

To: ONE Joint Investment Board  
From: Colin MacDonald, Manager of Policy, MFOA  
Date: February 28, 2024  
Re: Municipal Insights Update Q1 2024  
Report: ONE JIB 2024-016

---

## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

## 2. SUMMARY

In late 2023, the Province announced significant changes and reversals to some legislation that impacted the municipal sector. The Province cancelled the planned municipal audits for the cities of Toronto, Brampton, Caledon, Mississauga, Town of Newmarket, and Peel Region. Instead, the Province will pivot to consult on the impact of the More Homes Built Faster Act (Bill 23) and the ability to fund growth-related infrastructure.

Additionally, the Province has announced that legislation will be introduced in early 2024 to recalibrate the mandate of the Peel Region Transition Board. Instead of a focus on dissolving the Region and dividing all services, the Transition Board will focus on finding efficiencies and transferring certain services from Peel Region to the lower-tier municipalities. There continues to be uncertainty in the space of regional governance which may delay decisions to pursue the prudent investor standard, and it may also lead to a realignment of services that could result in shifts of reserves and debt between the upper and lower tiers.

The Province has also released additional details and timelines of infrastructure funding streams. Municipalities whose provincial housing targets significantly exceed planned growth will see their capital plans accelerated, and those with more modest targets may be incentivized by application-based funding opportunities to accelerate certain capital projects. This may incentivize municipalities to deviate from their asset management and capital plan forecasts, which would likely put drawdown pressure on the Participating Municipalities' MNRI.

### 3. BACKGROUND

#### **The Province has reversed its decision to dissolve Peel Region**

In June 2023, the Province passed legislation to dissolve Peel Region as of January 1, 2025 and assigned a Transition Board to develop a process for dividing the Region's services amongst its lower-tier municipalities of Brampton, Mississauga, and Caledon. However, by December 2023 it was announced that new legislation will be introduced in early 2024 to refocus the Transition Board's mandate to improve regional services like policing, paramedics and public health, instead of dissolution. The decision to forego dissolution was based on feedback that a full dissolution would lead to significant tax rate hikes and disruption to critical municipal services.

On January 25 2024, the Transition Board was provided additional details of their new mandate. They will provide recommendations on the transfer of certain services from Peel Region to Mississauga, Caledon, and Brampton such as:

- land use planning;
- water and wastewater (including stormwater);
- regional roads; and,
- waste management.

For water and wastewater, the Transition Board will include options and recommendations around the creation of a municipal services corporation or a service board.

#### **The Province has announced the cancellations of the audit of municipal finances with respect to the impacts of Bill 23**

In December 2023 the Province announced that it was terminating the audit of municipal finances for Toronto, Peel Region, Mississauga, Newmarket, Brampton, and Caledon. The Province has indicated that it will consult on the impacts of the *More Homes Built Faster Act* (Bill 23) and the ability for municipalities to fund growth-related infrastructure that supports the construction of homes, including a review of the five-year phase-in of development charge increases, removal of studies from development charges, and fee refund framework, which were part of past housing legislation from as early as 2019.

#### **The Province continues to focus funding support to increasing Ontario's housing supply through the Building Faster Fund and the Housing-Enabling Water Systems Fund**

In the 2023 Fall Economic Statement, the Province announced the Housing-Enabling Water Systems Fund, a \$200 million application-based program over three years for the repair, rehabilitation and expansion of core water infrastructure to aid new housing development. Municipalities must enter into a cost sharing agreement with the Province, with municipalities funding at least 27% of the project, and it can be stacked with other federal funding contributions.

The Building Faster Fund, announced at the Association of Municipalities of Ontario conference in 2023, is a three-year, \$1.2 billion fund (\$400 million annually) that provides funding to municipalities based on performance against provincial housing targets. Currently, there are 50 municipalities with provincial housing targets. In January 2024 at

the Rural Ontario Municipal Association (ROMA) Annual Conference, the Building Faster Fund was expanded to include small, rural and northern municipalities that do not have housing targets, who will receive 10% or \$120 million of the fund. For those without housing targets, an application-based process will open that will prioritize projects that are “shovel ready”.

A unique aspect of the Building Faster Fund is that municipalities that do not meet their annual housing target will be penalized. If they are below 80% of the annual target, no funds will be allocated. Additionally, those who exceed their target may get bonus funding. Unspent funds due to not meeting housing targets will be pooled together in an application-based funding stream.

#### 4. ANALYSIS

##### **Other regional reviews could result in those regions delaying consideration of prudent investing as some services may be transferred to lower tiers**

In previous Municipal Insight reports, ONE Staff noted that uncertainty with respect to regional governance may slow progress for municipalities in those areas considering prudent investor. The review of regional governance had been referred to the Standing Committee on Heritage, Infrastructure and Cultural Policy. The Committee held public consultations throughout January. While there are no definitive timelines on decisions with respect to the review, the Minister’s letter to the Peel Region Transition Board likely signals areas the Province is exploring and could signal the devolution of certain services from the upper tiers to lower tier municipalities and potentially the reserves and debt associated with those services.

##### **The new consultation on the financial implications of the *More Homes Built Faster Act* and the ability of municipalities to pay for growth-related infrastructure causes greater uncertainty for finances**

The cancellation of the Bill 23 audits and the Province’s decision to revisit and consult on some of the Bill’s components signals that the Province is beginning to understand the full financial impact of the changes. Municipalities are still waiting for the Province to maintain its commitment to keep them “whole” with respect to the Bill, and revisiting aspects of Bill 23 may be a means of reducing its fiscal impact. Any positive amendments to that legislation or news with respect to transfers that will keep municipalities “whole” would mitigate drawdown pressures that may shorten the time horizon of municipal MNRI managed by ONE JIB.

##### **The Building Faster Fund and the Housing-Enabling Water Systems Fund will provide funding to those who meet targets but may push water infrastructure project timelines ahead**

The Building Faster Fund’s incentive based top up may ease financial pressures for municipalities able to meet their housing targets. The application-based components of the funds will likely seek “shovel ready” projects. Municipalities with high provincial housing

targets will likely have to accelerate their capital plan forecasts, with provincial housing targets exceeding planned growth by more than double in some instances. For municipalities with more modest growth targets, it is possible that the funding will incentivize deviations from capital plan forecasts, pushing certain infrastructure projects ahead sooner than planned. Any shifts in potential timelines of significant infrastructure projects could accelerate the cash flow forecasts of Participating Municipalities.

## **5. CONCLUSION**

Municipalities continue to operate on uncertain ground with respect to changes in legislation. The Province continues to seek mechanisms to address the housing affordability crisis, and it is likely that these efforts will continue to destabilize municipalities. These changes will likely have a longer-term impact on Participating Municipality MNRI forecasts, creating drawdown pressure that will shorten time horizons.

Drafted by: Colin Macdonald, Manager of Policy, MFOA

Approved by: Donna Herridge and Judy Dezell, Co-Presidents/CEOs, ONE Investment