

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Investments, ONE Investment
Date: June 1, 2023
Re: Municipal Insights Report - Q2 2023
Report: ONE JIB 2023-O23

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

Many municipal treasurers are in the process of reporting to council on investments, which they are required to do at least annually. As a result, ONE Investment staff have been busy having discussions with Participating Municipalities and offering support where requested, which can include presentations to council.

In mid-May the Province announced that it will dissolve the Region of Peel, an upper-tier municipality in a two-tiered municipal governance system. The Province also announced that it will conduct reviews of six other two-tiered municipal governance systems - this review will include the Town of Innisfil and the Town of Whitby, which are lower-tier municipalities who currently are part of the Prudent Investor program.

Additionally, municipalities are beginning to look to their 2024 budget cycle. The uncertainties around the impact of Bill 23 on municipal finances, and the MNRI of Participating Municipalities should become much clearer in the coming months. The Province has selected six municipalities for its Bill 23 financial impact audits, which is considered a critical step to determining any municipal shortfalls. The Terms of Reference document for the audit for the City of Toronto has been published, and it contains some emphasis on looking at investment income.

3. BACKGROUND

Municipal treasurers are required by legislation to report to council on investments at least annually

Treasurers are required to report on investments annually. Section 8 of Ontario Regulation 438/97 ("the Regulation") covers the requirement to report and what, at minimum, must be contained within the report. While section 8 of the Regulation does not include investments that fall under the prudent investor standard, it is common practice - and a best practice from ONE Investment's perspective - for treasurers to provide a comprehensive report on municipal

investments that includes those covered under both Part I (“the Legal List”) and Part II (“Prudent Investor”). Under Section 20 of the regulation, ONE JIB is required to send an annual statement to Council. ONE JIB approves these statements annually and dissemination to the Participating Municipalities is facilitated by staff. ONE Investment provides support to municipalities in preparing their annual investment reports to Council, which ranges from providing additional information and insight to presenting directly to Councils. These annual reports are often presented to Councils in the spring or summer.

The Province has been examining the option of reorganizing municipal governance structures in two-tiered municipal systems since early 2019

Municipalities in the Province of Ontario have two broad governance structures – single tiered municipalities whereby the local government is responsible for all municipal services, and two-tiered structures that divide municipal services. In two-tiered structures, the upper-tier (e.g., regions or counties) is typically responsible for services that are difficult to restrict to boundaries or where economies of scale can be achieved (e.g., emergency services, water and wastewater services, and the lower tier is responsible for all other services. The division of services and responsibilities varies by two-tiered structure.

The Provincial government hired independent consultants in 2019 to conduct a review of nine urban regional municipalities and Simcoe County. The goal of the review is for the Special Advisors to make recommendations for improving regional governance and service delivery. The Special Advisors turned in their report and recommendations in the fall of 2019, but the Province did not release the report and decided not to proceed with any regional governance changes at that time but suggested that it could revisit the matter in the future.

The More Homes Built Faster Act, 2022 (Bill 23) introduced changes to the *Development Charges Act, 1997* and the *Planning Act* that will affect municipal reserves

As detailed in the Municipal Insights Report for Q1 2023, Bill 23, introduced in late 2022, will have significant impact on municipal reserves. The financial impact of Bill 23 on municipalities is uncertain as the Province has committed to keeping municipalities “whole” with respect to funding “housing enabling infrastructure” for municipalities that meet or exceed their provincially mandated housing targets. It is uncertain whether this commitment will be extended to municipalities without housing targets that are affected by the legislation. The Province has also indicated that as part of its assessment, it would conduct an audit of municipal finances to aid in its determination of the financial impact of Bill 23 on municipalities.

4. ANALYSIS

ONE Investment is seeing more queries from treasurers preparing their annual investment reports

ONE investment staff have been having discussions with multiple treasurers on investment performance. Some questions are coming from municipal staff in the development of their reports, while others are arising from council members reviewing reports. Additionally, as last year was an election year, ONE Investment staff are receiving increased requests for presentations to councils to explain the relationship between ONE JIB and Council, including details on roles and responsibilities. Council orientation presentations can cover a wide variety of

topics based on municipal staff input, such as a contrast of the Legal List and Prudent Investor regimes with emphasis on diversification opportunities under Prudent Investor, restrictions on municipal representation on investment boards, how council controls the strategic direction of investments through its investment policy statement, and how the ONE JIB Outcomes framework is used to develop investment plans that address the unique cashflow profiles of each municipality.

The Province introduced legislation in mid-May that would dissolve Peel Region

On May 18, 2023 the Minister of Municipal Affairs and Housing introduced the *Hazel McCallion Act (Peel Dissolution), 2023*, which would dissolve the Region of Peel and turn the Cities of Mississauga and Brampton, and the Town of Caledon into single-tier municipalities. It will be establishing a transition committee that will oversee the dissolution. Additionally, the Province announced that it will be reviewing six other two-tiered municipal structures: Durham Region, Halton Region, Niagara Region, Waterloo Region, York Region, and Simcoe County. Two participating municipalities in ONE JIB will be a part of this review; Durham Region is the upper tier of the Town of Whitby, and Simcoe County is the upper tier of the Town of Innisfil.

The Province has selected six municipalities to participate in the audit of municipal finances

The Province has selected the City of Toronto, Peel Region, the City of Mississauga, the City of Brampton, the Town of Caledon, and the Town of Newmarket for its audit on municipal finances. Notably, Peel is the upper tier or regional municipal government for Mississauga, Brampton and Caledon. No Participating Municipalities have been selected as part of the audits. Additionally, as the City of Toronto was identified as an early participant in the audit, the [terms of reference](#) for its audit have been negotiated and made public. According to the terms of reference the scope is to include Bill 23 financial impacts if the housing targets are met and the optimization of growth-related infrastructure investments. The final report of the audit on Bill 23 financial impacts on the City of Toronto is expected to be delivered on July 1, 2023. The timelines may shift however, as the Province is currently in the process of procuring an auditor. In the City of Toronto terms of reference, the auditor is expected to review the historical collection of own source revenues, including investment income, and estimate any “net increase” to municipal revenues over the forecast period, which will also specifically reference investment income.

Municipalities are turning their attention to the 2024 budget cycle as year-end financial statement preparation is being finalized in many municipalities

As municipalities are starting their 2024 budget cycle and the Province makes its determination on keeping municipalities “whole,” any potential impacts could begin cascading into reserve planning and forecasting for next year. Municipalities are also finalizing their year-end audits and financial statements. Some municipalities wait until year-end financial statements are complete prior to beginning their next budget cycle so that any surpluses or deficits are fully known. Once there is more certainty around the Bill 23 audits and the Province’s calculation for keeping municipalities “whole,” Participating Municipalities will likely begin making decisions on how to

cover any potential shortfalls. This will likely have an impact on the time horizon of development charge reserve funds, which could shorten as anticipated drawdowns remain similar while anticipated contributions slow down. Additionally, this could spill over to other capital reserves if Councils opt to fund shortfalls from existing reserves.

5. CONCLUSION

Evolving circumstances and pressures on municipalities can give insight into future trends with respect to municipal cash flows and reserve forecasts. Bill 23 and uncertainties surrounding its financial impacts could result in a shortening of overall investment horizons in the near-term.

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