

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Policy, MFOA
Date: November 27, 2024
Re: Municipal Insights Report Q4 2024
Report: ONE JIB 2024-077

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

The Province adjourned legislative business for the summer and resumed on October 21, 2024. This meant a fairly quiet summer with respect to legislation that impacts municipalities; however, it also likely means that the Province is preparing a new housing Bill that will have implications for municipal finance and therefore MNRI forecasts.

The Province released details on two major formula-based funding transfers to municipalities in September and October. On September 26, 2024 the Province announced earlier than usual allocations under the Ontario Community Infrastructure Fund (OCIF) from a \$400 million infrastructure and infrastructure planning fund for municipalities with populations less than 100,000. Early notice of these allocations should better prepare municipalities for their 2025 budget deliberations and consequently their MNRI adjustments for their annual reviews. However, the Province did not provide further details on what will happen to the fund after 2026, when the fund is scheduled to decrease to \$200 million, which could have longer term implications on MNRI forecasts.

Additionally, the Province announced an increase to the Ontario Municipal Partnership Fund (OMPF) during its Fall Economic Statement, which was released on October 30, 2024. The fund will increase to \$600 million from \$500 million. The increase will be phased in over two years, with \$550 million being available to small, rural, and northern municipalities in 2025. The increase will provide some financial relief to eligible municipalities and may have a positive impact on MNRI.

3. BACKGROUND

The Province resumed legislative business on October 21, 2024 after a summer break that began on June 6, 2024

The Province resumed legislative business on October 21, 2024 after a summer break. This means that no new Bills were introduced during that period. As a result, no new legislation was introduced over the summer.

The OCIF allocations were announced on September 26, 2024

Municipalities were notified of their OCIF allocations on September 26, 2024. OCIF is a \$400 million formula-based transfer from the Province to municipalities with a population of less than 100,000. It is intended to be used for infrastructure projects or infrastructure planning (i.e., infrastructure asset management planning). In years past, municipalities were not notified of OCIF allocations until mid-December. MFOA and AMO have been advocating for earlier notice of the allocations so that municipalities could incorporate any changes into budget deliberations, so the advance notice is welcome news. OCIF was doubled from \$200M in 2021 for a five-year period. There has been no word on whether the province will extend the fund's increase past 2026.

The OMPF is increasing from \$500 million to \$550 million in 2025 and \$600 million in 2026

On October 30, 2024, the Province released its Fall Economic Statement. In the statement, the Province announced that it will increase the OMPF to \$600 million from its current \$500 million. The increase will be phased in over two years, with the fund increasing to \$550 million for 2025 and again to \$600 million in 2026. The OMPF is an annual unconditional transfer to Ontario municipalities, which means that the province does not have conditions for how it is to be used. The OMPF targets small, rural, and northern municipalities and is critical to their budgeting process. The OMPF contains four grant components:

1. Assessment Equalization
2. Rural Communities
3. Northern Communities
4. Northern and Rural Fiscal Circumstances

Each grant component has its own formula for determining allocation, and municipalities may qualify under more than one grant component. To manage annual volatility in formula adjustments or general changes in circumstances, the OMPF also includes a transitional component to ensure that municipalities receive at least 85% of their previous year's funding. For 2025, the Province has made adjustments to the transitional component to ensure that no municipalities would see a decrease; this adjustment will not apply to the 2026 allocation.

4. ANALYSIS

A resumption of legislative business likely means that the Province is preparing new housing legislation, which will likely have municipal finance implications

Over the past five years, the Province has introduced numerous housing bills, which generally have implications for municipal finances. It is anticipated that the Province will introduce new housing legislation in the coming months. While it is uncertain what any legislation will contain, it should be noted that the ongoing regional review is often positioned to improve governance to get homes built faster. The regional review consultations are ongoing, but it is expected that the recommendations of the Peel Transition Board will be made public soon.

Early OCIF allocations may provide municipalities with more certainty with respect to MNRI adjustments in 2025 but the uncertainty around OCIF allocations beyond 2026 may result in a reduction of longer term MNRI

As municipalities prepare and finalize their budgets for 2025, they will begin reevaluating their MNRI position for annual reviews. Having OCIF allocations early may provide earlier certainty around near-term cash flows. However, the uncertainty around the status of the full funding envelope for OCIF post 2026, may cause municipalities to shorten their MNRI horizons depending on how they are forecasting OCIF transfers.

The increase to the OMPF will relieve some financial pressure on northern, smaller and rural municipalities, which could lead to a change in cashflow forecasts

Municipalities eligible for OMPF will likely get a larger than expected transfer in 2025 and, for municipalities not in the transitional funding component, that will likely increase again in 2026. This unanticipated increase to the transfer could increase MNRI projections provided that increased costs that are well above inflation, such as policing costs and infrastructure costs, do not erode the full value of the increase.

5. CONCLUSION

The Province's announcements related to two major formula based transfers are timely and welcome for smaller, rural and northern municipalities. Despite this, plenty of uncertainty remains with respect to future OCIF transfers and housing legislation and how they may impact municipal finances and MNRI forecasts.

Drafted by: Colin Macdonald, Manager of Policy, MFOA

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