



FEDERATION
OF CANADIAN
MUNICIPALITIES

FÉDÉRATION
CANADIENNE DES
MUNICIPALITÉS

Building Canada starts locally: The Federation of Canadian Municipalities' recommendations for the 2026 Federal Budget

August 20, 2026

Message from FCM's president

The Honourable François-Philippe Champagne
Minister of Finance and National Revenue

Dear Minister Champagne,

On behalf of the Federation of Canadian Municipalities (FCM) and the 2,000 municipalities we represent, I am pleased to submit FCM's recommendations for Budget 2026.

Building Canada starts locally.

Municipalities are where Canada's ambitions meet local action. Whether building infrastructure, addressing homelessness, strengthening community safety or improving affordability, local governments turn national priorities into tangible results. We deliver the services Canadians rely on every day and build the infrastructure that supports economic growth, resilient communities and a high quality of life.

As Canada advances its economic and nation-building agenda, municipalities are ready to be full partners in delivering results. Budget 2026 is an opportunity to invest in community solutions that strengthen our economy while improving the everyday lives of Canadians. By empowering municipalities with the tools, resources and long-term certainty they need, the federal government can accelerate progress on its most important priorities.

FCM's Budget 2026 recommendations are grounded in this shared objective.

Municipal governments have a demonstrated track record of delivering federal investments efficiently, responsibly and in partnership with other orders of government.

Together, we can deliver for Canadians. We can build stronger communities, unlock economic growth and improve affordability for Canadians in every region of the country.

We appreciate the opportunity to contribute to the Government's Budget 2026 consultations and look forward to continuing our partnership to build a stronger Canada.

Sincerely,



Tim Tierney
President
Federation of Canadian Municipalities

FCM's recommendations for Budget 2026

We respectfully recommend that the Government of Canada leverage Budget 2026 to:

- **Build Canada** by increasing dedicated investments in local infrastructure at pace and scale to match the government's ambitions on housing affordability, trade diversification, economic growth, defence and resilience.
- **Invest in a renewed National Housing Strategy**, prioritizing homelessness prevention and response as well as a Housing First approach.
- **Invest in proven and well-established federal-municipal delivery platforms** that are deployment-ready and immediately scalable to meet national goals through FCM's Green Municipal Fund and FCM's international development programming.
- **Strengthen community safety**, resilience and well-being.
- **Diversify municipal revenues** to strengthen local fiscal sustainability.

These recommendations are described in greater detail below.

Recommendation 1: Build Canada by increasing dedicated investments in local infrastructure at pace and scale to match the government's ambitions on housing affordability, trade diversification, economic growth, defence and resilience.

1. Scale dedicated municipal infrastructure investments through the Build Communities Strong Fund (BCSF):

Canada's municipalities own 60 percent of public infrastructure and in 2022 faced a \$240 billion repair backlog while receiving only eight percent of total tax revenues. Current funding levels do not address the growing municipal infrastructure deficit or equip communities to enable the housing and economic growth Canadians need. Scaling BCSF will generate strong economic returns while delivering the housing, business and trade-enabling infrastructure required to meet national goals. Every \$1 billion in spending on municipal infrastructure supports \$1.06 billion in GDP growth and \$2.19 billion in economic impact while creating 7,700 jobs.

- **Expand the Direct Delivery and Community Streams:** FCM's top recommendation is to scale up direct funding under BCSF—by expanding and accelerating the direct delivery stream while also boosting the community stream, indexing it to GDP growth and securing matching dollars from the provinces and territories. If the Community Stream were doubled to \$53.4 billion over 10 years and cost-matched by provinces and territories to \$106.8 billion, this investment would create an additional \$6.4 billion in GDP and \$127 billion in gross output.
- **Scale up the Provincial and Territorial Stream with dedicated funding for municipalities:** We recommend the federal government scale up dedicated and cost-matched investments for municipal governments within the BCSF provincial and territorial stream so that housing, business and trade-enabling infrastructure can advance at the pace needed to meet national needs. Federal investment must be leveraged with *net*

new provincial/territorial funding and aligned to long-term priorities shared by all orders of government. Notably, cost-matched federal and provincial/territorial funding under this stream should increase total infrastructure investment rather than solely offset reductions in local development charges. This will prevent further pressure on the property tax base, enable more construction to build Canada and promote affordability by increasing the supply of serviced land and other essential local infrastructure.

- **Dedicate targeted funding for rural and northern infrastructure renewal:** Nearly 43 percent of Canada's municipal infrastructure backlog is in rural communities, with over \$108 billion in assets in poor or very poor condition. Rural municipalities maintain more than two thirds of Canada's roads and bridges, connecting farms, mines and energy projects to ports and rail. Federal infrastructure funding available to rural and northern communities is insufficient to close the current infrastructure gap. We recommend the federal government create a dedicated rural and northern sub-stream under BCSF's direct delivery stream to strengthen trade corridors and support rural and northern development and sovereignty. To maximize its impact, the federal government should also provide long-term support for municipal asset management capacity-building. Programming should incorporate natural asset management and climate resilience considerations, building on FCM's Local Leadership for Climate Adaptation Program, to support sustainable and cost-effective infrastructure decisions.

2. Significantly expand municipal funding for multi-use infrastructure that supports Canada's defence expansion:

Modern and reliable local infrastructure is essential for Canada to strengthen its defence capabilities. Current funding through the Capital Assistance Program (CAP) is insufficient to enable the federal government's defence expansion nor enough to support the communities partnering to deliver it. Between 2016 and 2026, only \$72.9 million was provided to local governments, despite growing infrastructure demands associated with military installations and defence-related growth. For example, in Moose Jaw, Saskatchewan, where 15 Wing Base is undergoing major expansion, a single shovel-ready lift station required to support housing growth is estimated to cost \$65 million, nearly equivalent to all CAP funding dispersed nationally over the past decade. FCM recommends that the federal government consider all local infrastructure as eligible for federal defence funding as "multi-use" infrastructure and that funding is eligible for communities that do not have bases in their regions but which contribute in some way to enhancing Canada's defence capabilities. Expanding support for municipal defence-related infrastructure will strengthen Canada's defence readiness while delivering lasting economic and community benefits for Canadians.

3. Invest in climate resilient infrastructure and local climate adaptation:

The costs of climate change are increasing. Insured losses from extreme weather have tripled over the past decade with over \$2.5 billion in losses in 2025 after \$9.4 billion in losses in 2024. Direct, predictable and long-term investment in climate resilient infrastructure and climate adaptation can save billions of dollars. Recent research commissioned by FCM and the Insurance Bureau of Canada demonstrates that a proactive annual investment of \$4.1 billion shared by all orders of government to adapt Canada's roads, bridges, storm sewers and water treatment systems for rising heat and heavy rain will save governments up to \$9 billion in infrastructure costs each year. To reduce long-term infrastructure maintenance and renewal costs, the federal government should directly invest \$2 billion annually in climate adaptation to ensure infrastructure assets are resilient to extreme weather and climate impacts, protecting Canadians from the increasing costs of natural disasters.

4. Restore the full \$30 billion/10-year commitment to the Canada Public Transit Fund (CPTF), establish an annual index and quickly flow funding through streamlined mechanisms under the Strong Transit stream and the rural transit solutions, active transportation and zero emissions initiatives:

Reliable, frequent transit depends on predictable and efficient federal investment. Lack of investment in public transit increases gridlock and slows the flow of goods through our cities hindering Canada's productivity and international trade goals. Congestion already costs \$12 billion annually in the Toronto—Hamilton region, \$4 billion in Montreal and \$1.2 billion in Vancouver. FCM estimates that every \$1 invested in public transit generates \$2.2 in economic activity. To unlock the full potential of public transit and further streamline transit investment, FCM recommends boosting the Baseline stream and indexing CPTF at 3.5 percent per year to accelerate delivery, support productivity and strengthen Canada's trade and economic competitiveness.

5. Support the sustainability of the Canadian infrastructure sector into the future by addressing labour shortages and by developing and implementing a National Infrastructure Assessment process to create a long-term strategy for addressing infrastructure needs Canada-wide:

Building an adequate workforce, including employment pathways for youth, is essential to making sure public infrastructure projects have the workers necessary to stay on track without delays. As well, better data will lead to better investment decisions. Leveraging lessons learned from the UK's National Infrastructure and Service Transformation Authority, Canada should explore and implement best practices in strengthening infrastructure assessment, strategy and delivery nationwide.

6. Enhance support for nature and natural infrastructure to achieve 30 × 30 conservation goals, reduce greenhouse gas emissions, support community resilience and human health and well-being:

Nature directly and indirectly supports human well-being and quality of life. It also underpins Canada's economy through timber, minerals, fish and farmland and reduces the impacts of extreme weather by absorbing floodwaters, reducing coastal erosion and cooling cities during extreme heat events. By protecting and conserving nature in and around communities across Canada, the federal government can contribute to its goal of protecting 30 percent of Canada's lands by 2030, creating 15 new national urban parks and conserving an additional eight percent of land through Other Effective Area-Based Conservation Measures (OECMs).

Recommendation 2: Invest in a renewed National Housing Strategy prioritizing homelessness prevention and response as well as a Housing First approach.

7. Partner with FCM to deliver housing system results:

Invest in municipal capacity to deliver on shared housing objectives, including by learning from the challenges and successes of the Housing Accelerator Fund when advancing program renewal with the aim of speeding up housing delivery to meet Canadians' needs. Federal housing objectives ultimately depend on municipal implementation. Early evidence from the Housing Accelerator Fund indicates that outcomes-based investments in municipal capacity and housing system reform are producing measurable results, including permit growth beyond forecasts

and significant increases in future housing development capacity. Program renewal should build on this model by providing municipalities with the tools, staffing and incentives needed to translate federal housing investments into housing delivered on the ground.

8. Centre non-market housing investment to stabilize the housing system and reach the Organisation for Economic Co-operation and Development (OECD) average:

Provide a variety of tools, including, but not limited to additional funding for Build Canada Homes and funding for renewal and renovation, with the explicit goal of doubling the share of non-market housing stock while identifying clear outcomes for affordability, equity and homelessness prevention. Canada's share of non-market housing is approximately 3.5 percent of homes. This should increase to the OECD average of seven percent. Two recent studies demonstrate the significant economic benefit of investing in non-market housing. A study by Deloitte for the Canadian Housing Renewal Association (CHRA) and Housing Partnership Canada concluded that bringing community housing stock to the OECD average would boost economic productivity by 5.7 percent to 9.3 percent, increasing GDP by \$67 billion to \$136 billion. The recent Public Dividend Report by the Canadian Centre for Economic Analysis modelled public housing investment in the GTHA, concluding that a \$36 billion investment in renewal and new construction would return roughly \$102 billion in value (\$2.80 for every dollar invested). Critically, by 2050 these returns also include 4,700 fewer people experiencing homelessness per year.

9. Renew, revise and top-up Reaching Home by an additional \$3.5 billion in annual, permanent funding indexed to inflation with alignment around a shared national approach for reducing homelessness:

Reaching Home is an essential federal program on the frontlines of Canada's homelessness crisis and a foundational pillar of local housing systems—delivering measurable reductions where conditions allow as well as essential coordination, prevention and stability where structural constraints persist. Crucially, these investments are leveraged through Coordinated Access Systems and community-level governance structures supported by Reaching Home, which align partners and resources across the local homelessness response. By enabling shared data, integrated decision-making and coordinated service delivery, federal funding helps communities leverage a wider set of investments and actors to achieve more efficient and effective outcomes. Increasing the program's annual funding by \$3.5 billion will address the annual spending shortfall identified by the Parliamentary Budget Officer as a barrier to eliminating chronic homelessness. FCM is a willing and collaborative partner on program changes to support the outcomes of reduced homelessness and shelter demand.

10. Build on existing rental assistance initiatives and portable housing benefits to promote homelessness prevention:

To prevent people from falling into homelessness, extend the Canada Housing Benefit (CHB) and the Federal Community Housing Initiative while also creating a new emergency homelessness benefit. In a survey of CHB recipients, almost 40 percent of respondents indicated that if they did not receive the CHB, they would be homeless. Portable housing benefits and rent supplements typically cost governments a few thousand dollars per household annually, far less than the estimated \$30,000-\$55,000 per person annual public cost of homelessness, making them one of the most cost-effective tools available for homelessness prevention.

11. Advance intergovernmental alignment and action through a housing and health lens:

Bring all orders of government together to commit to coordinated intergovernmental action on housing, homelessness and health, recognizing homelessness as a shared systems failure that intersects with housing, hospitals, mental health, addictions, justice and child welfare. This should include the development of a pan-Canadian multilateral strategy to respond decisively to interconnected challenges of chronic homelessness, mental health and addictions, and their underlying drivers. These systemic failures often result in preventable homelessness, repeated interactions with police, emergency services and the justice system or missed opportunities for intervention. Critical to intergovernmental action is securing provincial/territorial operating dollars for supportive housing units built with federal funding to support those experiencing chronic homelessness. The strategy should also strengthen coordination across health, housing, social services and public safety systems and address critical mental health and addictions service gaps, particularly in rural, remote and northern communities.

12. Advance tailored investments to address homelessness in rural, northern and remote Canada:

Design explicitly for rural, northern and remote, recognizing higher costs, capacity constraints and the links between housing, workforce stability and essential services. Creating a national data strategy would provide greater insight on the state of rural and northern homelessness.

Recommendation 3: Invest in proven and well-established federal-municipal delivery platforms that are deployment-ready and immediately scalable to meet national goals through FCM's Green Municipal Fund and FCM's international development programming.

13. Invest in FCM's Green Municipal Fund (GMF) to accelerate Canada's economic growth through clean energy, energy efficiency and climate resilience:

Invest \$800M over eight years to scale three established and proven GMF initiatives. This investment will deliver 10,000 new energy-saving home retrofits, protect over 100 communities from climate impacts and support 250–300 infrastructure and community projects. Canada's ability to compete, grow and build economic and environmental strength depends on resilient local infrastructure and clean energy. GMF helps municipalities succeed by enabling rapid, practical, community-level project implementation aligned with federal priorities of increasing affordability and enhancing economic stability, including through energy-saving home retrofits, community-wide resilience measures and clean energy projects.

FCM's Green Municipal Fund is a proven federal-municipal delivery platform that is well established, deployment-ready and immediately scalable. For 26 years, it has helped the Government of Canada deliver results for Canadians. GMF's proven platform de-risks climate innovation and has also proven effective in mobilizing capital for communities, further ensuring impact and scalability.

GMF's uniquely Canadian approach to program delivery is driving clear impact: since 2000, it has approved \$2.1 billion in funding for 2,851 sustainability projects that have contributed \$5.6 billion to Canada's GDP, \$3.1 billion in wages and salaries paid to households and nearly 59,000 years of employment for Canadian workers. At

the same time, these investments have also helped avoid 3.02 million tonnes of greenhouse gas emissions and saved 1.23 million GJ of energy per year.

Investing in existing GMF programs means multiplying the impact of federal dollars: GMF loan repayments are reinvested back into community projects, scaling impact for years to come. GMF also has a proven track record of mobilizing additional capital for communities by de-risking innovative projects. Since 2019, GMF has helped mobilize more than \$270 million in private capital and aims to mobilize \$600 million in new public, private and philanthropic capital over the next three years.

Based on economic impact modelling, investing \$800M would generate approximately \$500M in GDP and 4,000 jobs. To unlock these economic benefits:

- **Scale energy-saving home retrofits to bring down costs for Canadians:** Leverage a fully operational, successful and proven program delivery model to support municipalities in accelerating the adoption of energy-saving home retrofits. The Green Municipal Fund's Community Efficiency Financing (CEF) program enables local governments to deploy home retrofit financing programs such as the Property Assessed Clean Energy (PACE) model—contributing to national goals to retrofit 1 million homes while reducing household energy costs and emissions. To date, CEF has funded 37 PACE programs in eight different provinces, enabling an anticipated 16,000 retrofits to homes across Canada, while attracting over \$70M in additional investments from private lenders. Notably, CEF has had to turn away an additional \$100M in asks from communities who want to create efficiency financing programs. With further federal investment in CEF, GMF can deliver an additional 10,000+ energy-saving home retrofits, continued job creation and savings for homeowners, between 20 and 30 kt/y GHG emission reductions as well as over 350,000 GJ/y energy saved. Through home energy-efficiency upgrades supported by GMF, homeowners are saving more than \$1,300 a year on energy costs.
- **Retrofit municipal buildings like arenas and libraries and enable high-performance municipal infrastructure and clean energy projects through GMF's Net Zero Acceleration initiative (NZA):** Invest to increase the delivery of low-carbon municipal energy projects and to generate over 50 kt/year in GHG reductions, including through deep retrofits, net-zero community buildings and low carbon energy systems. This investment would advance affordability and low-carbon energy across Canada while protecting communities against price shocks and extreme weather. By undertaking deep energy retrofits of community buildings, including portfolios of buildings, municipalities are seeing an average of \$121,000 in savings in their first year due to reduced energy use. Further investments in NZA would also unlock additional projects already in the pipeline. NZA's Sustainable Municipal Buildings stream alone has over \$100M in asks from municipalities for existing projects.
- **Accelerate implementation-ready adaptation projects that protect critical infrastructure through GMF's Local Leadership in Climate Adaptation initiative (LLCA):** With further investment in LLCA, GMF can deliver high-quality, shovel-ready projects that protect against extreme weather, future proof critical infrastructure against climate disruption and that will better prepare over 100 communities of all sizes for the impacts of climate change. Protecting communities from climate disruption creates places where people can thrive, including through extreme weather events—reducing risks, enhancing preparedness and contributing to broader economic stability.

14. Invest in FCM's proven, implementation-ready international development platform to advance Canada's trade diversification and economic diplomacy objectives, deliver on international climate finance commitments and strengthen Canada's long-term strategic interests:

Allocate \$50 million to FCM's international municipal programming to strengthen the Government of Canada's ability to deliver its international development, climate, trade diversification and foreign policy priorities through

a proven Canadian municipal implementation platform. Since 1987, FCM has delivered measurable results in more than 50 countries by mobilizing over 200 Canadian municipalities and 14 provincial and territorial municipal associations to share Canadian expertise in local governance, climate resilience, sustainable infrastructure and local economic development. Building on this established capacity would enable the Government of Canada to scale proven approaches rapidly, reduce implementation risk, leverage nearly four decades of federal investment and maximize the impact of public funds.

- **Invest in proven programming in priority markets to advance economic development and trade diversification:** Through peer-to-peer partnerships between Canadian and international municipalities, FCM has supported small and medium enterprise competitiveness, investment attraction, export promotion, business incubation and stronger local value chains, while creating trusted relationships among municipalities, Canadian businesses and international partners. Enhanced investment in proven programming across priority Indo-Pacific and African markets would enable the Government of Canada to deepen existing partnerships and create new opportunities for Canadian businesses.
- **Advance international climate resilience in emerging markets through increased investments in FCM's international climate resilience programming:** Municipal governments are essential actors in advancing national climate resilience and greenhouse gas reduction objectives. FCM's international climate programming strengthens local governments' governance capacity to plan and manage resilient infrastructure, control emissions sources, reduce susceptibility to disaster events and contribute to sustainable urban development. It also helps local governments develop the institutional technical and financial capacity to mobilize and manage climate finance, drawing on Canadian expertise and lessons learned through FCM's Green Municipal Fund to strengthen local financing mechanisms for climate action and sustainable infrastructure. Continued investment in FCM's international programs would provide the Government of Canada with an implementation-ready mechanism to deliver future International Climate Finance commitments while showcasing Canadian expertise in sustainable infrastructure, municipal asset management, climate adaptation and clean technologies and innovative municipal climate financing.

Recommendation 4: Strengthen community safety, resilience and well-being.

15. Target investments to advance bail reform implementation:

Following Royal Assent to Bill C-14, *the Bail and Sentencing Reform Act*, the focus must now shift to ensuring these reforms are effectively implemented and supported by the necessary resources and coordination. The federal government should work with provinces, territories, municipalities and justice partners to improve the efficiency and effectiveness of the justice system by expanding court capacity, improving data sharing, strengthening bail compliance and enforcement as well as addressing the root causes of repeat offending. Continued federal leadership and investment will be essential to ensure these reforms respond to frontline realities and translate into meaningful improvements in community safety.

16. Expand federal investments in community-based mental health and substance use care:

Community-based care, local crisis response partnerships and investments in supportive housing help communities respond earlier and more effectively to individuals in crisis, reducing repeated demands on police and emergency services as well as keeping frontline public safety resources focused on urgent threats like violent crime. The federal government should work with provinces, territories, municipalities and community partners to provide long-term, predictable and flexible funding that helps to scale up effective local programs and partnerships, while also enabling communities to pilot new and innovative approaches that are tailored to local

needs. Permanent and additional investment through programs like the Substance Use and Addictions Program and the Emergency Treatment Fund, alongside other funding mechanisms, will help support effective local solutions and strengthen community safety and well-being.

17. Support local community-based crime prevention initiatives that address risks early on:

Effective enforcement must be paired with prevention and community supports that address the root causes of crime before risks escalate. Building on successful programs such as the Building Safer Communities Fund, the federal government should expand support for locally-led initiatives that help prevent gun and gang violence, reduce pathways into organized crime and reduce the risk of youth involvement in crime. This support should also extend to community-led efforts that address the impacts and root causes of hate and help prevent hate-motivated violence.

18. Strengthen federal support for RCMP contract policing:

RCMP contract policing remains an essential model for delivering frontline policing in municipalities across Canada, particularly in rural, remote and northern communities where vacancies, staffing shortages and rising service demands are affecting local service levels. The federal government should invest in recruitment, training and retention to ensure detachments have the staffing capacity needed to provide reliable, community-focused policing and respond effectively to local safety priorities. Decisions affecting the cost, structure or delivery of contract policing should be made in meaningful consultation with municipalities and take local fiscal capacity into account before new costs are passed on to municipal budgets and taxpayers.

19. Enhance the RCMP's capacity to combat organized and transnational crime:

Organized and transnational criminal activity, including the rapid growth of extortion, is creating serious risks for residents, businesses and local economies while placing increasing pressure on municipal and local police services. The federal government should provide sustained funding to strengthen the RCMP's federal policing capacity and its ability to support complex, cross-jurisdictional investigations through specialized expertise, intelligence and stronger operational coordination with local police. Municipalities and local police services should be closely engaged to ensure federal resources and information-sharing mechanisms respond to emerging local threats and help disrupt criminal networks before their impacts escalate in communities.

20. Enhance coordinated emergency management Canada-wide:

While investing \$2 billion annually in climate adaptation and resilience can lower the risks of extreme weather in communities across Canada (as recommended above), disasters will still happen and local governments are the first line of defence when they do occur. Communities across Canada require greater support throughout the full disaster management cycle, from greater investment in enhanced local and regional risk assessments and stronger emergency preparedness and prevention measures, to increased emergency response capacity through increased training and the procurement of specialized equipment. Local governments also require scalable federal support for evacuees and host communities that can be rapidly deployed during extreme weather events as well as sustained investments in post-disaster recovery, planning and capacity to strengthen long-term resilience.

Recommendation 5: Diversify municipal revenues to strengthen fiscal sustainability.

21. Amend the Income Tax Act to make municipal bonds tax-exempt:

Purchasers of bonds issued by Canadian municipalities are required to pay income tax on interest payments. By eliminating these taxes, municipalities will have more, lower-cost options to finance key investments in housing, trade and business-enabling infrastructure.

22. Increase Canadian pension investment in municipal infrastructure:

Lower the 90 percent threshold that currently limits municipal-owned utility corporations from attracting more than 10 percent ownership from Canadian pension plans.