

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Policy, MFOA
Date: September 6, 2023
Re: Municipal Insights Update Q3 2023
Report: ONE JIB 2023-051

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

The Province has granted strong mayor powers to 47 additional municipalities in Ontario, including the Town of Whitby, the Town of Innisfil, the City of Thunder Bay, and the Town of Aurora. The increased mayoral powers include the authority to propose the budget. The full implications on the budget process are unknown, but it could introduce more uncertainty into the process.

The Province has announced that Ernst and Young has been selected to audit the finances of six municipalities to inform its assessment of the financial impact of Bill 23. The first phase of the audit is scheduled for the end of 2023, which means that municipalities will likely have to develop their 2024 budgets on the assumption of no increased support from the Province. This may lead to an increased draw on reserves by some municipalities.

The Province has appointed the transition board for the dissolution of The Regional Municipality of Peel. ONE Investment is closely monitoring the transition decisions and the separate regional reviews to determine any potential impact on the Prudent Investment Program, including municipal MNRI forecasts.

3. BACKGROUND

The Province has extended strong mayor powers to 47 more municipalities, which includes budget authority

On September 8, 2022, Bill 3 - the Strong Mayors, Building Homes Act, 2022 received royal assent. Bill 3 amended the *City of Toronto Act 2006*, the *Municipal Act, 2001*, and the *Municipal Conflict of Interest Act* to grant the mayors of Toronto and Ottawa additional powers. On June 16, 2023, the Province expanded strong mayor powers to 26 additional municipalities. On August 21, 2023 the Province announced housing targets and strong mayor powers for 21 other

municipalities; it also announced that strong mayor powers would be extended to all municipalities with a population greater than 50,000 by 2030. Strong mayor powers are intended to give mayors more authority, and especially to implement initiatives that align with provincial priorities. The additional powers include, but are not limited to, the authority to restructure municipal departments, hire and fire department heads, establish committees and determine their composition, propose a budget and veto council amendments to the budget, with some limitations.

Ernst and Young has been chosen to audit the impact of Bill 23 on municipal finances, with the first phase of the audits expected to be complete by the end of 2023

On July 26, 2023, the Province announced that Ernst and Young has been chosen to audit the finances of the six municipalities chosen to help determine the financial impact of Bill 23. The first phase of the audit is expected to be complete by the end of 2023. *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. 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 those that meet or exceed their provincially mandated housing targets. As detailed in the Municipal Insights Report for Q2 2023, the Province indicated that as part of its assessment on keeping municipalities “whole,” it would conduct an audit of municipal finances to aid in its determination of the financial impact of Bill 23 on municipalities.

The audits have two key objectives:

1. Assessing the financial impacts of Bill 23, and
2. Optimizing municipal resources and assessing the state of municipal finances

The scope of objective one is an independent estimate of the financial impacts of Bill 23 assuming the municipality meets/exceeds the housing target over the 10-year period (2022-2031); the methodology of which includes forecasting the increase in net revenues over the period, which will take investment returns into account.

The scope of objective two includes a 5-year (2018-2022) backward looking assessment of the state of municipal finances, including the municipality’s ability to maintain service levels with the financial tools at its disposal, its fiscal stewardship of assets/resources, its ability to meet short and long-term obligations, and its short and long-term policy, operating and capital decisions and their impact on the municipality’s fiscal health.

The terms of reference indicate that the scope of the reviews can change.

The Province has announced the transition team for the dissolution of Peel Region, but regional facilitators for the other six two-tier municipal systems under review have not yet been selected

On May 18, 2023, the Province introduced legislation to dissolve Peel Region. On July 5, 2023, the Province [appointed](#) a five-person transition board to advise the Ministry of Municipal Affairs and Housing on restructuring and dissolving the upper tier. The transition board members have extensive experience across public and private sectors. The board is comprised of:

- John Livey (chair) – a former senior public servant with many urban municipalities in the GTA, including the City of Toronto, the City of Markham, and York Region.
- Tracey Cook – a former senior public servant with the City of Toronto, with extensive experience in law enforcement and security.
- Sean Morely – a partner at Fasken Martineau LLP whose focus is on business law in the Global Infrastructure and Projects practice group.
- Eric Joliffe – a former senior executive in police services at various municipalities, including Chief of Police for the York Regional Police.
- Peter Weltman – Ontario’s former Financial Accountability Officer (2018-2023), who also has extensive experience in senior financial positions with the Federal government.

It is expected that Peel Region will be dissolved by January 1, 2025.

At the same time that the Province announced the dissolution of Peel, it also announced a review of six other two-tiered municipal structures, and that they would be appointing “facilitators” to conduct those reviews. The two-tiered municipal structures under review are the Region of Durham, Halton Region, Niagara Region, Simcoe County, the Region of Waterloo, and York Region. The Province has said that facilitators will be appointed by September 11, 2023.

4. ANALYSIS

The municipal budget process will likely see more uncertainty and potentially greater volatility in the future with the shift of authority to the mayor

Municipal finance staff in the affected municipalities are currently working through the practical application of the budget component of strong mayor powers. Implementation and level of involvement of the Mayor’s office will vary by municipality and mayor, but any significant changes to the process are likely to be incremental, and any substantive changes will likely evolve over time. While mayors technically cannot delegate budget authority, some have issued formal orders to senior staff that their budget process is to carry out as it has in prior years. Municipalities have become accustomed to the uncertainty of potential changes in priorities that come with a four-year election cycle. The shift to a strong mayor system could provide greater stability in budget priorities as mayors tend to have longevity; however, it is also probable that priorities may shift to a greater extent during transitions between mayors. MFOA is holding closed discussion groups with municipal finance staff to share insights, lessons learned and practices with respect to implementing the mayor-led budget process. Whitby, Thunder Bay, Innisfil and Aurora are the Participating Municipalities affected by the legislation. This may introduce further uncertainty and increased conservatism into municipal reserve forecasts, but the impacts remain to be seen.

The timing of the audit of municipal finances means that municipalities affected by Bill 23 will likely have to make difficult budget decisions on their 2024 budgets that could affect reserves

Given that the expected completion of the first phase of municipal finance audits is the end of the year, it is likely municipalities will have to budget with the expectation that no funds will be forthcoming from the Province.

Municipalities will have to make decisions on how or if they fully finance their growth-related capital costs. Should municipalities fully fund their growth capital programs, they will likely need to make decisions on whether that gets funded through increased debt financing, draws on reserves not dedicated to growth, increased tax levies, service cuts or a blend of options. As municipalities and residents are sensitive to tax levy increases, it is highly likely that some municipalities will increase planned draws on reserves, which may reduce their MNRI. However, municipalities may also choose to reduce their growth-related infrastructure investments in the face of lower development charge revenue, hoping for future Provincial policy changes.

The regional review may affect the implementation strategy and projected client base of the Large Municipality Offering under development, and it may affect available reserves for different infrastructure types, notably water and wastewater

The regional review focuses on large urban municipalities in Southern Ontario in two-tier structures. Many of the municipalities for whom the Large Municipality Offering is being developed are included in the review. With potential uncertainty and the dissolution of Peel Region, ONE Investment and ONE JIB may need to reexamine the potential clients for the Large Municipality Offering and adjust it accordingly.

The dissolution of Peel is raising many questions with respect to how the Province will deal with shared services, particularly those which are difficult to subdivide based on municipal borders, notably water and wastewater and emergency services. In its recommendations to the Province, the Housing Supply Task Force recommended the implementation of a water and wastewater utility model, whereby joint municipal services boards would be established and governed by a provincial regulator. If such a model is adopted in Peel, it could serve as a template across the Province in line with recommendations from the Task Force. This could signal a shift in the way water and wastewater reserve funds are managed, which may ultimately see them removed from direct municipal control and ONE JIB's purview. Alternatively, it may require some additional legal analysis and practical implementation discussions about how and if ONE JIB can manage by a joint municipal services board.

5. CONCLUSION

Municipalities are operating in a period of increased instability due to changes in Provincial legislation. These changes will likely affect reserve and reserve fund forecasts, which should shorten the time horizon of a portion of MNRI, particularly for municipalities who collect development charges or who belong to one of the two-tiered municipal structures under review.

Approved by: Judy Dezell and Donna Herridge, Co-Presidents/CEO