Welcome to A Citizen's Guide to How Municipal Funding Works

Financing Municipal Capital Projects

At the beginning of each year Council must determine two different types of budgets for that year. Operating Budget, which details what level of services the municipality will provide during that year. These are the day-to-day items that you see being undertaken across the municipality, such as grading of roads, repairs to culverts, snow-plowing in the winter, parks maintenance, a municipal library, tax collection, building inspection, by-law enforcement, planning and development, emergency management, the fire department, to name a few of the major activities. All these services require staff and equipment which must be accounted for in salaries and vehicle maintenance. This budget also includes all the amounts sent to us by various external agencies that provide municipal services like the OPP, School Boards, Health Unit, etc. The other kind of budget is called the Capital Budget and this involves additions or improvements to infrastructure such as the purchase of new vehicles, paving of a section of road, replacement of large culverts, new buildings and major equipment. Every service and activity undertaken by a municipality during the year must be paid for. The major sources of funding are as follows:

Provincial Municipal Support Grant

This is a block of money given to each municipality by the province and is based on a formula utilizing a per capita calculation. Each municipality in Ontario receives this grant, however, as you can understand, the amount will vary depending on the population of that municipality. The municipality usually takes this money and puts it into a general account so that it can be used throughout the year to pay for municipal expenses in the various departments. Because of this it is called an unconditional grant - there are no conditions attached to the spending of that money. $662,000/year

Reserves and Reserve Funds

Municipalities are required by law to establish reserve funds set up for specific purposes. This means that some of the money raised by the municipality through taxes each year is placed into a special account dedicated to a particular function such as the purchase of equipment for the public works department or the fire department, development and improvements to municipal parklands, etc. The money in those reserve accounts can only be used for the purpose as described in the by-law setting up that reserve. For example, money in a fire department equipment reserve could not be used to upgrade parks. Many municipalities including yours also establish one or more general reserves which are funded each year so that in subsequent years expenditures can be made for capital projects using cash from those reserves to reduce the amount raised through taxes. We call this Pay-as-You-Go.

Conditional Grants

Each year when the municipality determines what projects it wants to undertake, such as paving of several municipal roads, purchase of road equipment, etc., it will look at various sources of grants from the Province of Ontario's Ministries, as well as provincial agencies such as the Ontario Trillium Foundation. It’s important to note that conditional grants can only be spent on the project identified in the grant application.
For example, the grant money used to pay for the paving and new signage at the municipal office, under the Federation of Canadian Municipalities "Municipal Revitalization" program, could not have been spent on municipal roads. In the case of provincial ministries there may be grants available to apply for however, the type of grants are limited to the jurisdiction of that Ministry. For example, grants to undertake a road project would not be available through the Ministry of Health.

So, when searching for available funding you must first determine:

i. applicable ministries
ii. whether in fact that ministry in that particular year have appropriate grants available and what the criteria is. Sometimes the criteria set by that ministry is so limited as to severely restrict the number of municipalities that are eligible to apply for that funding. The more significant factor is this: once you have determined that a ministry has grant monies available for application and that your project seems to fit within the criteria, it needs to be recognized that more municipalities will apply for that funding than there are actual grant monies available. So, you are competing with all other municipalities applying for those limited grant funds in any given year. Timing is everything, so you must also decide if this particular year is best suited to make that application. If you are awarded grant funding, you are ineligible to apply for similar funding for the following fiscal year. So, Council and staff must look at not just the current year, but the next two or three years to determine when those funds might have the most impact.

Annual Pre-Calculated Conditional Grants

Each year there are some grants which are made available to municipalities for specific purposes but for which no application is necessary. The amount available is also a per capita calculation so municipalities are told in advance how much money is available each year and usually they are told what the amount will be for a five-year term. The conditions under which the grant money can be spent are not as restrictive as conditional grants which you apply for, however, the kinds of projects or activities are limited for these grants. One example is the Federal Gas Tax Levy grant which is made

available to all municipalities each year, deposited directly to the municipal general fund account. Before proceeding with the project, the municipality must obtain approval from the distributing agency. In this case it is the Association of Municipalities of Ontario (AMO). $122,00/year.
Monies received in a given year can be banked in order to build up a fund more appropriate to the project being undertaken.
Another example is the Ontario Community Investment Fund (OCIF) administered by the Ministry of Agricultural, Food and Rural Affairs. This grant also has very detailed limitations as to how it can be spent, and very detailed accounting is required at the end of the fiscal year to establish that the monies are spent as they were approved for. $50,000/ year.

Tax Levy

Once the total operating budget is finalized, we then deduct all the funding that will come in from other sources such as any conditional grants or funding. What is left is the amount that must be raised on the tax levy. The amount that you see at the bottom of your tax bill is determined as follows: the amount of money required to be levied is divided into the total amount of residential assessment in the municipality (as determined by the Municipal Property Assessment Corporation). This gives us a tax rate for this particular year's levy. That tax rate then is applied to the property assessment of each residential tax account to determine an individual tax bill for that property. We then add a similar amount to the tax levy for external agencies such as OPP and school boards. So, the tax rate is the same for all residential properties but because each property has a separate and unique assessment, the tax levy bill in each case is different.