

December 21, 2018

## **Financial Risks for Property Taxpayers and Municipal Budgets**

Grants from the provincial and federal government are a critical part of the municipal financial picture. They account for 20% of municipal revenue across the sector and for many smaller municipalities, represent an even higher percentage of local revenue.

This interdependence shapes municipal spending decisions, too. Exactly 280 pieces of provincial legislation directly govern municipalities and help to form local budgets. Other sectors, like health or education, deal mostly with one transfer ministry. However, municipal governments relate to many, many more ministries.

AMO's advice to the new government has been to take a comprehensive approach rather than a Ministry funding line review and to consider the cumulative financial impact of how any decisions affect the cost and delivery of frontline services. A comprehensive approach is the only way to understand how provincial decisions affect municipal governments.

It is unclear if this advice is being taken or not. We also advised the Ministry of Finance to offer a status update on the Ontario Municipal Partnership Fund (OMPF). That advice was taken. Today, the Ministry of Finance sent a letter to heads of council and treasurers advising that the OMPF will be reduced by an unspecified amount and allocation notices for 2019 will be delayed.

In 2018, the Ontario Municipal Partnership Fund (OMPF) provided \$510 million in unconditional operating support from the Province to municipal governments. It uses an equalization approach to address challenges in rural and northern communities. The OMPF is a critical source of funding for 389 of 444 municipalities across Ontario. Some are very small municipalities without growth in their property assessment base.

Reducing the overall envelope and delayed allocation notices have immediate and long-term consequences for communities across the province.

**Immediate Impact:** In recent years, the provincial government has announced OMPF allocations in the year prior. This practice facilitated local budget development and council approval for the year ahead. Councils cannot make accurate 2019 spending decisions without this information. As a result, council budget planning will be delayed. If allocations to municipalities are reduced, councils will need to compensate with property tax increases or local service reductions in 2019.

**Long-Term Impact:** OMPF reductions will have a big impact on local property tax rates. For almost half of Ontario's municipal governments, a 1% property tax increase raises less than \$50,000. The Fund has changed over time, in large part to reflect the upload of social assistance.

The OMPF seeks to address regional economic imbalances by helping municipalities provide local services throughout the province. As noted in the Ontario Government's recent Fall Economic Statement, "employment has grown but has not been experienced across all regions". Northern Ontario has experienced employment declines while the Southwest has remained generally flat. Employment levels reflect a community's fiscal capacity.

OMPf declines will exacerbate economic imbalances between regions. Any reductions will be especially difficult for rural and northern areas. These areas typically have low assessment growth and can least afford significant property tax increases.

Other sources of municipal funding include provincial court security and prisoner transportation. Over \$60 million in 2018 provincial transfer payments for this service are being reviewed. Also, Ontario Community Infrastructure Fund (OCIF) and Ontario Gas Tax for Transit funds are to increase in 2019 and these increases were an election promise. There are also the shared service arrangements for ambulance, public health, and social services. These are just a few of the program grants that are important to municipal property taxpayers and the services that affect their daily lives.

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