

Ontario Municipal Partnership Fund Overview of Grant Design

**Ministry of Finance
Provincial-Local Finance Division**

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Purpose

- To provide an overview of the Ontario Municipal Partnership Fund (OMPF) funding model, as well as historical changes to municipal funding that have occurred over the past two decades.

Context and Background

- The Province has provided unconditional funding such as the Ontario Municipal Partnership Program (OMPF) to municipalities for decades. The design of provincial unconditional grants programs has varied over the years, and specific programs have been intended to achieve various objectives, including:
 - Providing targeted funding to municipalities experiencing financial challenges or higher expenditures in key areas; and
 - Recognizing the unique challenges faced by northern municipalities.
- The OMPF is currently the Province's main unconditional transfer payment to municipalities, and has been in place since 2005.
- Prior to the introduction of the OMPF, municipalities in Ontario received support through the Community Reinvestment Fund (CRF) which was designed in conjunction with Local Services Realignment (LSR) in 1998.

Local Services Realignment and the CRF

- Local Service Realignment (LSR) was introduced in 1998, and involved a new division of responsibility for local services.
 - LSR occurred alongside other important provincial reform exercises with significant financial implications for the municipal sector, including:
 - Education finance reform and the transfer of education tax room to municipalities; and
 - Reforms to the assessment and property tax system.
- In 1998, the LSR adjusted responsibilities and costs for 16 programs between the Province and municipalities. As a result, \$3 billion in net costs were transferred to municipalities.
- This was offset by providing municipalities with access to \$2.5 billion in residential education tax revenues, and over \$500 million in funding through the CRF.
- The CRF was designed to ensure that LSR was revenue neutral for each municipality.
- The CRF was intended to help municipalities adjust to policy changes resulting from the LSR and ensure that revenues provided to municipalities were at least equal to net LSR program costs.

Community Reinvestment Fund (CRF)

- When the Community Reinvestment Fund (CRF) was first established, it used a uniform formula to determine base funding eligibility.
 - Additional grant components were subsequently added to the program to accompany the uploading of parts or all of public health, land ambulance and GO transit.
- Over time, the CRF was criticized for being highly inequitable, complex and administratively burdensome.
 - For example, similar municipalities would receive substantially different levels of funding.
- In 2004, as part of the Strong Communities Initiative, the government and municipal representatives undertook a comprehensive review of the CRF.
- As a result of that review, the OMPF was introduced in 2005 to replace the CRF.

From CRF to OMPF

- The OMPF was introduced to transition away from a mitigation-like program (CRF), to a more principles-based program under which similar municipalities receive similar funding.
- The program's objectives were to address challenges faced by northern and rural communities; and those with limited property assessment as well as to assist municipalities with social program costs and rural communities with high policing costs.
- Unlike the CRF, the OMPF was originally designed to respond to the individual circumstances of each municipality, including updates in assessment, households, policing and social program costs.
- The program was also designed to ensure simplicity, transparency, and accountability.
 - For example, details regarding grant design, and all municipal allocations are publicly available on the Ministry's website.
 - In addition, the Ministry has developed customized supporting material to assist municipalities in understanding the calculation of their OMPF allocations, including the inclusion of data components and step-by-step calculation of grant entitlements.

Provincial-Municipal Fiscal and Service Delivery Review (PMFSDR)

- In 2008, the Province in partnership with municipalities and the Association of Municipalities Ontario (AMO), initiated the Provincial-Municipal Fiscal and Service Delivery (PMFSDR), which reviewed the funding and delivery of services in Ontario.
- This PMFSDR agreement has been recognized as a major landmark in the provincial-municipal relationship as it resulted in the transfer of significant costs to the province from the municipal property tax base.
- During the PMFSDR discussions, AMO and municipalities identified the upload of social assistance benefit program costs as their top priority based on the principle that these costs should not be funded by the property tax.
 - The Province agreed to upload the municipal share of social assistance benefit programs cost (Ontario Drug Benefit (ODB), Ontario Disability Support Program (ODSP), Ontario Works (OW)) as well as up to \$125 million in court security and prisoner transportation costs off the property tax base by 2018
- As a result of the uploads, municipalities are benefiting from more than \$1.7 billion in reduced costs in 2015 (See Appendix B for details related to the upload agreement).
- This support will continue to grow as the uploads are implemented, with the province assuming the continued growth in the cost of the uploaded programs.

OMPF and the PMFSDR

- The OMPF was included as part of the PMFSDR because it included grants that supported municipal costs that the government committed to upload through the PMFSDR agreement.
 - As part of the agreement, municipal representatives agreed to the phase-down of the OMPF to \$500 million by 2016.
- In 2012, the government announced the review of the OMPF and the phase-down of the program.
 - Note: The *2015 Ontario Budget* announced that the Province will enhance the OMPF by increasing the Northern Communities grant by \$5 million in 2016. As a result, rather than phasing-down the OMPF to the agreed upon level of \$500 million by 2016, the program will total \$505 million in 2016.

Summary of Combined Provincial Support 2013 – 2016 (\$ Millions)				
	2013	2014	2015	2016
Provincial Uploads*	1,368	1,560	1,705	1,830
OMPF**	575	550	515	505
Combined Support	1,943	2,110	2,220	2,335

*Based on updated information and projections from the Ministry of Community and Social Services

** Schedule confirmed in the 2014 Ontario Budget. \$505 million confirmed in the 2015 Ontario Budget

- However, even with the phase-down of the OMPF, the government's commitment to the provincial uploads means that overall support to municipalities will continue to increase, with the provincial uploads more than offsetting the reduction to the program.

OMPF Review

- The review of the OMPF has provided the opportunity to re-evaluate the OMPF's design and objectives, particularly in light of the effect of the provincial uploads on the program.
- The upload of social assistance benefit costs from the property tax base addressed a key objective of the previous OMPF – to provide targeted support to municipalities to assist them with their social program costs.
- With the phase out of the program's social program grants in response to the uploads, the OMPF became less responsive to individual municipal circumstances.
 - The social programs grants were based on individual municipal weighted assessment and income levels, which responded to municipal circumstances.
- Through consultations on the OMPF, municipalities pointed out that most of the remaining grants in the program (i.e., the Northern Communities grant and the Rural Communities grant) provided the same per household funding, regardless of fiscal circumstances.

OMPF Review

- The following example illustrates how per household funding was allocated under the Northern Communities and Rural Communities' grants to municipalities with different fiscal circumstances.
 - **Rural:** Municipality B's weighted assessment per household is almost twice as high as Municipality A's. In addition, Municipality B's median household income is more than double Municipality A's. However, both received \$156/hh through the Northern and Rural Communities Grants of the former OMPF.
 - **Northern:** Municipality D's weighted assessment per household is almost three times greater than Municipality C. In addition, Municipality D's median household income is more than twice Municipality C's. However, both received \$391/hh through the Northern and Rural Communities Grants of the former OMPF.

Examples of Rural and Northern Municipalities with Different Fiscal Circumstances

Municipality	Municipal Type	Weighted Assessment per Household	Median Household Income	Northern and Rural Funding 2012
Municipality A	Rural	\$166,283	\$43,235	\$156 per hh
Municipality B	Rural	\$297,970	\$96,350	\$156 per hh
Municipality C	Northern	\$84,663	\$41,773	\$391 per hh
Municipality D	Northern	\$245,704	\$90,876	\$391 per hh

OMPF Review and Redesign (2013 Transition Year)

- The review of the OMPF has included extensive consultations with the Association of Municipalities of Ontario (AMO) and over 40 municipal representatives over a number of years.
- Following a first round of consultations, the government announced that **2013 would be a transition year for the OMPF**.
 - \$575 million in funding was provided to municipalities through a guaranteed level of support based on 2012 OMPF allocations.
 - Municipalities in the north received a minimum of 95% of their OMPF 2012 allocation and municipalities in other regions of the province received a minimum of 90% of their 2012 OMPF allocation.
- As part of the transition year, and in response to municipal requests for a program that better targets funding to northern and rural communities, the **Northern and Rural Municipal Fiscal Circumstances Index** (MFCI) was introduced as a transformative element to the program.
- This measure was developed in close consultation with municipalities, and is widely endorsed by a broad cross-section of municipalities.
 - The MFCI was used to enhance guaranteed levels of support to rural and northern municipalities facing more challenging fiscal circumstances.
- The introduction of the MFCI to the OMPF has improved the program's original design, where all northern and rural municipalities received the same per-household funding, by ensuring that funding is targeted to municipalities with the greatest needs.

The Northern and Rural MFCI

- The northern and rural MFCI measures a municipality's fiscal circumstances relative to other northern and rural municipalities in the province.
 - The MFCI was developed during the first phase of the OMPF review in 2012, working in close consultation with a small municipal Technical Advisory Panel consisting of well respected retired treasurers, as well as a larger municipal reference group.
- The MFCI is intended to reflect a municipality's underlying fiscal circumstances rather than financial management or budgetary decisions municipalities have made in response to those circumstances.
 - For this reason, the MFCI focuses on factors such as weighted assessment per household and median household income, rather than factors like debt, reserve funds or the state of infrastructure.
 - These type of measures help to ensure that the funding program does not potentially distort efficient decision making.

The Northern and Rural MFCI (Cont'd)

- The MFCI is based on **six indicators** which reflect the strength of a municipality's assessment base, the ability of its residents to pay for services, drivers of municipal expenditures and various economic factors.
- These indicators are classified as either **primary** or **secondary** to reflect their relative importance in determining a municipality's fiscal circumstances, and include.

	Indicators	Weighting
Primary	Weighted Assessment per Household	50 %
	Median Household Income	
Secondary	Average Annual Change in Assessment (New Construction)	50%
	Employment Rate	
	Ratio of Working Age to Dependent Population	
	Per cent of Population Above Low Income Threshold	

2014 Redesigned OMPF

- Following further consultations with municipalities the next year, a redesigned \$550 million OMPF was announced for 2014.
- While the OMPF is being phased down, it has also been redesigned to **better target** funding to northern and rural municipalities with more challenging fiscal circumstances.
 - This responds to municipal input that the program should further support municipalities with the greatest needs.
- The 2014 OMPF continued to provide support to municipalities through the **Assessment Equalization Grant component** and the **Northern Communities** and **Rural Communities Grant component**, which have been in place since the introduction of the program in 2005.
 - These grants continue to recognize the challenges of northern and rural municipalities, and those with weaker assessment bases.
- **The Northern and Rural Fiscal Circumstances grant** component was introduced as part of the redesign in recognition that not all northern and rural municipalities are the same.
- This grant provides additional, targeted support to eligible municipalities based on their individual municipal fiscal circumstances, as measured by the northern and rural **Municipal Fiscal Circumstances Index (MFCI)**.
- The 2014 OMPF also provided a significant amount of **Transitional Assistance**, which ensured that municipalities received a guaranteed level of support relative to the amount received in 2013.
 - These minimum levels of support were enhanced up to 100 per cent for eligible northern and rural municipalities with more challenging fiscal circumstances.

2015 OMPF Overview (cont'd)

- In 2015, the province is providing municipalities with \$515 million in unconditional funding through the OMPF.
 - The OMPF, combined with the municipal benefit resulting from the provincial uploads, totals over \$2.2 billion in 2015 – more than three and a half times the level of funding provided in 2004.
- The 2015 OMPF builds on the 2014 redesigned program, and has also been designed to balance the recommendations that emerged from the last round of consultations with municipalities by:
 1. Beginning to increase funding provided through the **Northern and Rural Municipal Fiscal Circumstances Grant component to further target** support to those municipalities with more challenging fiscal circumstances.
 - Compared to 2014, these municipalities are receiving an increase of more than 30 per cent in per household funding allocated through this grant component.
 2. Including a significant amount of transitional funding in order to provide municipalities with **stability** as they adjust to the redesigned program.
 - Transitional assistance ensures that northern municipalities will receive at least 90 per cent of their 2014 OMPF allocation, while municipalities in other regions of the province will receive at least 80 per cent of their 2014 allocation.
 - These minimum levels continue to be enhanced up to 100 per cent for municipalities with more challenging fiscal circumstances.

2015 OMPF

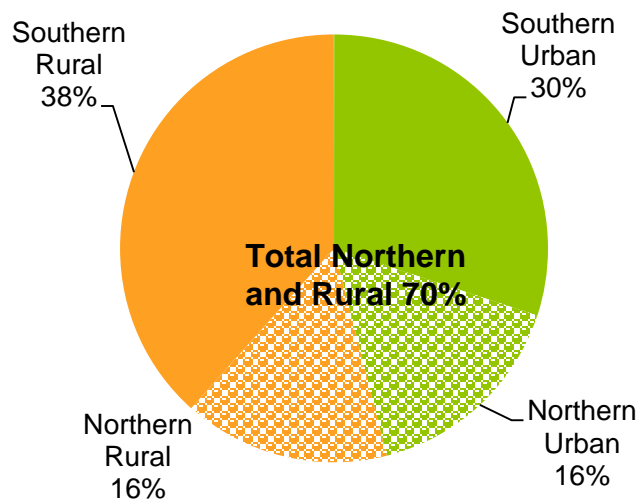
- The following presents the core grants and transitional assistance of the 2015 OMPF.
- The core grants and objectives of the 2015 program will continue to be key components of the OMPF design, while funding targeted to municipalities with more challenging fiscal circumstances continues to increase within the existing envelope.

Grant Allocations (\$M)	2015
Assessment Equalization	149
Northern Communities	79
Rural Communities	138
Fiscal Circumstances	55
Core Grants Total	421
Transitional Assistance	94
Total OMPF	515

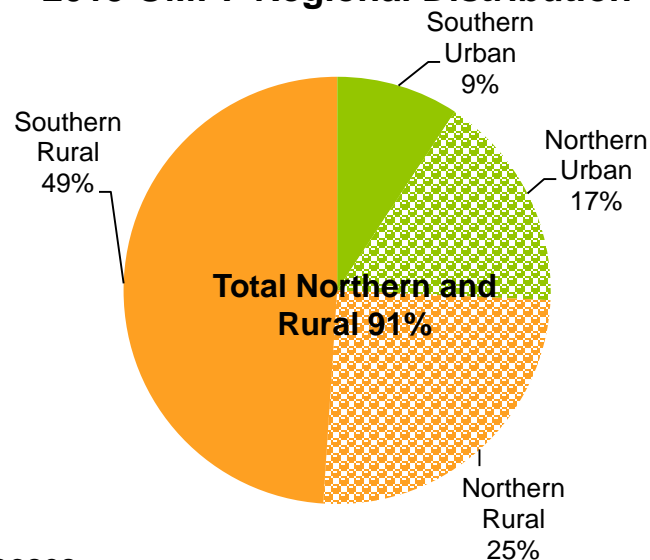
2015 OMPF Overview

- Since the introduction of the OMPF in 2005, the Province has provided a total of more than \$7.5 billion in funding to over 380 municipalities.
 - In 2015, the Province is providing municipalities with \$515 million in unconditional funding through the OMPF.
- The OMPF is now largely a northern and rural grant, providing over 90 per cent of its funding to northern and rural municipalities, compared to 70 per cent in 2008.
- The OMPF represents at least 20 per cent of the budgets for nearly 85 municipalities. Many of these are smaller municipalities.

2008 OMPF Regional Distribution



2015 OMPF Regional Distribution



Municipal Feedback on the Redesigned OMPF

- While AMO's overarching position is that the phase-down of the OMPF should be deferred, in general, municipalities have been supportive of the redesign of the OMPF and the approach to targeting municipalities with more challenging fiscal circumstances.
- Discussions with the MRG on the OMPF redesign have mainly focused on balancing the need for stability and ensuring a manageable pace of change, with further targeting funding to municipalities with the greatest needs.
- The following key themes have emerged from discussions with the MRG:
 - Support for the current objectives of the OMPF, including the northern and rural Municipal Fiscal Circumstances Index (MFCI);
 - Support for increasing targeted funding to municipalities with more challenging fiscal circumstances;
 - Support for stability and mitigation (i.e., transitional assistance);
 - Support for a manageable pace of change; and
 - Some interest in establishing a new grant that would provide further support to rural, farm communities.

Reflections and Lessons Learned

- A number of factors have contributed to the successful transition from the CRF to the OMPF and subsequently to the OMPF phase-down and redesign. These include:
- **Transparency – Providing detailed information on grant allocations facilitates stakeholder relations.**
 - Stakeholders were critical of the CRF because of its complexity and difficulty in understanding why similar municipalities received different levels of funding.
 - With the introduction of the OMPF, the government provided municipalities with their grant allocations as well as detailed customized workbooks and step by step data calculations of grant allocations. A technical guide and allocation notices are also posted online.
- **Open and frank discussions.**
 - The government has been consulting on the OMPF since 2012.
 - Open and ongoing communication with stakeholders regarding the intent and purpose of the consultation. Ministry staff also provided detailed information on the options modeled in response to municipal input.
 - The Ministry worked with AMO to involve a group of technical experts composed of three well respected treasurers. This allowed for detailed technical discussions and supported the development of the *Municipal Fiscal Circumstances Index* (MFCI) through the broader municipal consultation process.

Reflections and Lessons Learned (cont'd)

- **Understanding that stability is an overriding objective for stakeholders**
 - Though most municipalities supported the principled policy change to a more targeted OMPF redesign, high priority was also given to ensuring that any change to the program would be manageable. Therefore, municipalities continued to support a program that includes a significant amount of mitigation funding.
- **Introducing policy changes gradually (i.e. through a transition-year)**
 - Changes to the design of the OMPF, including a greater focus on targeting municipalities with more challenging fiscal circumstances, has evolved gradually.
 - Began with the introduction of the MFCI during the 2013 transition year.
 - The program has been further targeted through introduction of new fiscal circumstances grant in 2014, and further targeting in 2015.
- **Timing and understanding the Municipal Budget Cycle**
 - Announcing funding prior to the budget cycle (i.e. Jan – Dec) in order to allow municipalities to better plan for their budgets.

Reporting Requirements

- Municipalities are required to provide specific information or reports as a condition for receiving operating and capital funding.

Ministry of Municipal Affairs and Housing (MMAH)

- The Financial Information Returns (FIR) is the main data collection tool used by MMAH to collect financial and statistical information on municipalities. The return is comprised of a number of schedules which are updated each year. This financial data (from 2000 to 2013) is available online.
- Data from FIR is used by a number of stakeholders including municipalities, municipal associations, the academic community, the Ontario Municipal Board, ratepayer groups and consulting firms.
- Municipalities are required to submit their FIR under the Municipal Act, 2001.

Ministry of Finance

- The reporting requirements under the OMPF have been simplified compared to the previous program.
- Under the CRF, municipalities were required to submit FIR and Tax Rate By-laws to MMAH, as well as a council resolution on the use of the funding, which included a declaration of the municipality's intent to use the CRF allocations for the benefit of taxpayers.
- Under the current OMPF, only the FIR is required of all municipalities, and Tax Rate By-laws are only required from municipalities that do not provide them through existing tools.

Reporting Requirements (cont'd)

Ministry of Economic Development, Employment and Infrastructure

- For the Ontario Community Infrastructure Fund (OCIF), both the formula and application components have the same reporting requirements:
 - Applicants must have a comprehensive up-to-date asset management plan.
 - Applicants must have completed all recent FIRs without critical errors.
 - Applicants must have no outstanding reporting obligations from previous infrastructure funding programs.
 - Recipients are required to submit annual reports that identify how funds were spent within the context of the local asset management plan.

Next Steps

- The Province has begun the next round of consultations for the 2016 OMPF with the Municipal Reference Group (MRG).
- The ministry will continue to consult with the OMPF MRG over the next few months, focusing specifically on the 2016 program as well as the longer-term vision for the OMPF.
 - This will support the decision-making process and announcement of 2016 allocation in the fall.

Appendices

- A. Details on 2015 Grant Components
- B. Support to Municipalities
- C. Provincial Uploads

Appendix A: Assessment Equalization Grant (\$149M)

Rationale

- To provide support to municipalities with weaker assessment bases (i.e., limited ability to raise revenue).

Description

- This grant provides funding to single- and lower-tier municipalities with limited property assessment due to lower property values and limited non-residential assessment.
- The grant is provided to municipalities whose weighted assessment is below the provincial median of \$252,500 per household.
 - Every \$10,000 increment in a municipality's total assessment differential results in an additional \$39.60 in funding.

Appendix A: Northern Communities Grant (\$79M)

Rationale

- To provide support in recognition of unique challenges faced by northern communities.

Description

- The grant provides funding to all northern municipalities
- The grant is based on the number of households and the fixed per-household amount is \$214.50.

Appendix A: Rural Communities Grant (\$138M)

Rationale

- To provide support in recognition of unique challenges faced by rural communities.

Description

- The grant provides per-household funding to single- and lower-tier municipalities based on the proportion of their population residing in rural areas or small communities.
- The fixed per-household amount for this grant is \$134.50 and is adjusted for municipalities based on the extent to which they include a mix of rural areas and small communities as defined by the Rural and Small Community Measure (RSCM).
 - Municipalities with an RSCM of 75 per cent or more receive the full per-household amount of \$134.50.
 - Municipalities with an RSCM between 25 per cent and 75 per cent receive a portion of this funding on a sliding scale.

Appendix A: Northern and Rural Fiscal Circumstances Grant (\$55M)

Rationale

- To provide additional, targeted support to northern and rural communities based on individual municipal fiscal circumstances.

Description

- The grant is provided to municipalities eligible for funding through the Northern Communities and/or Rural Communities grants, both of which provide a fixed per-household funding amount to northern as well as single- and lower-tier rural municipalities.
- In addition to these fixed per-household amounts, the new grant provides targeted support to municipalities with more challenging fiscal circumstances as measured by the northern and rural MFCI.

Appendix A: Northern and Rural Fiscal Circumstances Grant (Cont'd)

- Funding provided through this grant has been enhanced in 2015 to provide additional targeted support to municipalities with the most challenging fiscal circumstances.
- Compared to 2014, these municipalities are receiving an increase of more than 30 per cent in per household funding allocated through this grant.

MFCI*	0	1	2	3	4	5	6	7	8	9	10
2014 Amount per HH	0	\$9	\$18	\$27	\$36	\$45	\$54	\$63	\$72	\$81	\$90
2015 Amount per HH	0	\$9	\$18	\$27	\$36	\$48	\$60	\$72	\$85	\$100	\$120
% Change 2014-2015	-	-	-	-	-	7%	11%	14%	18%	23%	33%

- Single-and lower-tier rural municipalities with an RSCM between 25 per cent and 75 per cent receive a portion of the per-household funding according to their RSCM.

Appendix A: Transitional Assistance (\$94M)

Rationale

- To ensure that municipalities are provided with stability as they adjust to the redesigned program.

Description

- Transitional Assistance ensures that all municipalities receive a guaranteed level of support based on their 2014 OMPF allocation.
- Municipalities in the north are receiving at least 90 per cent of their 2014 OMPF allocation, while municipalities in other regions of the province are receiving at least 80 per cent.
- These minimum levels of support are enhanced, up to 100 per cent, for eligible northern and rural municipalities with more challenging fiscal circumstances as measured by the northern and rural MFCI.

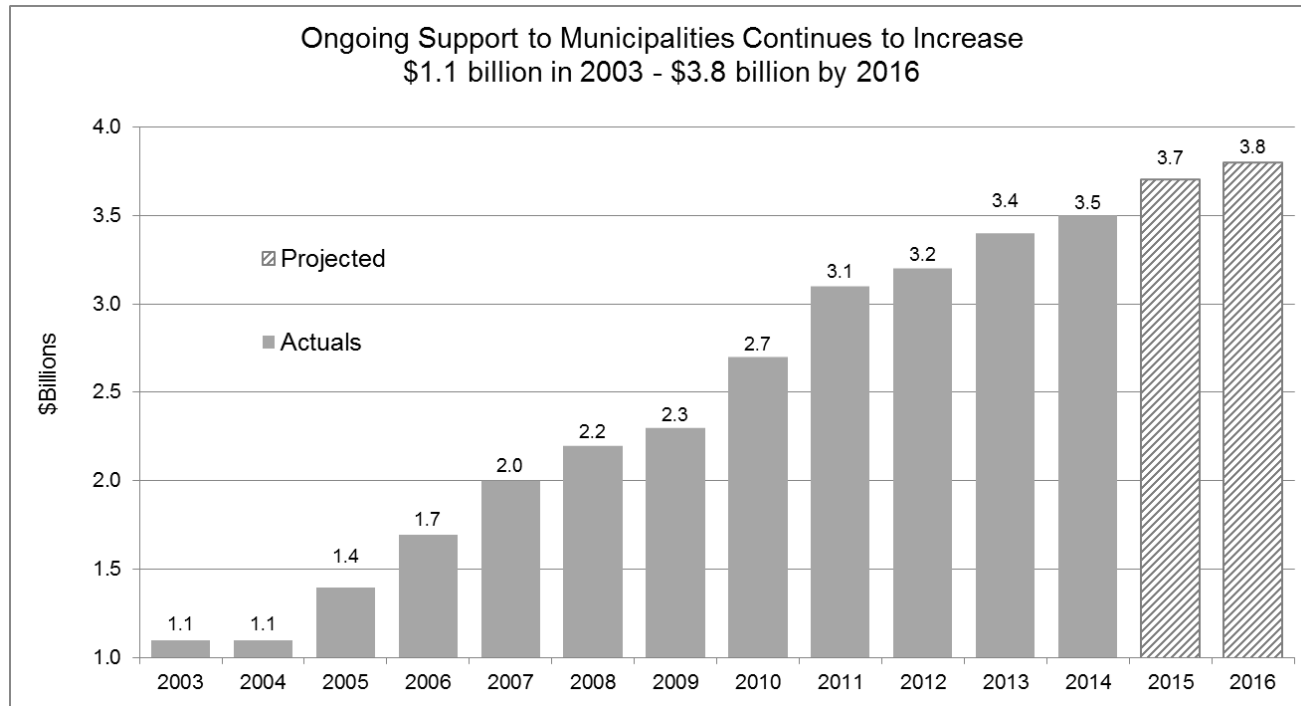
Enhanced 2015 Municipal Funding Level Based on Northern & Rural MFCI											
MFCI	0	1	2	3	4	5	6	7	8	9	10
Northern Ontario	90%	90%	90%	90%	91%	92%	94%	96%	98%	100%	100%
Southern Ontario	80%	80%	80%	80%	82%	84%	88%	92%	96%	100%	100%

Appendix B: Support to Municipalities

- Municipalities receive significant support from the Province through both cost-sharing arrangements and funding. The OMPF is a key component of this ongoing support, which has also increased significantly as a result of the uploads.
- In 2015 this ongoing support totals approximately **\$3.7 billion** and includes:
 - \$515 million in unconditional funding through the **Ontario Municipal Partnership Fund (OMPF)**;
 - Over \$1.7 billion benefit from the **upload of municipal costs** related to Ontario Drug Benefits, Ontario Disability Support and Ontario Works Benefits programs, as well as court security and prisoner transportation costs;
 - \$499 million in funding to support 50:50 cost sharing of **land ambulance costs**;
 - \$564 million in **public health funding**, which includes the upload of **public health costs** from a provincial share of 50 per cent to 75 per cent; and
 - \$321 million in **provincial gas tax funding** in the 2014-15 program year.
 - \$100 million in annual funding to small, northern and rural municipalities through the new permanent Ontario Community Infrastructure Fund (OCIF).
- Since 2003, the Province has provided municipalities with approximately \$13 billion in infrastructure funding.

Appendix B: Support to Municipalities (Cont'd)

- By 2016, the Province will have increased ongoing support to municipalities to \$3.8 billion a year – an increase of more than 250 per cent compared to 2003.



Source: Provincial-Municipal Fiscal and Service Delivery Review: "Facing the Future Together" (October 2008); adjusted to reflect the OW administration funding model announced in 2011, the phase-out of Toronto Pooling Compensation, the phase-down of the OMPF confirmed in the 2014 Ontario Budget, the \$100 million permanent annual Ontario Community Infrastructure Fund announced in 2014, and updated projections.

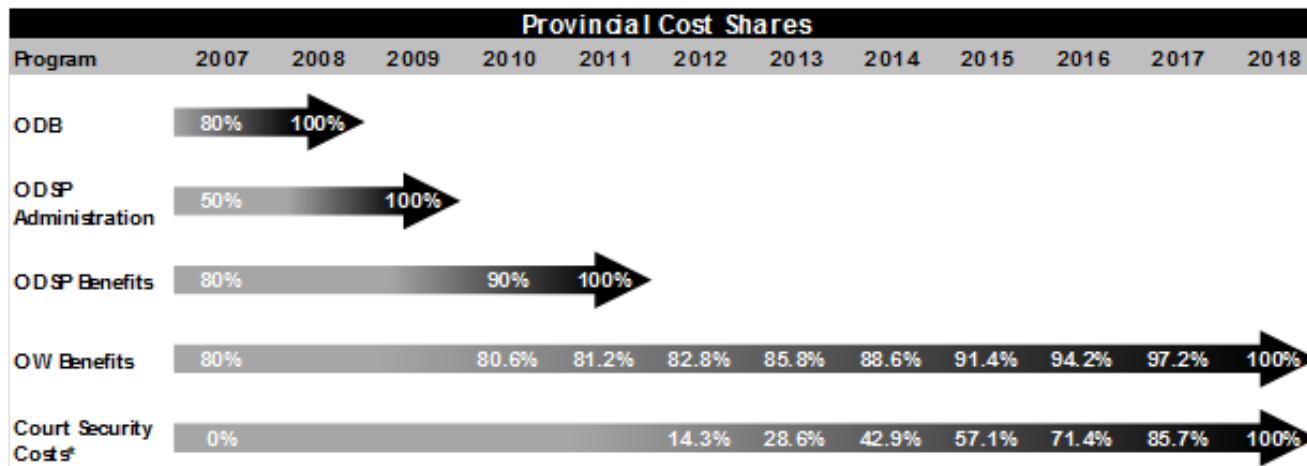
Appendix B: Provincial Uploads

- The phased uploads of Ontario Works (OW) benefits and court security costs continue in 2015.
 - This builds on the previous uploads of the Ontario Drug Benefit Program (ODB) and the Ontario Disability Support Program (ODSP).
 - Furthermore, more than \$230 million in additional support of municipal OW administration costs is being provided in 2015.
- As a result of the uploads, municipalities are benefitting from more than \$1.7 billion in reduced costs in 2015 alone.

2015 Upload Benefit to Municipalities	
Program	2015
ODB Upload	\$219 million
ODSP Administration	\$85 million
ODSP Benefits	\$828 million
OW Benefits (57% uploaded in 2015)	\$266 million
Court Security and Prisoner Transportation (57% uploaded in 2015)	\$71 million
OW Administration additional support	\$234 million
Total Upload Benefit	\$1.7 billion

Appendix C: Provincial Uploads (Cont'd)

- The following chart illustrates the upload benefit to municipalities:



*Up to \$125 million annually by 2018.

Note: OW administration continues to be cost shared on a 50:50 basis between the Province and municipalities. Beginning in 2011, OW administration costs reflect a revised funding approach which will provide more than \$230 million to municipalities in additional support of these costs in 2015.