

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Policy, MFOA
Date: February 26, 2026
Re: Municipal Insights Report – Q1 2026
Report: ONE JIB 2026-012

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

This report outlines several intersecting provincial and municipal dynamics that are expected to shape municipal decision making and financial strategy through 2026. With the Province not in session until March 23, 2026, no new legislation is anticipated in the near term. However, government signals indicate continued work on regulatory changes, particularly those aimed at further reducing development charges, with a focus on water and wastewater services. *The Water and Wastewater Public Corporations Act, 2025* leaves key implementation details to regulation, creating near term uncertainty around timelines and scope.

The 2026 municipal election year introduces additional constraints. The extended election cycle and the potential for “lame duck” councils may slow or restrict decision making, particularly for significant financial or strategic initiatives, while also delaying the adoption of 2027 municipal budgets. This uncertainty is amplified by the first full election cycle under strong mayor powers for most municipalities, increasing the potential impact of changes in heads of council on municipal priorities, capital planning, and revenue strategies.

3. BACKGROUND

The Provincial Government adjourned for winter and will resume session on March 23, 2026, which means that we will see no new legislation until after that date, but the Provincial Government has signaled its intent to further reduce development charges

On December 11, 2025, the Provincial Legislature paused for the winter and will sit again on March 23, 2026. During this period, we will see no new legislation, but it is likely that the government is working on developing or updating regulations related to business from the previous sitting. The government has signaled intent, through speeches at the Rural Ontario Municipal Association (ROMA) conference, that it will continue to pursue avenues

to reduce development charges, referencing water and wastewater services as a target area. The *Water and Wastewater Public Corporations Act, 2025* (WWPCA) left a lot of key details to be decided through regulation. It is expected that the Province is working on draft regulations for that Act in order to pursue its stated objectives.

2026 is a municipal election year, which can result in a slower or restricted decision-making process in the 2026 calendar year

2026 is a municipal election year. The entire election process takes approximately six months. Nominations will open on May 1, 2026, with Voting Day occurring on October 26, 2026, and a new term of council beginning on November 15, 2026. As Nomination Day approaches, municipal staff must prepare for the possibility that the powers of council may be restricted as a result of a council being determined to be “lame duck.” This occurs when less than 75% of the current members can be re-elected following the nomination process or following Voting Day. This could be the case after Nomination Day on August 21, 2026, or after Voting Day on October 26, 2026. “Lame duck” councils are restricted until the first day of the new term of council on November 15, 2026.

First time period: Nomination Day to end of council term

If less than 75% of the incumbent council are running for re-election or acclaimed following Nomination Day

Second time period: Voting Day to end of council term

- If less than 75% of the old council are re-elected or acclaimed

According to Section 275 of the *Municipal Act*, if a council meets these conditions it is prohibited from committing the following four acts:

1. The appointment or removal from office of any officer of the municipality.
2. The hiring or dismissal of any employee of the municipality.
3. The disposition of any real or personal property of the municipality, which has a value exceeding \$50,000 at the time of disposal, and
4. Making any expenditure or incurring any other liability which exceeds \$50,000. The disposition of property and the disposition or liability exceeding \$50,000 does not apply if these items were included in the budget adopted prior to nomination day.

Despite these restrictions, according to subsection 275(4.1), nothing prevents a municipality from acting in the event of an emergency.

The *Municipal Act* does not provide how this section impacts strong mayor authorities, and there are conflicting opinions on whether this section also restricts the authorities of a strong mayor.

Additionally, municipalities are restricted from adopting a budget for the fiscal year following an election until the beginning of that fiscal or calendar year. As a result, 2027 municipal budgets cannot be adopted until the beginning of the 2027 calendar year.

Strong Mayor powers and municipal elections introduce increased uncertainty for municipalities in the event of a change in mayor or head of council

The 2026 election will be the first full election for most municipalities where strong mayor powers were introduced (with the exception of Ottawa and Toronto which received the powers in 2022). Mayoral elections in strong mayor municipalities to date have put candidate intent to use the power front and centre. This election will likely see a wide spectrum of candidate approaches to strong mayors with some indicating they will use it fully, others indicating an intent to lead by consensus building, and some presenting a more nuanced approach to how and when they would use these powers. There is a tendency for stability at the mayoral level, with incumbents often retaining their position for multiple terms; however, strong mayor powers introduce greater uncertainty and potential for significant shifts in municipal objectives. Strong mayors have the authority to set the budget (police budgets excluded), to set the organizational structure, to introduce by-laws, to hire and fire municipal department heads, to establish and dissolve committees, among other powers.

5. ANALYSIS

Water and wastewater reserves could see dramatically shortened time horizons, especially in high growth municipalities

The Province is indicating intent to move to further reduce development charges through the implementation of water and wastewater public corporations. While the Peel water and wastewater transition is initially slated for January 1, 2029, the Province did indicate that it could modify this date through regulation. The *Water and Wastewater Public Corporations Act, 2025 (WWPCA)* was clearly drafted to apply to a broader spectrum of municipalities than just Peel Region. However, it is likely that any transitions would begin in higher growth regions around the Greater Toronto Area (GTA), as the legislation now only contemplates lower tier municipalities in two-tier systems, which excludes single tier municipalities, separated cities, and many municipalities in northern Ontario. ONE JIB may want to begin treating water and wastewater reserves with previously reported long time horizons as shorter-term money, as a transition of assets as contemplated in the *WWPCA* could require liquidation sooner than previously anticipated. With respect to investments for Water and Wastewater Public Corporations, the above noted uncertainty and the broad regulatory authority related these entities includes their ability to invest or incur debt. The Province's objectives and timelines are likely to become clearer when it sits in the spring.

Municipal elections may result in councils hesitant to make decisions to move to prudent investor, but the election cycle may afford municipal staff the time and opportunity to begin exploring prudent investor as an option

The election cycle from nomination day to election day is long. Incumbent mayors and councilors seeking re-election may be hesitant to make long-term decisions and their attention will be at least partially diverted to the campaign. The legislation can restrict certain long-term decisions from being made when it becomes apparent that less than a substantial majority will return. While lame duck provisions would not restrict a council opting into prudent investor, they could inform a culture of risk aversion shortly before and during the municipal election cycle. Conversely, while council may be less likely to direct staff to undertake significant longer-term initiatives, this can create opportunity for staff to

better understand the prudent investor regime and process and educate council in preparation for the next term of council. ONE Investment staff is seeing sustained interest in the program, which could translate into new participating municipalities onboarding throughout 2026, but the election cycle could result in a longer conversion period.

Strong mayor powers could make changes in heads of council more impactful for the prudent investment program through big strategic shifts or change their level of interest in prudent investing

Municipal elections may result in changes in heads of council or mayors, which can have a significant impact on a municipality's strategic priorities, particularly in strong mayor municipalities. Should a change occur, this could lead to changes to the capital program or significant changes to revenue forecasts. Development charges are increasingly less feasible politically given the housing crisis, and not all elected officials are aligned on their use. Some mayors have already worked to dramatically reduce development charges. Should a newly elected or incumbent strong mayor in a high growth municipality pursue an agenda to reduce DCs, the municipality's cashflow forecast could shift dramatically, unless commensurate changes are made to the capital plan. Additionally, a strong mayor could have greater influence to pursue the prudent investor standard, with their ability to veto by-laws or introduce new by-laws and have them approved with one-third support of council.

6. CONCLUSION

These dynamics introduce greater uncertainty in municipal cash flows, particularly as potential changes to development charges, water and wastewater governance, and capital priorities could alter the timing and reliability of revenues and reserves. Election year constraints and possible shifts in strong mayor leadership may further delay or redirect major financial decisions.

Drafted by: Colin Macdonald, Manager of Policy, MFOA

Approved by: Donna Herridge and Afshin Majidi (interim), Co-presidents/CEOs, ONE Investment