

To: ONE Joint Investment Board  
From: Colin MacDonald, Manager of Policy, MFOA  
Date: November 25, 2025  
Re: Municipal Insights Report Q4 2025  
Report: ONE JIB 2025-060

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## 1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the Report

## 2. SUMMARY

The report highlights key funding and legislative updates affecting Ontario municipalities. The 2026 Ontario Municipal Partnership Fund (OMPF) increased to \$600 million, continuing its role as a vital unconditional transfer for small, rural, and northern municipalities. Adjustments to its transitional component will phase out funding for ineligible municipalities over five years. The Ontario Community Infrastructure Fund (OCIF) raised its minimum grant to \$125,000, though future funding beyond 2026 remains uncertain.

Bill 60 introduces the Water and Wastewater Public Corporations Act, aiming to transition Peel's water services to a corporate model by 2029, with potential broader application across Ontario. This raises concerns about governance, reserve stability, and long-term municipal infrastructure investment.

Federally, the \$51 billion Build Communities Strong Fund (BCSF) includes \$17.3 billion in new funding, with \$5 billion earmarked for healthcare infrastructure. However, access to some streams depends on provincial commitments to reduce development charges, which may distort municipal capital planning.

## 3. BACKGROUND

**The 2026 Ontario Municipal Partnership Fund (OMPF) has been announced and is increasing from \$550 million to \$600 million**

On October 31, 2025, the Province announced the 2026 OMPF allocations and announced some updates to its funding formulas. As announced in October 2024, the 2026 OMPF has increased to \$600 million from \$550 million the previous year. 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 and, as a result, it is often used

to fund operations. The OMPF primary targets are small, rural, and northern municipalities, and it 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 circumstance, the OMPF also includes a transitional component to ensure that municipalities receive at least 85% of their previous year's funding. For 2026, the Province has adjusted the transitional component so that municipalities who no longer qualify would see all payments phased out within five years.

**The Ontario Community Infrastructure Fund (OCIF) allocations were announced on September 16, 2025, and the minimum grant was increased to \$125,000 from \$100,000**

Municipalities were notified of their Ontario Community Infrastructure Fund (OCIF) allocations on September 16, 2025. 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). OCIF 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.

**Bill 60 proposes to devolve Peel Region's water and wastewater systems to its lower tiers and to create a Water and Wastewater Public Corporation by January 1, 2029.**

On October 23, 2025, the Province of Ontario introduced Bill 60, *Fighting Delays, Building Faster Act, 2025*. The omnibus bill makes changes to eighteen Acts, including the *Municipal Act, 2001 (MA)*, the *Planning Act, R.S.O., 1990*, and the *Development Charges Act, 1997* and introduces the proposed *Water and Wastewater Public Corporations Act, 2025 (WWPCA)*. The changes to the *Municipal Act* and the introduction of the WWPCA are intended to facilitate Peel's transition of its water and wastewater services, including all assets and liabilities, to an arms-length corporate governance model by January 1, 2029 or sooner through regulation. However, the WWPCA has broader implications, with the Minister of Municipal Affairs and Housing saying that Peel's water and wastewater transition is being viewed as a pilot for other municipalities, and the legislation is drafted in a way that could broadly apply to other water and wastewater corporations.

**The Federal Budget announced a \$51 billion Build Communities Strong Fund for local infrastructure, of which approximately \$17.3 billion is new funding**

On November 4, 2025, the Federal Budget announced the \$51 billion Build Communities Strong Fund (BCSF) for local infrastructure over 10 years starting in 2026-27. The fund is made up of new and existing commitments. The fund is comprised of:

- \$27.8 billion from a previously committed but rebranded Canada Community Building Fund (CCBF), which will now fall under the Communities stream of BCSF;
- \$17.2 billion in provincial/territorial funding intended to flow to local infrastructure projects through the Province, provided that the Province agrees to “substantially reduce development charges” and not add any new fees or taxes to housing;
  - \$5 billion of this stream is earmarked for local health infrastructure and does not have similar requirements with respect to development charges; and
- \$6 billion in a direct funding stream which will flow directly to local governments but requires that approved projects include a component with private sector investment.

The budget also notes that \$51 billion announcement includes the repurposed funds from the Canada Housing Infrastructure Fund (CHIF), which also had a provincial stream and a direct funding stream. Based on Parliamentary Budget Office updates on CHIF, it is likely that amounts to \$5.9 billion. This means, that after accounting for the rebranded CCBF and the repurposed CHIF, the announcement is a net increase of \$17.3 billion in funding available for local infrastructure over that which was previously announced. It should also be noted that the \$12.2 billion available for housing-enabling infrastructure is also available to colleges and universities.

As noted in the Q3 Municipal Insights report, the federal Liberal platform included a commitment to reduce development charges by 50% on multi-residential housing developments. It is uncertain whether the requirement to “substantially reduce development charges” is aligned with this previous commitment. It should also be noted that one of BCSF’s predecessors, the Municipal Housing Infrastructure Fund, also had a provincial territorial stream that required provincial commitment to freeze development charges at 2022 levels. The Province of Ontario and the federal government could not come to an agreement on that funding arrangement.

#### 4. ANALYSIS

##### **The OMPF and OCIF allocations provide predictable and stable funding for many Participating Municipalities**

The OMPF and OCIF grants are relatively predictable and stable long-term formula-based grant funds. This year, because the OMPF increased by \$50 million most municipalities would have received an increase over the previous year. Municipalities who see a decrease are being phased out of the program because they are no longer eligible – based on the current components and formulas. The increase to this fund will probably have a positive impact on cashflow forecasts for beneficiaries.

The OCIF fund has undergone changes to its formula from 2022 where need is now determined based on the estimated current replacement value of its core infrastructure as opposed to its historical acquisition cost. The transition has increased year-over-year volatility in the allocations as the Ministry of Infrastructure works with more recent asset management plans with better data quality. But work still needs to be done to normalize

the estimates between municipalities due to variations in estimation methodologies. Most municipalities would have factored in some contributions into their cashflow forecasts but will likely need to adjust upward or downward based on the impact and scale of changes year over year.

<b>Municipality</b>	<b>OCIF Recipient (change from previous year)</b>	<b>OMPF Recipient (change from previous year)</b>
<i>Town of Aurora</i>	Yes (increase)	No
<i>Town of Aylmer</i>	Yes (increase)	Yes (increase)
<i>Town of Bracebridge</i>	Yes (increase)	Yes (increase)
<i>Township of Central Frontenac</i>	Yes (decrease)	Yes (increase)
<i>Municipality of Clarington</i>	No	No
<i>Regional Municipality of Durham</i>	No	No
<i>Town of Huntsville</i>	Yes (increase)	Yes (increase)
<i>Town of Innisfil</i>	Yes (increase)	Yes (decrease – phase out)
<i>City of Kenora</i>	Yes (increase)	Yes (increase)
<i>District Municipality of Muskoka</i>	Yes (increase)	Yes (decrease – phase out)
<i>Municipality of Neebing</i>	Yes (decrease)	Yes (increase)
<i>City of Quinte West</i>	Yes (increase)	Yes (increase)
<i>Municipality of Red Lake</i>	Yes (increase)	Yes (increase)
<i>City of Thunder Bay</i>	Yes (decrease)	Yes (increase)
<i>Town of Whitby</i>	No	No

### **The proposed Water and Wastewater Public Corporation Act, 2025 introduces a lot of uncertainties over longer term water and wastewater reserves of upper tier and lower tier municipalities**

The proposed Act is light on detail and contains broad regulatory authority over very important matters such as board composition, ownership shares, the types of fees these corporations can collect, and conditions and limitations for these entities to invest money or incur debt. While the legislation is strictly limited to the lower tiers, the Peel model signals that any upper tier water and wastewater services could be devolved to the lower tier and turned into a WWPC. However, the legislation is not clear and somewhat contradictory in how these corporations are established. The legislation states that corporations may be “designated” as WWPC, which implies the existence of a previously existing corporation. However, the legislation also notes that the lower tiers to which the Act applies can be defined through regulation.

The Province has signaled in its communications that the intent of the transition is to decrease reliance on development charges by enabling or facilitating alternative financing options and mobilizing public pension investments in infrastructure. It is currently unclear

what this means as messaging has been limited, vague, and at times contradictory. However, it does suggest, at minimum, more debt, and higher user fees for water and wastewater services. Unless permitted through regulation or updated legislation, WWPC infrastructure needs do not currently qualify for development charge collections. It is also likely that reserves and reserve funds for water and wastewater will be transferred to these new entities, where possible; potential legal restrictions on the transfer of debt may also restrict the transfer of sinking fund reserves.

It should be noted that the Town of Innisfil has already transitioned its water and wastewater services to an MSC. As noted in the Q3 Municipal Insights report, eight of the fifteen Participating Municipalities have water and wastewater reserve funds. See below for an analysis of the water and wastewater reserves as a percentage of total reserves for each Participating Municipality.

<b>Municipality</b>	<b>Tier</b>	<b>Water/Wastewater Reserves as Percent of Total Reserves (2023 FIR)*</b>
<i>Town of Aurora</i>	Lower	12.0%
<i>Town of Aylmer</i>	Lower	53.6%
<i>Town of Bracebridge</i>	Lower	0.0%
<i>Township of Central Frontenac</i>	Lower	0.0%
<i>Municipality of Clarington</i>	Lower	0.0%
<i>Regional Municipality of Durham</i>	Upper	34.6%
<i>Town of Huntsville</i>	Lower	0.0%
<i>Town of Innisfil</i>	Lower	0.0%
<i>City of Kenora</i>	Single	14.5%
<i>District Municipality of Muskoka</i>	Upper	24.5%
<i>Municipality of Neebing</i>	Single	0.0%
<i>City of Quinte West</i>	Single	24.1%
<i>Municipality of Red Lake</i>	Single	16.1%
<i>City of Thunder Bay</i>	Single	19.1%
<i>Town of Whitby</i>	Lower	0.0%

\* Comprised of water and wastewater discretionary reserve and reserve funds and obligatory reserve funds as a percentage of total reserve and reserve fund balances

While these percentages may not accurately reflect the percentage of MNRI, they provide an indicator of where longer term MNRI investment horizons may be uncertain.

**The Federal government’s BCSF may provide additional relief to municipal infrastructure pressures and will likely have a distorting effect on capital plans**

The additional infrastructure funding is welcome, and the BCSF – Community Stream continues to be the most stable and predictable grant with a simple formula and 2% annual

indexing. Provided the Province and the federal government can come to an agreement on what “substantially reduce development charges” means, it could add funding to alleviate some municipal capital pressures. Historically, funding programs designed to incentivize development charges reductions have resulted in net funding losses for some growing municipalities. Grant funding can accelerate project timelines, with application-based funding particularly distorting project prioritization. This can both push projects forward or backward in the capital plan. The net impact of grants on municipal cash flows can be difficult to predict.

## **5. CONCLUSION**

Small, rural and northern Ontario municipalities are seeing increased funding through the OMPF and OCIF, which supports operational and infrastructure needs. However, new legislation and conditional federal funding introduce uncertainty, particularly around water and wastewater governance and long-term capital planning. Strategic coordination and financial adaptability will be essential moving forward.

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