into small geographic areas, typically less than a few hundred residents.

2. These areas are classified by Statistics Canada as rural areas or small communities if they meet one of the following conditions:
 - They have a population density of less than 400 per square kilometre;
 - They have a population density of greater than 400 per square kilometre but cannot be grouped with other adjacent areas, (each also with a population density of greater than 400 per square kilometre), to produce a total population concentration greater than 1,000; or
 - They are not economically integrated with a population centre of greater than 10,000.
3. The rural and small community measure is determined by calculating the proportion of a municipality's population living in areas that are classified as either rural or part of a small community.

Example

Total municipal population = 1,000

Population in areas that are rural or in small communities = 700

Rural and small community measure = $700 / 1,000 = 70\%$

Assessment

In this document assessment refers to the total assessment for a municipality weighted by the tax ratio for each class of property plus payments in lieu of property taxes (PILs) made by either the provincial or federal government. (An equivalent PIL assessment is calculated by dividing actual PIL revenues by tax rates in each municipality.)

Appendix B — Data Sources

Data	Year	Source
Live Program Cost Data <ul style="list-style-type: none"> ▪ Social Assistance ▪ Child Care ▪ Ontario Provincial Police ▪ Municipal Police 	2005	<ul style="list-style-type: none"> ▪ Ministry of Community and Social Services projection ▪ Ministry of Children and Youth Services projection ▪ OPP ▪ Projection based on municipal Financial Information Return (FIR)
Other Program Cost Data <ul style="list-style-type: none"> ▪ Social Housing 	2002	<ul style="list-style-type: none"> ▪ 2002 LSR costs adjusted for cost-sharing for 2003 Consolidated Municipal Service Managers and District Social Services Administration Boards
Taxation and Assessment Data <ul style="list-style-type: none"> ▪ Weighted Assessment ▪ Farmland and Managed Forest Tax Revenue ▪ Estimated Own Purpose Taxation ▪ Estimated Payments in Lieu Revenues 	2004	<ul style="list-style-type: none"> ▪ Municipal Property Assessment Corporation and municipal tax rate by-laws (MPAC) ▪ MPAC and municipal tax rate by-laws ▪ Based on municipal FIR data ▪ Based on municipal FIR data
Demographic Data <ul style="list-style-type: none"> ▪ Households ▪ Rural and small community measure/population in rural areas 	2004 2001	<ul style="list-style-type: none"> ▪ MPAC Enumeration ▪ Census, Statistics Canada