

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Policy, MFOA
Date: November 29, 2023
Re: Municipal Insights Update Q4, 2023
Report: ONE JIB 2023-073

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

The Province has announced a shift in plans with respect to regional reviews, moving away from the plan of using facilitators. Instead, the work has been referred to a Standing Committee of Provincial Parliament. As this work concludes, municipalities in two-tiered systems should have greater certainty and may become more interested in engaging in discussions on prudent investor standard; however, the review could introduce some complex realignment of services which could further occupy municipalities and have an impact on their MNRI.

Additionally, the Province has provided more clarity on exemptions and discounts to development-related charges through revised “affordable residential units” definitions. The addition of an income-based assessment to the definition has been well received by the sector, but there is still uncertainty with respect to the use of “Affordable Residential Units bulletins” that will provide the specific calculations of the qualifying metrics. While we are getting closer to certainty on the Bill 23 impacts through additional regulations, municipalities will still be developing their 2024 budgets with significant holes to fill and will require some tough decisions that may impact MNRI.

Lastly, the Provincial and Federal governments have agreed to participate in working group discussions with the City of Toronto around its financial state. Toronto is trying to address a financial forecast gap of \$46.5 billion over the next ten years. The Province’s willingness to engage in these discussions has many advocating for a similar review with the other 443 municipalities in Ontario. The last such review resulted in a ten-year plan that had a net financial benefit to municipalities, but that plan was completed in 2018.

3. BACKGROUND

The regional governance review of six two-tier municipal systems will be conducted by a

Standing Committee of Provincial Parliament in place of appointing regional facilitators

In June 2023 the Province passed Bill 112 to dissolve Peel Region as of January 1, 2025. Prior to this, on May 18, 2023, the Province 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 had said that facilitators would be appointed by September 11, 2023. On September 11, 2023, Minister Calandra announced that his office would be reviewing the decision to use facilitators. On September 13, 2023, Minister Calandra formally requested that the Standing Committee on Heritage, Infrastructure and Cultural Policy conduct the review in place of appointing facilitators. The Standing Committee announced that it would hold a hearing on the issue on November 6, 2023 in the City of Barrie within Simcoe County. The study is to focus on “governance structures and service delivery in these areas to ensure that they are providing effective and accountable government, particularly when it comes to getting more homes built.” Additionally, the Minister’s letter asked that the study address the following questions:

- Is two-tier government in these regions supporting or hindering the construction of new homes and the provision of local governance more specifically?
- Are there responsibilities and services that could be combined, amended or moved from one level of local government to another, or combined among existing local governments, to support the construction of new homes and the provision of effective local governance more generally?
- Is the municipal governance structure within each of these regions supporting the construction of new homes and the provision of effective local governance more generally?
- Could any changes to regional governance enhance local services and/or provide better value to taxpayers?

The Standing Committee has also announced that it intends to host meetings in the other regions.

The Province has provided updated draft definitions for “affordable residential units” with respect to development charge exemptions

On November 28, 2022, Bill 23, *The More Homes Built Faster Act, 2022* received royal assent. Bill 23 introduced changes to the *Development Charges Act, 1997* and the *Planning Act* that will affect municipal reserves. One significant component of Bill 23 that has yet to come into effect is the exemptions and discounts for affordable and attainable residential units. On September 28, 2023, the Province introduced Bill 134, *The Affordable Homes and Good Jobs Act, 2023* with new definitions for “affordable residential units.” The new definition adds an income-based approach on top of the market-rate approach, which should theoretically reduce the number of units to which the definition applies. The income-based approach for rentals looks at rental costs that is equal to 30% of income for households within the 60th percentile of gross annual incomes. A similar calculation will be used to set an affordable purchase price threshold for non-rental affordable housing. The full impact, however, will not be known until the release of the Minister’s “Affordable Residential Units bulletin,” which will contain the specific calculations. Municipalities still have concerns with respect to the administrative burden of an affordable unit exemption program, particularly with non-rental units. 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 of November 20, 2023, nine of 50 municipalities have met or exceeded their target, with three more “on track” to meet their target. As detailed in the Municipal Insights Report for Q3 2023, the Province indicated that as part of its assessment on keeping municipalities “whole,” it would conduct an audit of municipal finances in six municipalities to aid in its determination of the financial impact of Bill 23 on municipalities. No updates on the audits are expected until the end of 2023.

The Province also announced the Building Faster Fund on August 21, 2023. The fund is a \$400 million annual commitment over the next three years. Municipalities who meet 80% of their target will receive some funding, and those who fail to meet the 80% threshold will be ineligible. The Province is measuring housing starts, whereas municipalities have asked that the issuances of housing permits be measured, as the start of the project is outside of their control.

The Province and the City of Toronto have announced a “New Deal” working group examining options for financial sustainability for the city, and the Federal Government has agreed to participate

On August 24, 2023, the City of Toronto released its long-term financial plan that demonstrated a growing gap between the services it provides and the revenue options it has at its disposal – the city estimates the gap to be \$46.5 billion over the next ten years. On September 18, 2023 the City and the Province announced a working group to engage in discussions about the financial pressures the city is facing and how the two governments can work together to put Toronto on a path toward long-term financial sustainability. Official details of the options under consideration are scarce, though the parameters of the working group say that any agreement between the province and the City should “avoid new taxes and fees.” Several media outlets have suggested that an upload of costs for maintaining the Don Valley and Gardiner Expressways were options being discussed. After the first meeting of the working group the Premier and the Mayor of Toronto jointly called on the Federal Government to participate in the discussions. The Federal Government subsequently agreed.

4. ANALYSIS

The Province has begun work on regional reviews, and upon its conclusion municipalities may show greater interest in the large municipal PI solution

The regional review is largely comprised of larger urban municipalities in Southern Ontario in two-tier structures. Many of the municipalities for whom the Large Municipal Offering is being developed are included in the review. The shift away from facilitators will likely lead to a broader, generalized analysis and recommendations with respect to two-tier governments. The focus of the review is geared heavily toward housing with economic efficiency being a lower order priority according to the Minister’s list of objectives. In the Q3 Municipal Insights report, it was noted that some of the Housing Supply Task Force recommendations could be implemented through a

regional review process, specifically the implementation of a water and wastewater utility model, whereby joint municipal services boards would be established and governed by a provincial regulator. The regional review process has begun, but there's no greater certainty on the timing of its conclusion. As it draws nearer its conclusion, it is possible that municipalities in or around the two-tier systems might have enough certainty to engage in discussions on the Prudent Investment Program.

Uncertainties related to the financial pressures caused by Bill 23 will affect 2024 municipal budgets and potentially MNRI

Many municipalities are preparing their 2024 budgets. The fiscal uncertainty caused by Bill 23 coupled with the pressure to meet housing targets and higher levels of inflation are likely to have an impact on municipal reserve time horizon forecasts. In addition to levy increases, municipalities may have to reduce service levels or draw on reserves to address shortfalls. Some municipal treasurers have indicated that they may have to draw on and/or divert planned transfers to longer lived reserve funds, like those intended for infrastructure renewal or replacement (i.e., asset management reserve funds).

The New Deal working group may signal an opportunity for other municipalities to engage the province in discussions on service delivery realignment

The Province has conducted extensive service delivery reviews and realignments in the past. Notably "Who Does What?" in the late 1990s and the Provincial Municipal Fiscal Service Delivery Review (PMFSDR) in the late 2000s brought together municipal and provincial stakeholders to examine the responsibilities of the municipalities in relation to their revenues. The latter resulted in a ten-year plan to upload some responsibilities to the Province and reduce significant unconditional grant programs to municipalities, to the net benefit of municipalities. The ten-year plan was completed in 2018. The announcement of a New Deal working group with the City of Toronto has led some to advocate for a similar working group arrangement for the 443 municipalities governed by the *Municipal Act, 2001*.

5. CONCLUSION

The Province is making progress on some areas that are creating financial uncertainty for municipalities. Despite this progress, 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 could shorten the time horizon of MNRI, particularly for municipalities who collect growth-related development charges or who belong to one of the two-tiered municipal structures under review.

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