

To: ONE Joint Investment Board  
From: Colin MacDonald, Manager of Policy, MFOA  
Date: February 25, 2025  
Re: Municipal Insights Update Q1 2025  
Report: ONE JIB 2025-015

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

## 2. SUMMARY

A confluence of political events at the provincial, federal, and international levels is creating significant uncertainties on municipal funding and expenses. The federal government has been prorogued to accommodate a Liberal leadership race after Prime Minister Justin Trudeau announced that he would be stepping down from the role. It is likely that opposition parties will trigger an election in the spring, unless their intentions change before parliament resumes on March 24, 2025.

The provincial government has triggered an early election that will take place on February 27, 2025, citing the need for a strong mandate to combat tariff threats posed by the United States (US).

Parties at both the provincial and federal levels have differing positions on affordable housing and municipalities in general. In some instances, particularly at the federal level, the outcome has the potential to alter or disrupt municipal relations with the senior orders of government.

In early February 2025, a potential trade war with the US was postponed until at least March 1 after the US and Canadian federal governments were able to come to an agreement on border security initiatives. The US was set to impose a 25 percent tariff on most Canadian goods. There would be a 10 percent tariff on “energy resources”, which was defined to include oil, natural gas and critical minerals. The tariffs were to begin on February 4, 2025, and Canadian federal and provincial governments were set to retaliate with their own tariffs and other measures. On February 10, 2025, the US government imposed a 25 percent tariff on aluminum and steel. Municipal governments, as with all Canadians, would be impacted dramatically by tariffs. Many municipal governments have begun examining their risk exposure to tariffs as well as exploring means through which they could support federal and provincial governments with their own measures to counter potential US tariffs.

### 3. BACKGROUND

#### **The Governor General prorogued the federal parliament until March 24, 2025 at the Prime Minister's request to give the governing Liberal party time to select a new leader**

On January 6, 2025, Governor General Mary Simon prorogued the federal parliament at the request of the Prime Minister. Prime Minister Trudeau announced he was stepping down and that the Liberal party would begin the process of selecting a new leader, with this selection to occur on March 9, 2025. Prorogation effectively ends this sitting of parliament and terminates any active bills being considered by parliament. Opposition parties have indicated that they will move or vote in favour of a motion of non-confidence when parliament resumes, which would trigger a federal election should federal party intentions remain unchanged.

#### **On January 28, 2025 Ontario Premier Doug Ford triggered an early provincial election, which is scheduled to take place on February 27, 2025**

On January 28, 2025, Premier Doug Ford triggered an early election citing the need for a strong mandate from the electorate to tackle potential United States (US) tariffs. Like federal prorogation, the election call ends the sitting of provincial parliament and terminates all active bills. The election call effectively puts provincial government in "caretaker" mode and no new initiatives or business can be implemented until after the election results are in on February 27, 2025. Provincial ministries are postponing planned consultations and events, including the Ministry of Finance's pre-budget consultations. Had the early election not been triggered, an election would have been required by June 2026.

#### **On February 3, 2025, the Federal government reached a late agreement with the US government to postpone potential tariffs until March**

On February 1, 2025, US President Donald Trump signed an executive order that would impose a 25 percent tariff on many Canadian goods and 10 percent on "energy resources." The tariffs were set to come into effect on February 4, 2025. The tariffs have been postponed until at least March 1, 2025 after the US and Canadian Federal governments were able to come to an agreement on additional border security, and other measures intended to stem the flow of fentanyl across the border into the US. On February 10, 2025, the US government imposed a 25 percent tariff on aluminum and steel. President Trump has cited the flow of fentanyl to the US from Canada and Mexico as well as trade imbalances as justifications for the tariffs. Many policy experts have questioned the veracity of these claims with evidence showing that the flow of fentanyl from Canada to the US is very low, in relative terms.

Canada was prepared to retaliate with its own targeted 25 percent tariffs and other measures, initially covering \$30 billion in goods which could increase to \$155 billion of goods by late February.

## 4. ANALYSIS

### **Federal prorogation and the potential for a federal election in the spring creates uncertainty with respect to federal funding of programs targeted at municipalities**

The current government has developed many programs for municipal infrastructure with respect to housing, aimed at incentivizing municipalities to reform approvals processes and freezing development charges. The Federal Canada Housing Infrastructure Fund committed \$5 billion for municipalities that would be directed through the provinces and territories – when the province did not agree to the terms of the agreement by January 2025, the money allocated was intended to be deployed into the \$1 billion direct funding stream for municipalities. The federal government has been silent on this funding, and many are unsure of the status of these funding programs.

Conservative leader Pierre Poilievre has been highly critical of the Liberal government's housing and infrastructure initiatives, including the aforementioned funds and the Canada Infrastructure Bank. He has indicated that he would eliminate these programs. He has also been highly critical of municipal politicians, referring to them as “greedy” and “gatekeepers” among other things. As polling indicates that Poilievre is the current front-runner and likely to secure a majority government, municipalities could be in for a dramatic change in relationship with the federal government, which could have significant impact for federal infrastructure funding and, consequently, municipal fiscal circumstances.

### **The provincial election outcome may have a significant impact on municipal-provincial relations and, by extension, municipal finances**

While the governing provincial Progressive Conservative Party led by Doug Ford maintains a significant lead in the polling, the election outcome could have an impact on municipalities. The Ontario Liberal Party, the Ontario New Democratic Party and the Ontario Green Party have indicated that they are in favour of reaching a new agreement with municipalities, with each presenting policy platforms on housing and municipal relations which could have a cascading impact on municipal finances. The current Progressive Conservative government has many funding programs available for municipal infrastructure and announced recent increases to some provincial grants to municipalities – it is unclear what would happen with these programs should another party form the government.

### **Municipalities are beginning to plan for potential US tariffs by examining their dependence on US supply chains and examining opportunities to join the federal and provincial governments in a potential trade war**

Municipalities are currently dealing with challenges related to the housing and social services crises that are straining municipal resources. Like the pandemic, 25 percent tariffs will likely have dramatic impacts on construction supply chains and will further exacerbate affordability challenges faced by families throughout the country. Tariffs would likely increase infrastructure construction costs and may put further pressure on municipal services bearing an unintended burden from current housing, affordability and addiction

challenges.

Many municipalities are reviewing their procurement policies and existing contracts to see where they can minimize the tariff risk. Additionally, some municipal councils have expressed the intent to explore options where they can place additional pressure on the US should tariffs be imposed in March.

## **5. CONCLUSION**

Municipalities will be impacted by the outcomes of the provincial and likely, federal elections as political parties at the federal and provincial levels have very different positions on housing and municipal infrastructure financing. Geopolitical relations with the US remain a concern for municipalities as with all Canadians. Municipalities will need to look at how they can mitigate the potential impact of tariffs, and many will seek out options to work in concert with the federal and provincial governments on retaliatory measures, should the tariffs be imposed.

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