

# **From Operating Pressures to Capital Plans: A Strategic Approach to Municipal Fiscal Sustainability**

**Monday, January 19 | 1:15 – 2:30**

**Dominion Ballroom South**





# Municipal Financial Planning

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RURAL ONTARIO MUNICIPAL ASSOCIATION ANNUAL CONFERENCE

TORONTO - JANUARY 19, 2026

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# Presentation Outline

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- 1 Long-term financial planning: Why are we talking about it and what does it mean?
- 2 Why municipal finance is under so much pressure
- 3 Municipal financial management in Ontario
- 4 Building a long-term financial plan
- 5 Concluding comments, Q&A



# Why talk about long-term financial planning?

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## Because....

- It helps to build and maintain public trust in local government
- Municipalities deliver so many essential/critical services
- The pressures on local government finance are enormous
- It helps you to see the larger picture, avoid surprises, assist in decision making and project prioritization, and is a critical component of your communications with the public



# Critics seem to be getting traction

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Everyone seems to have an opinion on municipal finance, regardless of their level of expertise...

- “Municipalities have all of this money in reserves – we’re being over-taxed...”
- “Municipal debt is too high/too low...”
- “Municipalities have a spending problem, not a revenue problem...”
- “Landfill site charges and recreation fees and water rates are too high – we already pay with our taxes...”



**What are you hearing in your community about local government finance, and from whom?**



# Critics seem to be getting traction

Municipalities are criticized for working within our legislated framework:

- Almost no insight into how local government finance differs from federal and provincial governments
- Frequent misinterpretation of municipal surplus in audited financial statements
- Little understanding of municipal reserves and reserve funds
- Public policy conflicts: Automated speed enforcement, bike lanes, development charges, etc.



# Public finance: federal/provincial vs. municipal

## Federal/Provincial Governments

- Robust, diversified, and elastic revenue tools - income taxes, sales taxes, corporate taxes, excise taxes, etc.
- Virtually unconstrained borrowing capacity
- Can budget for and debt finance deficits
- Errors in forecasting are not crises - they simply adjust borrowing and/or reallocate spending
- Revenues are generally opaque to residents
- Budget discussions are not public - decisions made by a small group and are presented as done deals
- Can absorb huge risks - fiscal, legal, or policy failures - because of large tax bases, borrowing ability, ability to shift priorities mid-year

## Municipal Government

- Revenue sources are few and highly constrained:
  - Property tax - visible, politically sensitive
  - User rates, fees and charges
  - Provincial/federal transfers - mostly conditional
- Work within balanced budget legislation
- Can only borrow for capital works, within a defined time frame and a prescribed debt repayment limit
- Very limited flexibility to raise new revenues or absorb financial risk – often results in budget conservatism
- Errors in forecasting often become crises!
- Financial risk is managed in part through the use of reserves and reserve funds
- Budgets are public, participatory, and negotiated
- Maintain council support for most major decisions
- Agencies (e.g. police) can resist budget direction



# What does financial sustainability mean?

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The ability of a municipality to maintain the services, infrastructure, and financial commitments needed to meet current and future community needs without shifting an unfair cost burden to future taxpayers, compromising service quality, or risking fiscal instability.

[Source unknown]

“...a government’s ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation”.

[Source: Local Government Association of Australia]



# What does financial sustainability mean?

## Service Continuity

- ensuring public services can be delivered at the desired quality consistently over time and as population and business growth ebbs and flows

## Infrastructure Stewardship

- maintaining, rehabilitating and replacing assets so they remain in the intended state-of-good repair

## Revenue Stability and Diversity

- having predictable, resilient revenue sources that keep pace with inflation, growth, and service demands

## Debt and Reserve Management

- using borrowing and savings prudently to avoid unsustainable obligations

## Intergenerational Equity

- ensuring today's decisions don't create excessive future liabilities or degrade future service capacity

# Balancing short-term impacts with “generational thinking”



Long-term financial planning helps ensure a balance between short-term and longer-term needs, and helps avoid future surprises

Four-year election cycles often shifts the topic of conversation to shorter-term economic pressures, sometimes to the detriment of long-term financial planning

Having a long-term plan brings balance to the discussion - decisions are made to address the near term without compromising the future e.g. long-term impacts of new facilities (e.g. arena, library, fire hall, wastewater treatment plant) and service level changes



**What do you feel are the most significant financial pressures facing your community (pick two):**



# Municipal finances are under pressure

## A financial framework that needs fixing

- Services that should not be funded by property taxes
- Federal and provincial funding programs are falling behind
- Local funding of provincial infrastructure
- Provincial policy instability

## Infrastructure, costs and expectations

- So much municipal infrastructure!
- The cost of everything
- Growth, or lack thereof
- The “Expectation Gap”



# An overburdened property tax

Municipalities in Ontario are responsible for funding significant portions of broad-based social and health services programs that in virtually all other provinces are funded by provincial and federal revenues

- This includes social housing, homelessness, public health, land ambulance services, child care, and the administration of income support programs.

Such services are often income-redistributive in nature - as such, progressive taxes (like income taxes) are better used to fund these services, because it shifts wealth from the wealthy to the less wealthy

No ability to impose a sales tax, a fuel tax, an income tax, a land transfer tax (ex-Toronto), etc.



# Federal and provincial funding programs

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Funding programs are generally not inflation-adjusted (excl. CCBF)

Operating funds: public health funding, OMPF, “Heads and Beds”

Capital funding: capital cost escalation was over 30% between 2020 and 2023



# Local funding of provincial infrastructure

Despite the Province being responsible for health care, the host community is expected to provide capital funding for new hospital construction

The community share can be raised by fundraising, and the local property tax is regularly called upon for what is often a material contribution:

- Many municipalities have established special tax levies or issued long term debt to support municipal funding of provincial infrastructure, which diverts fiscal capacity to fund both state of good repair and growth-related infrastructure
- Hospital projects are now costed in the billions of dollars

Requests also come from hospices, a wide range of community groups, etc.



# Development charge policy instability

Applies to any municipality that uses development charges to help fund growth-related infrastructure

- Bill 108 - More Homes, More Choice Act, 2019 (first DCA bill under Premier Ford's PC first government)
- Bill 197 - COVID-19 Economic Recovery Act, 2020
- Bill 109 - More Homes for Everyone Act, 2022
- Bill 23 - More Homes Built Faster Act, 2022
- Bill 185 - Cutting Red Tape to Build More Homes Act, 2024
- Bill 17 - Protect Ontario by Building Faster and Smarter Act, 2025



# Development charge policy instability

The cumulative effect of frequent changes in legislation contributes to instability and uncertainty within the community

Why is this uncertainty a problem?

- Lost revenue for municipalities means more pressure on tax and user rates
- Creates tension between funding for growth and funding for asset renewal
- New housing may be paused while developers anticipate more favourable terms
- Along with labour market conditions, inflation, higher interest rates, and tariffs, the ongoing legislative changes may be working against the Province's goal of getting more homes built faster
- Administration becoming more and more challenging

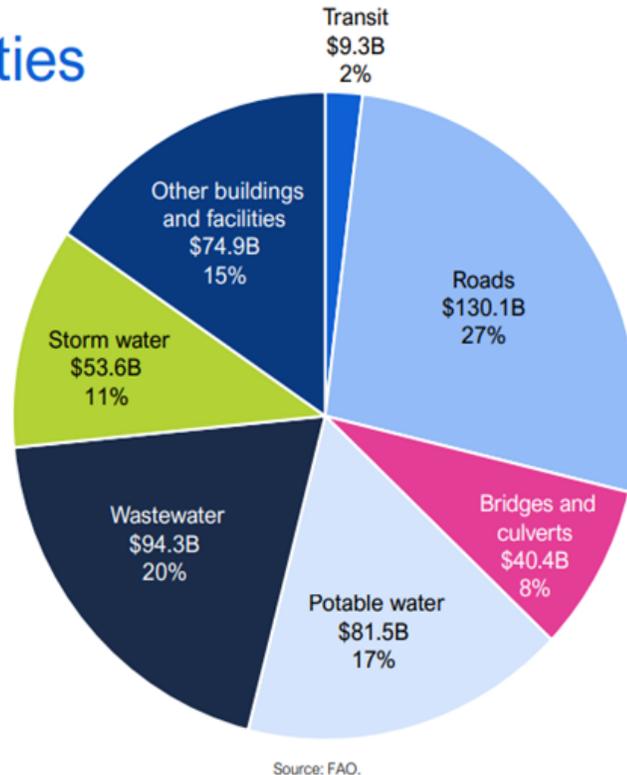
Stability is a significant enabler of progress and investment (**trust** is key!)



# Municipal Infrastructure

## Ontario's municipalities own \$484 billion in public infrastructure

The FAO estimates that the current replacement value (CRV) of Ontario's municipal infrastructure was \$484 billion in 2020, almost double the amount of Provincial infrastructure.



However: AMO's latest estimate of the current replacement value (CRV) of municipal infrastructure is **~\$1 trillion**

Source: combined 2025 CRV values from

[www.buildingcommunities.ca/sites/default/files/assets/maps/AMPs2.html](http://www.buildingcommunities.ca/sites/default/files/assets/maps/AMPs2.html)

Municipal-Infrastructure-Review-EN.pdf



# The Municipal Infrastructure Challenge (part 1)

## Existing Infrastructure [the subject of your AMP]

- Inability to establish sufficient capital reserves for asset renewal
- Degradation of existing infrastructure as funding is redirected
- Insufficient funding for asset renewal defers costs to future generations
- Insufficient risk analysis leading to less-than-optimal asset interventions
- Service interruptions and increasing operating costs to maintain aging assets
- Construction cost escalation
- Project deferrals just increase the backlog
- Limited vendors and short work period in some cases (e.g. bridge replacement)
- Impact of climate change and changes in weather patterns



# The Municipal Infrastructure Challenge (part 2)

## New, expanded and growth-related infrastructure [the subject of your master plans]

- Infrastructure to support new housing and/or to deliver desired service levels
- Construction cost escalation
- Cost of long-term borrowing
- Operating budget impacts of new infrastructure
- Growth not materializing even though infrastructure has been built in advance
- Development funding and policy instability



# The cost of everything

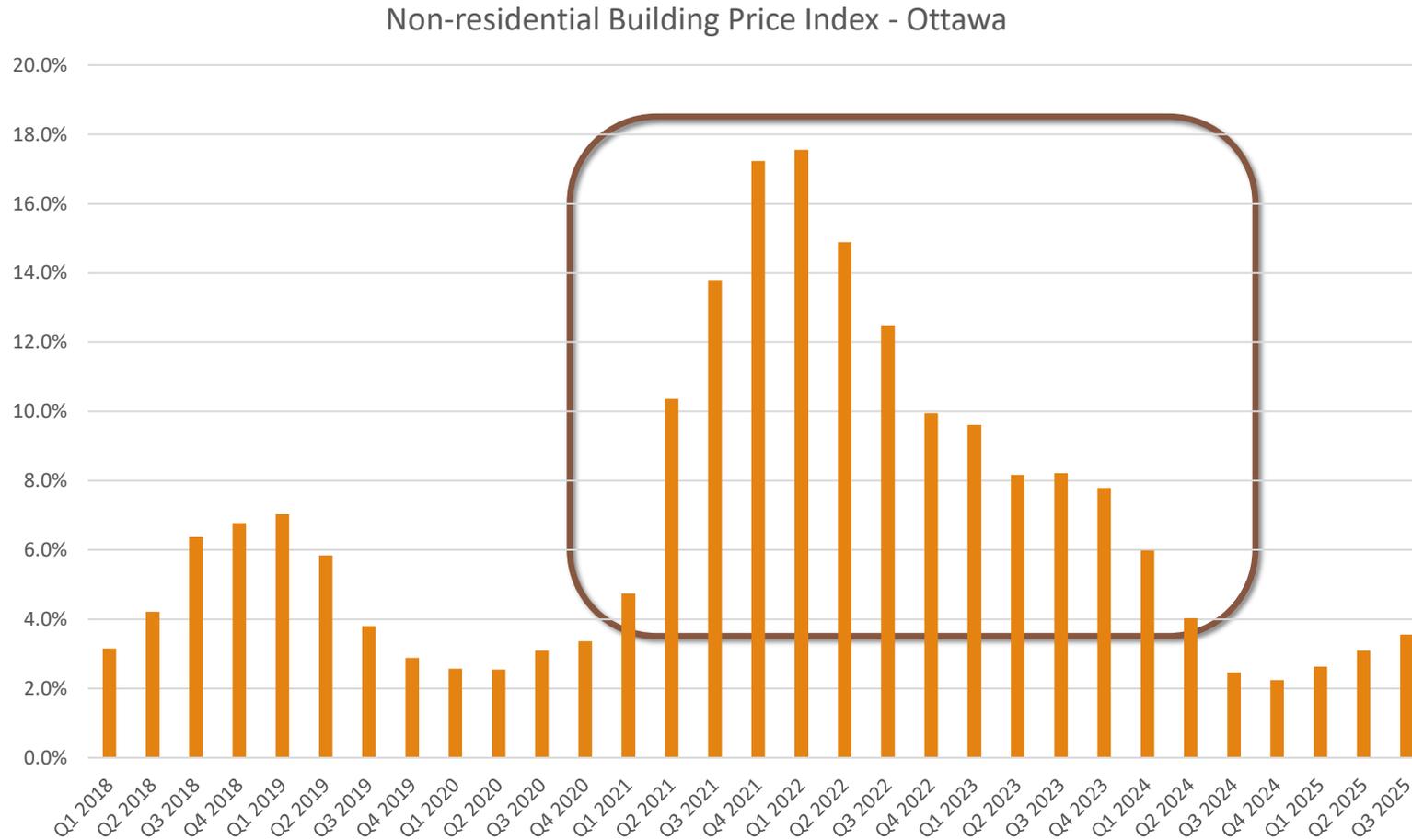
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Many expense lines are increasing faster than inflation

- Emergency service costs: police, fire and paramedics
- Housing and homelessness
- Water treatment chemicals
- Capital cost escalation
- Cost of borrowing
- Some relief re: fuel



# Non-residential capital cost escalation



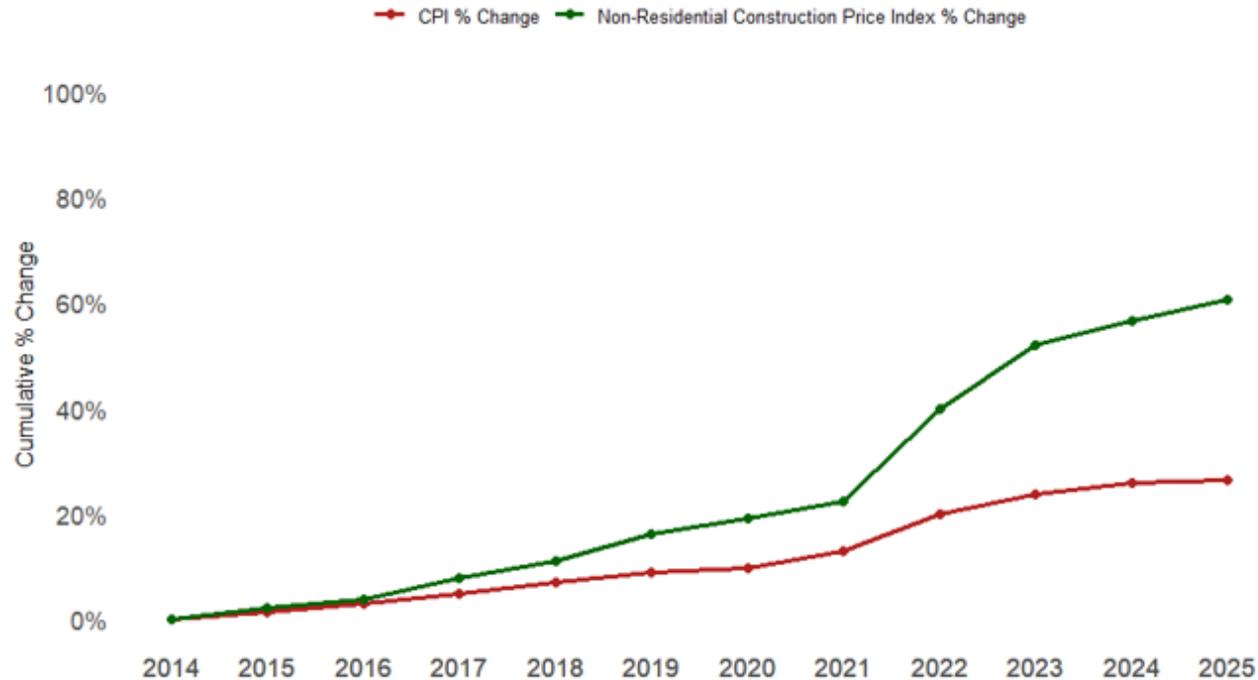
London was recently added: 2025 non-residential cost escalation was 7% in Q1 and Q2, and 8% in Q3

Source: Statistics Canada Table 18-10-0289-01



# Construction costs vs. consumer prices

Growth in Ontario's CPI and Non-Residential Construction Price Index



Source: MFOA chart, based on data from Statistics Canada (CPI and Non-Residential Building Construction Price Index).

Detailed data source: Non-Residential Construction Price Index from Statistics Canada, [Building Construction Price Index – Toronto](#) (Table 18-10-0289-01, Q1-to-Q1 comparison, base year 2023). CPI from Statistics Canada, [Consumer Price Index – Ontario](#) (Table 18-10-0005-01, annual average except for 2025, which is an average up to current month from Table 18-10-0004-01).

Key message: Be cautious when using CPI as a measure to compare a tax or user rate increase – municipalities do not spend like consumers



# Growth, or lack thereof

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63% of municipalities in Ontario have a population below 10,000

In many cases, municipalities (particularly in the north) are experiencing declining population levels

Smaller, rural and more remote communities are experiencing aging populations and serve a single industry (mining, paper mill, etc.)

Expectations of municipal employees who are responsible for doing everything with a very small staff (and tax base to pay for it)



# “The Expectation Gap”

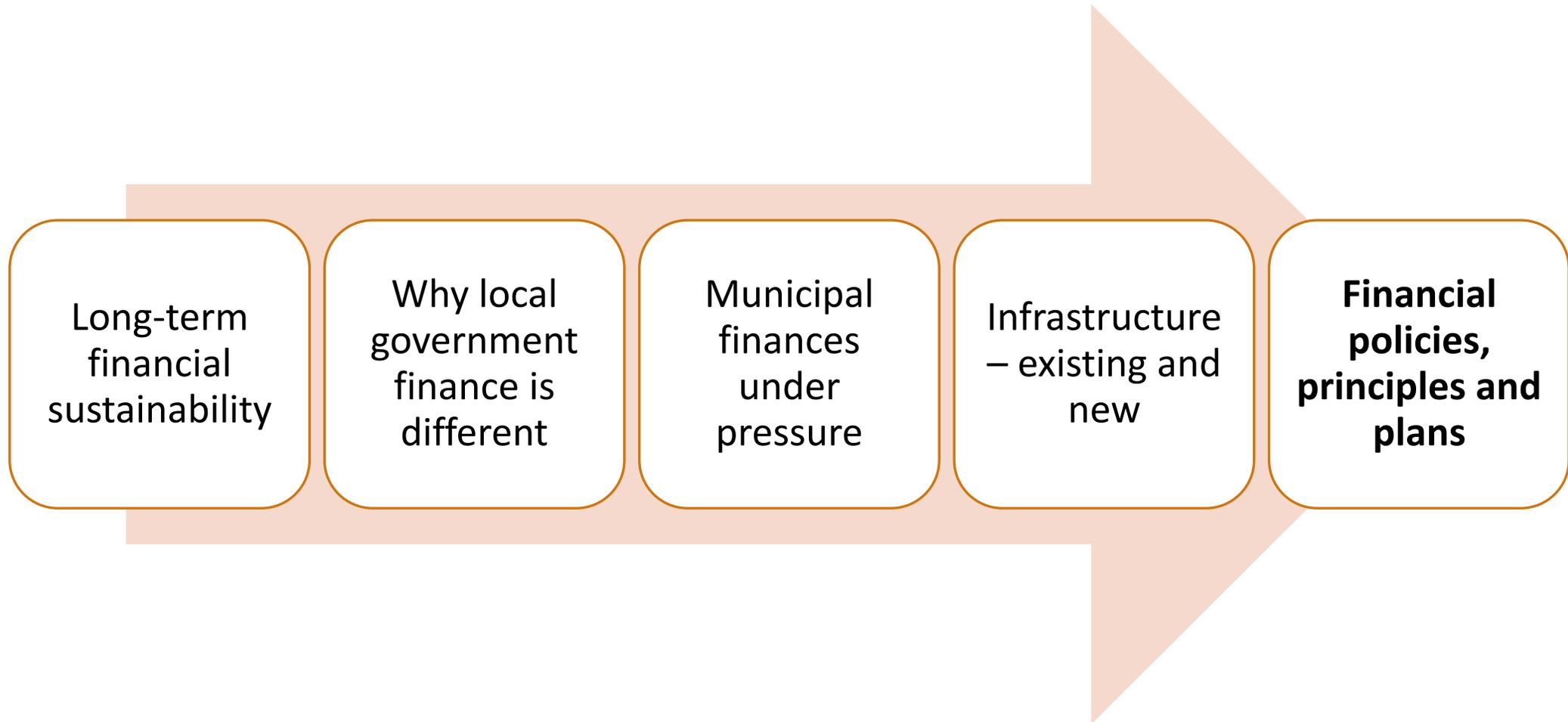
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The gap between what the community expects of local government and the fiscal capacity to fund the expected programs from limited revenue sources

Simply put, there is a fundamental misalignment between what is expected of municipalities and their ability to generate revenue to meet those expectations



# The case for financial policies, principles and plans





**Rate each of the statements below  
using the following scale:**



# The importance of financial principles and policies

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Clear and transparent financial principles and/or policies are the essential building blocks of a financial strategy

- They help guide your decision making with respect to budgeting, capital financing, investing and borrowing, and revenue generation
- They help ensure that public resources are managed effectively, transparently, and sustainably
- They help **build trust** with your community



# Short- vs Long-term thinking

Financial sustainability is about long-term stewardship

- Financial sustainability requires long-term planning; it does not just happen
- It's about managing and adjusting service levels, infrastructure, the population's ability to pay, and a range of cost and revenue impacts that are often beyond your control
- Service level and infrastructure decisions both typically have operating and capital dimensions

The key to financial sustainability is taking necessary steps to manage both short and long-term risks



# What does short-term thinking look like?

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Using reserves or last year's surplus to reduce the current year operating budget and tax increase

Tax and rate increases at or below the rate of inflation can shift the burden of asset management investment to future generations

Deferring important state-of-good repair work – this often leads to more expensive work in the future

Reducing or delaying the implementation of an asset management or infrastructure levy

Inadequate reserve and reserve fund balances

Treatment of one-time revenues

Using too much or too little debt in the capital budget



# Examples of longer-term financial thinking

Address structural deficits within operating budgets swiftly

Adopt a year-end surplus policy that allocates surplus to reserves and capital

Consider adopting the Prudent Investor Standard to achieve better long-term risk-adjusted investment returns

Phase-in an infrastructure levy – it's ok to start small, incremental progress is key

Clearly delineate what belongs in the operating and capital budgets

Use debt financing intentionally, purposefully, and sustainably

Approve budgets before the year starts, or as soon as possible in the new year

Use service-specific master plans to inform budgets and respond to grant programs



**Are there other examples of short or long-term financial thinking that you have experienced in your community?**

**One-time revenues?  
Budget amendments?  
User Fees?  
Other?**



# Aligning vision, strategy and financial planning

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Strategic Plan: goals and objectives; what your municipality is trying to accomplish; how, when and where will the municipality grow (if at all)

Service-specific plans: what does the future of each service look like – desired service levels and service delivery outcomes, financial projections



# Asset management is key

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Financial sustainability is inextricably linked to asset management

Municipalities need to ensure they are doing the right work on the right assets at the right time at the right cost

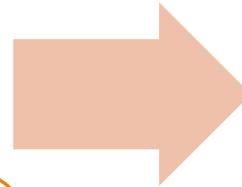
Integrate growth with asset management planning – new assets require funding for operations, maintenance, renewal and eventual replacement



# Building long-term financial plans

## Start with principles and policies

- Operating Budget (incl. year-end surplus allocation)
- Capital Budget
- Reserves and Reserve Funds
- Debt Management
- Asset Management
- User Fees and Charges
- Investments



## Then build your projections based on service levels, principles and policies

- Operating Budgets
- Capital Budgets: growth, expansion, state-of-good-repair
- Reserves and Reserve Funds
- Debt
  
- Cash flow



# Principle/Policy examples

## Capital Budget

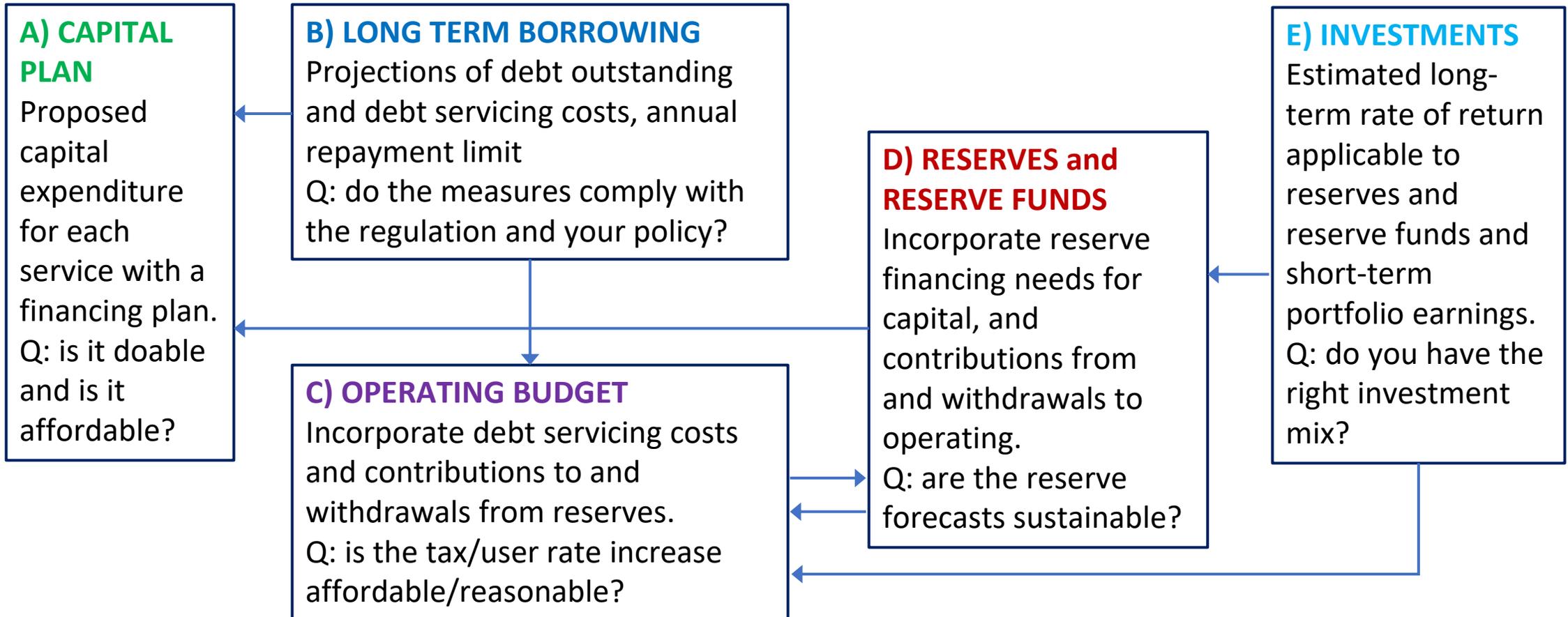
- Definition of capital expenditure
- Budget development process
- Project prioritization criteria
- Funding sources and financing strategy
- Link to debt principles (e.g. debt servicing cost guidelines) and to reserve policy (e.g. withdrawals to fund capital)
- Cash flow and project phasing
- Project budget amendments

## Reserves and Reserve Funds

- Definitions and classification
- Establishment and closure criteria
- Funding sources and contributions
- Target contributions/balances and funding levels
- Authorized uses and withdrawals
- Link to investment policy for interest allocation



# Turning principles and policies into plans





# The municipal finance challenge

## The challenge you are facing

- An over-burdened property tax
- Mounting pressure on municipal finances
- A broken government framework
- The cost of everything
- The expectation gap
- Everyone's a critic

## The municipal response

- Establish your key principles and policies, and use them to build long-term financial plans
- Understand why municipal finance is different, and explain it to anyone who will listen
- Invest bravely and with purpose
- Build trust whenever you can
- Continue to promote a Social and Economic Prosperity Review



# The need for another “Who Does What” exercise

## Social and Economic Prosperity Review

- “AMO continues to ask the provincial government to sit down with municipalities and work together on a social and economic prosperity review. This should include a joint review of revenues, costs and financial risks, as well as an analysis of Ontario’s infrastructure investment and service delivery needs.”
- “The goal is to update the provincial-municipal fiscal relationship to support strong economic foundations, sustainable communities, and quality of life. While these conversations are already happening in the media and at dinner tables, a comprehensive discussion needs to happen between both orders of government.”
- Focus on infrastructure, reducing extent to which property taxes fund provincial programs, action on homelessness
- Source: [www.amo.on.ca/policy/social-and-economic-prosperity-review](http://www.amo.on.ca/policy/social-and-economic-prosperity-review)



# Fixing the financial framework

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Alignment of service and asset responsibility with appropriate and adequate revenue tools - recalibrate which level of government is responsible for which services, and how they are paid for

Right-sizing provincial transfers – long-term, stable, predictable funding that is adjusted for inflation

Infrastructure funding stability

Solutions that are built with elected officials and municipal finance professionals



# Promoting municipal financial health

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Counter false narratives - explain the state of local government finance to MPs, MPPs, the public, taxpayer coalitions, etc.

Take every opportunity to explain why municipalities are different, why it's OK to have a savings account, and why periodic and intentional borrowing is essential

Build trust and manage risks through good principles and policies, and use your financial plans to show the way to sustainability



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# Questions and Thank You!



[cdyer.advisory@outlook.com](mailto:cdyer.advisory@outlook.com)