



No. 144 -- November 1973

### CHANGES IN MUNICIPAL GRANTS FOR 1973

by

Robert L. Ward, M.A.\*

#### Introduction

In the Ontario 1973 Budget, the Government initiated some reforms in grants to municipalities. These reforms were called the Property Tax Stabilization Program and included the following:

- a new resource equalization grant;
- a new general support grant;
- an additional support grant for municipalities in Northern Ontario;
- higher grants toward policing costs;
- the elimination of mining revenue payments.<sup>1</sup>

This Comment analyzes in a summary manner the resource equalization grant and the new general support grant and presents some conclusions about the effects of the program. Of particular interest is the incentive for municipal economy which penalizes municipalities with high rates of increase in expenditure and rewards those with a low rate of increase. The penalty is a reduced general support grant for municipalities with a high growth rate in expenditure; conversely, there is a larger grant for those with a very low growth rate.

#### The Importance of Provincial Payments to Municipalities

In recent years, provincial grants to local authorities in Ontario, as elsewhere, have become a much larger component of government receipts. Whereas in 1946-47 aid to local governments was 37 million and in 1956-7, 156<sup>2</sup> million by 1968-9 it had risen to 931 million (estimated).

---

\*Mr. Ward was a former Research Associate with the Bureau. The opinions presented are those of the author and do not necessarily represent the position of the Bureau of Municipal Research.

1

Ontario 1973 Budget. Toronto: Queen's Printer, 1973

2

Ronald W. Crowley, "Provincial-Municipal Grants: Estimates of Inter-County Income Redistribution through Ontario Grant Program in 1961", Canadian Journal of Economics, Vol. IV, #1 (Feb. 1971) p. 61

This year, provincial aid to municipalities will be even larger. In 1973 payments will be over 2 billion dollars. That sum will be 48.5% of local government revenue and 32% of Ontario Government's Gross Revenue. Virtually a half of local government services will be financed by Provincial payments in 1973.

The bulk of Provincial grants are conditional in nature. In 1973, there will be \$1.7 billions in conditional payments as compared to \$220.7 millions in unconditional (no strings attached) payments.

By its financial involvement then, the Province is heavily and directly involved in the provision of services at the local level. But with what effects? In 1970, there were 911 municipalities receiving Provincial payments. From Metro Toronto with a budget of over 3/4 billion dollars to the smallest and poorest townships in rural Ontario, they all draw on the same pool of grant money. Who benefits and how are these benefits tied to a Provincial strategy for urban growth in Ontario? Reading the budget is not particularly illuminating on this question. The redistribution of wealth (so important to the Province at an inter-provincial scale) is not discussed in the budget as an intra-provincial problem. Is wealth from the urban areas being redirected to the low growth areas? What role is the grant structure playing in the financial crisis of the large cities? These questions are dealt with in the Budget either obliquely or not at all. The Resource Equalization Grant and the new General Support Grant discussed below are cases in point. In each case, the Government failed to state what types of municipalities are affected, who benefits or how these reforms change current patterns of wealth distribution. They speak in general terms of the slow growth of the property tax base and the inadequate tax base of some municipalities as the motivation for grant changes.

#### The Resource Equalization Grant

The (resource equalization) grant will enable municipalities with below-average taxable assessment to provide improved services without imposing severe burdens on their taxpayers. All municipalities with equalized assessment per capita below \$10,000 will be eligible for this particular equalization grant.

The above, in summary, is the purpose and formula of the 1973 resource equalization grant. It is a grant which redistributes wealth to municipalities with low taxable assessments. (The Province cites \$9,700 as the average assessment in the Province.)

There are 748 municipalities eligible for this grant but other than the large number eligible the dimensions of the grant are small. The total cost is expected to be about \$57 million which is about 2% of the \$2.2 billion in 1973 grants.

With 748 municipalities eligible, the question arises as to the distribution of this grant. How large are the municipalities that are the beneficiaries of this grant? How big will be the grants? This information is not given explicitly in the Budget. The Government described the distribution of the grant as follows:

ESTIMATED DISTRIBUTION OF RESOURCE EQUALIZATION GRANT

Equalized Assessment per Capita	Number of Municipalities	Percentage of Total (Provincial) Population (Total = 7,703,100 <sup>4</sup> )	Distribution of Resource Equalization Grant (Total = \$57,000,000)
\$	(numbers)	%	%
1-2000	14	.2	.31
2-3000	41	.6	1.49
3-4000	81	2.0	5.30
4-5000	95	2.5	6.89
5-6000	132	4.0	9.51
6-7000	106	5.0	12.18
7-8000	117	13.6	30.44
8-9000	87	20.2	26.96
9-10000	75	15.1	6.92
	748	63.2	100.00 <sup>5</sup>

Recalculating this information, it may be seen as follows:

ESTIMATED DISTRIBUTION OF RESOURCE EQUALIZATION GRANT BY SIZE OF MUNICIPALITY AND SIZE OF GRANT

Equalized Assessment per Capita	Municipalities	Average Size of Municipality Popl (%Tot.Pop.X Tot.Pop.) (# of Municipalities)	Average Size of Grant (%Tot.GrantXTot.Grant) (# of Municipalities)
\$	(numbers)		
1-2000	14	1100	12,600
2-3000	41	940	20,700
3-4000	81	1900	37,300
4-5000	95	2030	41,300
5-6000	132	2330	41,100
6-7000	106	3640	65,500
7-8000	117	8950	148,300
8-9000	87	17890	176,600
9-10000	75	15500	52,590

The recalculated figures suggest that the resource equalization grant is geared toward municipalities of less than 20,000 people and that the largest portion of the total grant amount available

<sup>4</sup>

1971 Total (the Province's base year for this chart) from 1971 Vital Statistics, Province of Ontario

<sup>5</sup> Ontario 1973 Budget, p. 13

(total = \$57,000,000) will go to towns of about 10,000 with equalized per capita assessment of \$7,000 - 8000. The largest grants will be in the order of \$175,000; most municipalities will receive grants in the order of \$40-60,000.

Recalculation has shown that this new grant distributes to the poorer and smaller municipalities in the Province. But does this reform represent a new policy or extend existing policies for wealth redistribution in Ontario? There is no mention in the 1973 Budget of this.

Evidence from recent research<sup>6</sup> indicates that the grant structure has in the past favoured a redistribution of wealth. Using counties as areal units of analysis, Crowley compared the sum of all grants flowing into each county against an estimate of the taxes flowing from the county to the Province to pay for grants. He concludes:

The results of this study suggest through provincial grants, a relatively small number of urbanized counties are subsidizing less urbanized counties... We can say that the grants system does reflect differences among counties, but whether it reflects them adequately remains a political and social question.

Thus redistribution in the Resource Equalization Grant continues a trend of the Province using the wealth of a small number of urbanized areas to subsidize less urbanized areas.

#### The General Support Grant

The local government financial outlook also indicated that municipalities in general are facing financial pressure... To correct the chronic imbalance in local financing a new approach is required...

Starting in 1973, Ontario will pay all municipalities a General Support Grant of four per cent of their 1972 levies....

We estimate the total cost ... at 41 million in 1973. Of this total, some 22 million will go to our Metropolitan, Regional and District governments and their constituent municipalities.<sup>8</sup>

---

6

Ronald W. Crowley, "Provincial-Municipal Grants:..." Canadian Journal of Economics. Vol. IV, # 1, (1971)

7

Ibid. p. 71

8

Ontario 1973 Budget, p. 14

This is another relatively small grant program (in relation to the total grant pool of over 2 billion). At first glance it appears to treat all municipalities on an equal basis. But there is a qualifier which makes the grant redistributive in nature. There is a penalty for those municipalities with exceptionally high rate of growth in expenditures and a bonus for those with a very low rate of growth in expenditures. The relationship between the rate of increase in expenditure and the rate of general support grant is as follows:

Rate of Increase of Expenditure in 1973 %	Rate of General Support Grant %
12 and above	2
11	3
10	4
9	5
8 and below	6

The Government's stated purpose behind the floating rate of support is to encourage municipalities to be prudent<sup>9</sup>. This approach by the province implies there is an average expected rate of growth of all municipalities -- from Metro Toronto to Wilely Township. (That expected average is 10-11%)<sup>10</sup>. To stay at or below the expected average is prudent; by implication, to go beyond the limit is frivolous.

Different municipalities with different resources, in different stages of development and of different sizes will have varying rates of growth in municipal expenditure that have little to do with the prudence of the municipal council. And the question arises again as to the primary beneficiaries of this new grant; who gets what will depend on rates of growth and size of expenditure.

Below is a table of expenditure per capita for different classes of municipalities in 1969 and 1970. Rates of growth over these two years are also indicated. This table provides an idea of different rates of growth in expenditure for Ontario municipalities (when population increases are controlled).

---

<sup>9</sup>  
Ontario 1973 Budget. p. 14

<sup>10</sup>  
Since, on p. 14 of the Budget, it is stated that the "standard rate for this grant" is 4%. (See table above)

	1969 per capita expenditure \$	- 6 - 1970 per capita expenditure \$	Growth rate of Municipal Expenditure %	No. of Municipal- ities
Metro Toronto	344	378	9.9	7
Ottawa Carleton	282	316	12.1	17
Cities	245	264	7.8	31
Towns:				
Separated	189	209	10.6	6
5000 or more in Counties	225	247	9.8	44
5000 in Counties	178	198	11.2	57
5000 or more in Districts	201	235	16.9	9
5000 in Districts	157	200	27.4	34
total Towns	209	234	12.0	150
Villages:				
2500 or more in Counties	165	208	26.1	6
2500 in Counties	151	165	9.3	133
2500 in Districts	130	136	4.6	11
total Villages	153	169	10.5	150
Townships:				
5000 or more in Counties	185	206	11.4	60
2500-4999 (Counties)	165	182	10.3	99
2500 in Counties	170	194	14.1	247
5000 or more in Districts	178	206	15.7	10
2500-4999 (Districts)	152	195	28.3	9
2500 in Districts	142	167	17.6	126
total Townships	173	194	12.1	551
Improvement Districts	223	226	1.3	17
<b>TOTAL LOCAL MUNICIPALITIES</b>	<b>252</b>	<b>279</b>	<b>10.7</b>	<b>923</b> <sup>11</sup>

11

Calculated from 1969 and 1970 Summary of Financial Reports of Municipalities, Toronto: (Queen's Printer).

The table suggests that the most rapid rates of growth of municipal expenditure are found currently in the very small and very large municipalities. The 31 cities had the lowest overall rate of growth. Although these figures are somewhat out of date (1969-1970) it can be estimated that the bulk of the new General Support Grant will go to the larger centres. This conclusion is based on two things. First, the high rates of growth of the small centres will minimize their grants because of the effect of the penalty (municipal prudence clause). Secondly, the proportionately larger expenditures of the major urban centres will dictate proportionately larger grants. (The Province estimates that more than half of the \$41 million will go to the regional governments and their constituent municipalities).

### CONCLUSIONS

1. The Provincial Budget is vague and incomplete in its statement of purpose and strategy behind the grants program.
2. The grant structure for the most part redistributes wealth from a small number of urban areas to a large number of less urbanized areas.
3. The new Resource Equalization Grant extends this trend toward redistribution mentioned above.
4. The General Support Grant favours urbanized areas. The incentive for municipal prudence does not take into account underlying differences in municipal expenditure which are beyond the control of municipalities.
5. The net effect of these two changes most likely favours neither the resource-rich nor the resource-poor municipalities.

© copyright, Bureau of Municipal Research, 1973.

Charles K. Bens, Executive Director.