

To: ONE Joint Investment Board  
From: Colin MacDonald, Manager of Policy, MFOA  
Date: September 4, 2024  
Re: Municipal Insights Report – Q3 2024  
Report: ONE JIB 2024-057

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

## 2. SUMMARY

The Province has resumed consultations on regional reviews, which should extend through the Fall of 2024 with no definitive timeline for completion. It does appear that the Standing Committee responsible for the review is narrowing its focus, with increased emphasis on water and wastewater service delivery. Additionally, the Peel Transition Board is rumored to be recommending a realignment of road maintenance and waste collection services along with a transition of water and wastewater services to a provincially regulated utility. Should the Province accept the latter recommendation it is likely that it would impact municipalities across Ontario. The shifting of services between entities could have impacts on debt and reserves associated with those services – depending on the specific decision, municipalities could see their associated MNRI increase or decrease on a case-by-case basis.

AMO, the City of Toronto and the provincial and federal governments announced a renewal of the Canada Community Building Fund (CCBF). The fund is one of the largest government transfers to municipalities. The CCBF is allocated on a per capita basis and, with this simple allocation formula, often provides greater stability and predictability than other government transfers. The CCBF agreement is renewed for a 10-year period and will be indexed at two percent. The agreement includes new provisions around housing reporting and objectives that may skew the use of the funds toward growth-related infrastructure where previous agreements placed emphasis on asset management and state of good repair. The new emphasis on the fund may put more pressure on longer horizon reserves, such as asset management reserves.

## 3. BACKGROUND

**The Province has resumed consultations on the municipal regional review, which are expected to extend through the Fall of 2024**

On May 18, 2023, the Province announced a review of six other two-tiered municipal jurisdictions, and that they would be appointing “facilitators” to conduct those reviews. The two-tiered municipal jurisdictions under review are Durham Region, Halton Region, Niagara Region, Simcoe County, Waterloo Region, and York Region. On September 14, 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 conducted hearings in Winter 2023/2024 in each of the jurisdictions under review. On July 8, 2024, the Standing Committee conducted an additional hearing on the topic in Simcoe County and is looking to conduct additional hearings in the other jurisdictions in Fall 2024 – exact dates and times are to be decided. The hearing in Simcoe County placed significant emphasis on water and wastewater service delivery. No date has yet been set for the completion of this review.

**The Peel Transition Board is expected to recommend some service delivery reorientation and one news report has indicated that the board will recommend moving water and wastewater services to a separate utility corporation**

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 among its lower-tier municipalities of Brampton, Mississauga, and Caledon. However, by December 2023 it was announced that new legislation would 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. According to one news source, the Transition Board report will contain recommendations to transfer some services (road maintenance and waste collection) to the lower tiers and water and wastewater services to a “provincially regulated utility.” This latter move aligns with a recommendation made by Ontario’s Housing Affordability Task Force and has been echoed by the development industry and many other housing advocates.

**A new Canada Community Building Fund (CCBF) agreement was signed on June 5, 2024, which will provide municipalities in Ontario with stable infrastructure funding**

The new CCBF agreement was announced on June 5, 2024. The new agreement, which was signed by AMO, the City of Toronto, and the provincial and federal governments, will provide \$4.7 billion in funding to Ontario municipalities over the next five years. It renews the agreement for a ten-year period and allocates stable and predictable infrastructure funding on a per capita basis. The fund will be indexed at two percent per year. The new agreement places additional emphasis on housing, whereas previous agreements were more broadly focused on sustainable infrastructure decisions through asset management plans and practices. New conditions placed on the funds will require increased reporting on affordable housing units – including a requirement for any community with a population greater than 30,000 to develop and publish a Housing Needs Assessment, a commitment to leverage public lands for housing, and collaboration on housing development innovation.

**4. ANALYSIS**

**Several municipalities in the Prudent Investment Program may be impacted by outcomes of the municipal regional reviews and the Peel Transition Board recommendations**

ONE Investment staff have indicated in the past that the reviews may be creating enough uncertainty that impacted municipalities may delay any evaluations or decisions with respect to moving to the prudent investor regime until after the review is complete. Durham Region, the Town of Whitby, the Town of Aurora, and the Town of Innisfil are participating municipalities that could be directly impacted by the reviews. Depending on the result of the reviews it is possible that service delivery and associated reserves and debt could transfer between municipalities.

Should the Province opt to transition municipal water and wastewater services to municipal services corporations and establish a provincial regulator, it is likely that the impact would be felt by all municipalities in the Prudent Investment Program. It should be noted that at present the regulation governing municipal services corporation restricts the corporations to section 418 of the Municipal Act and would therefore be ineligible as investors under the prudent investor regime. AMO and MFOA partnered on a backgrounder for water and wastewater municipal services corporations detailing some of the potential benefits and disadvantages of the model and how its impact and use will be context dependent. The Town of Innisfil already delivers its water and wastewater services through a municipal services corporation. Any realignments of service delivery could have significant impacts on MNRI depending on the magnitude.

**The renewed CCBF agreement provides assurance of predictable infrastructure funding but new housing requirements of the fund could put some pressure on longer horizon reserves**

The renewed CCBF provides stability and predictability over the next ten years and is an important piece of infrastructure funding, as one of the more significant government transfers. The fund being indexed at two percent per year likely means that it will fall behind inflation and lose purchasing power over that period, which could put increased pressure on property taxes, user fees and reserves over that period. It is possible that the new emphasis and reporting requirements related to new housing development could skew its use toward growth-related infrastructure and away from asset management and state of good repair, which could put further strain on existing asset management reserves, particularly in growing municipalities.

**5. CONCLUSION**

Municipalities are trying to manage instability due to changes in legislation and policy by the federal and provincial governments, while also trying to meet the demand for a substantial amount of new infrastructure to serve new housing development. This may result in increased risk aversion and more pressure on municipalities' longer term MNRI and could shorten the time horizons of some MNRI.

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