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**For Information**

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**REPORT TITLE: Update – Municipal Finances Audit (Bill 23 Financial Impacts and Optimizing Municipal Resources)**

**FROM: Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services**

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**OBJECTIVE**

To provide Council with a progress update on the Municipal Finances Audit currently being conducted by Ernst & Young LLP (EY), the auditor appointed by the Province.

**REPORT HIGHLIGHTS**

- Ontario has selected Ernst & Young LLP (EY) as the auditor to examine the finances of six municipalities including Peel Region and the three local municipalities in Peel.
- The stated objectives of the audit are to estimate the impact of *Bill 23, More Homes Built Faster Act, 2022* (Bill 23), and to assess how Peel Region has managed its finances and service delivery with due regard for economy, efficiency, effectiveness and stewardship.
- The Region has identified some key staff from various departments and implemented a governance structure in ensuring that the Region's roles and responsibilities in this audit process are adequately fulfilled.
- Staff have been working with EY on the audit process and have responded to audit requests received thus far.
- The EY audit work plan indicates that EY will produce separate interim and final reports on each objective to the Province, and that the first phase of the audits is targeted to be completed around the end of 2023.
- The Terms of Reference provided by the Province suggests that the audit's findings may also be used to inform the regional assessment review process.
- One of the key findings from a number of analyses prepared by Regional staff is that, in the absence of funding from the Province, the funding shortfall and funding needs prompted by Bill 23 and the increased housing target will result in additional burden on existing taxpayers and rate payers.
- Prospect of the Peel Dissolution brings additional levels of unique and complex elements in planning and building housing-enabling infrastructures in Peel and potentially further heightens the challenges associated with Bill 23.
- Contrary to some misconceptions, new assessment growth tax revenue does not pay for growth infrastructures and cannot replace a growth funding tool such as development charges.
- The audit process is progressing; and staff will continue to work with EY on next steps and can provide Council with a further update when needed.

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### DISCUSSION

#### 1. Background

On May 3, 2023, the Regional Chair received a letter from the Ministry of Municipal Affairs and Housing advising that Peel Region had been selected to participate in the audit of municipal finances. In addition to Peel Region, the Province indicated that it intends to partner with five other municipalities: Toronto, Newmarket, Brampton, Caledon, and Mississauga, as part of the audit process.

The letter stated that the third-party audit is designed to support the Province's objective of supporting municipalities in achieving provincial housing targets while promoting financial sustainability.

The letter also provided Terms of Reference of the audit for review and execution. At the May 11, 2023, meeting, Regional Council considered the report titled "Municipal Finance Audit (Bill 23 Financial Impacts and Optimizing Municipal Resources) Terms of Reference" and approved the report recommendation of signing the provided Terms of Reference (Resolution 2023-374). The Terms of Reference state that the scope of the audit has two objectives:

##### A. Bill 23 financial impact

An independent estimate of the financial impact of *Bill 23, More Homes Built Faster, 2022*, ("Bill 23") on Peel Region's finances, assuming each of the Region's lower-tier municipalities would meet/exceed the new provincial housing targets.

##### B. Optimizing municipal resources

A review and assessment of how the Region has managed its finances and service delivery with due regard for economy, efficiency, effectiveness, and stewardship.

#### 2. Update

##### a) Ernst & Young LLP (EY) is the Province's appointed auditor

On July 26, 2023, Ontario released the news that, following a competitive procurement process, Ernst & Young LLP ("EY") has been retained by the Province to examine the finances of Toronto, Peel Region, Mississauga, Caledon, Brampton, and Newmarket.

##### b) The Region has been working with EY on the audit process

Since the audit for Peel Region commenced in August, the following steps have been completed:

- A kick-off meeting was held in mid-August, attended by senior staff from the Region and EY.
- Staff reviewed the data request sent from EY and have provided responses to the audit requests received so far.

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**c) Next Steps**

The Terms of Reference provided by the Province indicates that EY will produce separate interim and final reports on each objective to the Province. As of the writing of this report, staff have not received the interim report yet, which is anticipated for review in the coming week. The government indicated in a news release issued on July 26, 2023, that the first phase of the audits is targeted to be completed around the end of 2023. EY shared with staff a tentative audit workplan with deliverables which is reproduced in the chart below.

**Chart 1 – EY Audit Key Milestones and Review Periods**

	<i>Milestone 1</i> <b>Bill 23 Financial Impact Analysis – Interim Findings Report</b>	<i>Milestone 2</i> <b>Bill 23 Financial Impact Analysis – Draft Final Report</b>	<i>Milestone 3</i> <b>Optimizing Municipal Resources – Interim Findings Report</b>	<i>Milestone 4</i> <b>Optimizing Municipal Resources – Draft Final Report</b>
<b>EY Due Date</b>	September 21, 2023	October 19, 2023	December 7, 2023	February 1, 2024
<b>Municipal Review Period Begins</b>	Week of September 25, 2023	Week of October 26, 2023	Week of December 14, 2023	Week of February 8, 2024

**BILL 112 RISKS AND IMPLICATIONS**

On June 8, 2023, *Bill 112, Hazel McCallion Act (Peel Dissolution), 2023* (“Bill 112”) received Royal Assent. Bill 112 provides that the Regional Municipality of Peel will be dissolved, and the local municipalities will become single-tier municipalities, effective January 1, 2025. One of the key elements of Bill 112 is the establishment of a Transition Board, which will make recommendations to the Province regarding the restructuring of municipal governance in Peel. The municipal audit Terms of Reference provided by the Province suggests that the findings from the audit may also be used to inform the regional assessment review process.

On June 8, 2023, Regional Council approved principles to maintain Regional services through the transition period and prepare for the 2024 Budget, as outlined in the report from the Chief Administrative Officer entitled, “Bill 112 – Managing Through the Transition”. Staff remain committed to working with the Transition Board, the Ministry, the local municipalities and the auditor(s) with a view to ensuring the continuity of critical services and supporting local municipalities’ pledge of meeting the housing targets; however, the prospect of the Peel Dissolution brings an additional level of unique and complex elements in planning and building housing-enabling infrastructure in Peel and potentially further heightens the challenges associated with Bill 23.

**FINANCIAL IMPLICATIONS**

The Terms of Reference indicates that the audit costs incurred by EY will be paid by the Province. As presented in the presentation from the Chief Administrative Officer to Regional Council at its meeting held on September 14, 2023, the Region has identified some key staff from various departments and has implemented a governance structure in ensuring that the Region’s roles and responsibilities in this audit process is adequately fulfilled.

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One of the main objectives of the audit is to examine Bill 23's financial impact if each of Peel Region's lower-tier municipalities meet their housing targets. Since the introduction of Bill 23, staff have brought forward to Council a number of reports regarding the implications of Bill 23 including a high-level analysis on the financial and infrastructure needs to accommodate growth and the increased housing target from Bill 23. Staff have also participated in various discussion groups in the municipal sector. One of the key findings from these analyses is that, in the absence of the funding from the Province, the funding shortfall and funding needs prompted by Bill 23 and the increased housing target will result in additional burden on existing taxpayers and rate payers.

### Preliminary Discussion - New Assessment Growth Does Not Pay for Infrastructure

The Ontario government has set a goal of building 1.5 million new homes over the next decade. This ambitious plan will require considerable investment in municipal infrastructure (such as water, wastewater, roads, etc.) well ahead of such residential developments being built and assessed for property tax purposes. Therefore, municipalities will be faced with substantial lag between their infrastructure spending versus revenue collection.

A municipality's assessment growth is commonly mistaken to be synonymous with new revenue. Assessment growth describes the increase in a municipality's assessed property values, which typically occurs when improvements are made to a property, such as new construction. Such increases in a municipality's assessed property values translate to new or additional property tax revenue. The confusion with new revenue fails to consider that improved properties require municipal services. Municipalities will need to provide the same services to new homes as they do to existing communities. When new homes are built or expanded in municipalities, existing municipal services must be also extended. As a result, the tax revenue generated by new developments is used to fund the increase of the municipal operating budget to provide these services.

Therefore, new assessment growth does not pay for growth infrastructure and cannot replace a growth funding tool such as development charges.

### **CONCLUSION**

EY is the Province's appointed auditor in conducting the Municipal Finances Audit assigned by the Province. The audit process is progressing and staff will continue to work with EY on next steps and can provide Council with a further update when needed.

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