

FINANCING GOVERNMENT

Budget Choices, Revenue Tools, Reserves, Borrowing and Partnerships

A summary briefing for municipal candidates

The practical message for candidates

Every promise has a fiscal path: what authority exists, what tool will be used, what it costs, who pays, what is delayed or redesigned, and how the public will know whether it worked. Municipal finance is not only about “spending less” or “raising more.” It is about matching service expectations, infrastructure obligations, revenue capacity, risk, timing and accountability.

1. Why budget literacy matters in a municipal campaign

Municipal budgets are where campaign promises become public choices. Roads, bridges, water and wastewater, housing-enabling infrastructure, recreation, public safety, service levels, economic development, social pressures, agriculture and rural needs all compete for limited dollars. A credible candidate does not only name a priority; they explain how it will be funded, delivered, measured and sustained.

The core budget question is not simply “What do you support?” It is: “What will you fund, what will you defer, what will you finance, what will you advocate for, and what outcome should the public expect?”

2. The municipal budget process in plain language

Step	What candidates should understand
1. Set direction	Council priorities, asset management, service standards, growth needs, legislative requirements and community expectations shape the starting point.
2. Build operating and capital requests	Departments identify day-to-day operating needs and longer-term capital needs such as roads, bridges, water, wastewater, buildings, vehicles and technology.
3. Consolidate and test	Finance and senior administration consolidate requests, test assumptions, identify revenue, quantify tax/rate impacts, and assess debt, reserve and grant capacity.
4. Deliberate publicly	Council reviews the budget, asks questions, proposes changes and must own the trade-offs in taxes, fees, service levels, reserves, debt and timing.
5. Adopt and implement	Once adopted, staff administer the budget. Council should monitor variance reports, service metrics, capital progress and public outcomes.

A useful distinction: the operating budget funds annual service delivery — wages, contracts, materials, utilities, maintenance and debt charges. The capital budget funds long-lived assets. Debt charges from capital borrowing become an operating pressure, which is why capital decisions and operating affordability are connected.

3. Core constraints: why municipal finance is not unlimited

Constraint	Candidate takeaway
Provincial legal framework	Ontario municipalities are created by provincial law. Their budget, borrowing, tax, fee, planning and development-charge powers are defined and constrained by legislation.
Balanced-budget discipline	Municipal operating budgets must be balanced. Operating deficits generally cannot be treated like long-term debt; they must be addressed through future budgets.
Limited revenue tools	The main local tools are property taxes, user fees, service charges, rates, development charges, grants/transfers, reserves and debt. New broad-based taxes generally require provincial authority.
Tax-policy trade-offs	Changing tax ratios or shifting burdens among residential, commercial, industrial and farm classes creates winners and losers. It is a competitiveness decision and a household affordability decision.

Constraint	Candidate takeaway
Debt limits and affordability	Long-term borrowing is generally for capital projects and must fit within the municipality's annual repayment limit and prudent debt strategy.
Operating impact of capital	New assets require maintenance, staffing, utilities, insurance, lifecycle renewal and eventual replacement. The cheapest capital project is not always the cheapest lifecycle asset.

Chatham-Kent tax-policy lesson

Tax ratios and assessment rules matter. Chatham-Kent's 2025 tax-policy report notes that commercial property pays 1.9404 times the residential rate on the same assessed value, industrial pays 2.035 times, and farmland is taxed at 22% of the residential rate. The report also shows that reducing commercial or industrial ratios has an immediate upward effect on other classes. Candidates should treat tax-policy promises as distributional choices, not simple slogans.

4. Revenue and finance tools candidates should know

Tool	Best use	Main caution
Property tax levy	Most flexible local revenue source; funds general municipal services.	Political affordability, class impacts, assessment limitations and competitiveness.
User fees, rates and charges	Useful where beneficiaries can be identified: water, wastewater, waste, recreation, licences and permits.	Must be fair, lawful, transparent and mindful of household and business affordability.
Development charges	Recover eligible growth-related capital costs and help growth contribute to growth.	Restricted by law, tied to eligible services and reserve funds, and affected by provincial policy changes.
Community benefits charges / parkland	Help fund growth-related public services and complete communities where legally available.	Narrow eligibility, statutory caps and need for clear strategy and by-law.
Grants and transfers	Federal and provincial programs can unlock major capital or reduce local burden.	Competitive, time-limited, conditional, and often require matching funds or shovel-ready projects.
Reserves and reserve funds	Stabilize taxes/rates, fund future capital, match grants, reduce borrowing and smooth lifecycle costs.	Not "free money" if already committed to assets, restricted purposes or future risk.
Debt / debentures / IO loans	Accelerate long-lived infrastructure and match repayment to the useful life of the asset.	Interest cost, Annual Repayment Limit capacity and future operating pressure.
Partnerships / P3 / AFP	Bring private expertise, risk transfer, lifecycle discipline and capital acceleration.	Requires strong business case, procurement discipline and public-interest protection.

5. Reserves: how to build fiscal resilience

A serious council should treat reserves as a strategy, not a savings account. Reserves are built through annual budget contributions, year-end surpluses, dedicated rates or fees, development charges, investment income, proceeds from asset sales or one-time revenues. The purpose should be explicit and reported publicly.

Reserve type	Why it matters
Operating stabilization reserve	Smooth tax/rate shocks, emergencies, revenue shortfalls and unplanned operating pressures.
Capital lifecycle reserve	Replace roads, bridges, facilities, vehicles, IT and equipment based on asset-management plans.
Rate-supported reserves	Support water, wastewater, stormwater or waste systems where user rates fund the service.
Growth-related reserve funds	Hold development-charge or similar growth revenues for eligible capital costs.

Reserve type	Why it matters
Strategic investment reserve	Support site readiness, matching funds, economic development, land servicing, or opportunity-driven partnerships.

Candidate test: What reserve is being used? Why was it created? Is it legally restricted? How will it be replenished? What asset-management or service risk is created if it is drawn down?

6. Borrowing and the efficiency of money

Debt is not automatically good or bad. It is a timing tool. The question is whether borrowing creates better value than delaying, taxing immediately, drawing reserves, waiting for grants, or partnering. The most efficient capital strategy often blends tools rather than relying on one mechanism.

Capital funding principle	What it means
Borrowing can be efficient when...	The asset is long-lived; benefits extend across generations; delay increases cost or risk; interest rates are favourable; the project is essential for growth, safety or service continuity; and repayment fits within a prudent debt strategy.
Pay-as-you-go can be efficient when...	The project is small, recurring, predictable or routine; the municipality has adequate reserves; interest costs would exceed benefits; or flexibility is more important than acceleration.
Borrowing becomes inefficient when...	It funds operating gaps, substitutes for discipline, crowds out future service capacity, lacks a credible business case, or creates debt-service costs without a measurable public benefit.
Waiting can be costly when...	Deterioration accelerates, construction inflation rises, grants are missed, investment-readiness is lost, or infrastructure gaps undermine housing, business attraction or public safety.

Status quo is not cost-free

Fiscal-impact modelling is important because doing nothing still has costs. A deferred bridge, watermain, road, industrial-service extension or housing-enabling project may reduce visible spending today but raise future costs, reduce competitiveness, delay development, or increase service risk.

7. Public-private and community partnerships

Partnerships are not a way to make public obligations disappear. They are a way to share risk, expertise, capital, land, operations, timing and accountability where the public interest is protected. Candidates should be open to partnerships but disciplined about the business case.

Partnership option	How candidates should think about it
Developer/front-ending agreements	Private party advances or builds eligible growth infrastructure, with repayment or credits governed by agreement and law.
Municipal corporations / utilities	Municipally owned corporations can finance and deliver specific infrastructure, energy, telecom, housing or service assets where appropriate.
P3 / Alternative Financing and Procurement	Best suited to larger, complex projects where risk transfer, lifecycle maintenance, design-build expertise or performance-based payments produce value for money.
Non-profit and institutional partnerships	Co-location, shared facilities, housing, recreation, health, workforce and community-service projects can leverage land, grants, fundraising and service expertise.
Business and community partnerships	BIAs, chambers, sector groups, tourism, agriculture, education and employers can support downtown vitality, workforce, site readiness, digital adoption and investment attraction.
Canada Infrastructure Bank / senior-government programs	Large enabling infrastructure can sometimes be advanced through federal/provincial financing, grants or blended funding where projects meet program criteria.

Guardrails: transparent procurement, public-interest test, lifecycle costing, risk allocation, affordability, labour/service implications, privacy and data safeguards, and public reporting. A partnership should not be judged by whether private capital is involved; it should be judged by whether it creates better value, faster delivery, lower lifecycle risk and clear public accountability.

8. What candidates should ask before making a finance promise

- Is this operating or capital? If capital, what is the lifecycle operating cost? If operating, what service level is being changed?
- Is the authority municipal, provincial, federal, shared or dependent on private/community partners?
- What is the funding source: tax levy, user fee, rate, grant, reserve, development charge, debt, partnership, asset sale, or reallocation?
- What is the cost of delay compared with the cost of borrowing or using reserves now?
- Does this improve asset condition, investment readiness, housing supply, public safety, business confidence or quality of life?
- What will be stopped, delayed, redesigned or reprioritized to make room?
- What metric will be reported publicly by the first budget, by December 2027 and by term-end?

Bottom line for municipal leadership

Leadership is the work

Responsible municipal finance is not about promising everything, cutting everything or borrowing without discipline. It is about choosing the right tool for the right public purpose: tax where broad benefit exists, charge where users can be identified, reserve for predictable future needs, borrow for long-lived assets when timing and value justify it, seek grants and partnerships where they accelerate outcomes, and report results openly. Budgets turn slogans into choices — and choices reveal leadership.

Source Notes

This briefing is a public education resource and not legal, accounting or financial advice. Candidates should rely on official municipal reports, the Municipal Act, the Development Charges Act, the Treasurer/CFO, municipal finance staff, and independent professional advice where appropriate.

1. David P. Amborski, The Expenditure Budget Process in Canadian Municipalities: A Comparison, Institute of Urban Studies, 1986 — municipal budget process, operating/capital distinction, balanced-budget rules and capital financing options.
2. Financing Local Government and Development in Ontario/Canada, Canadian Tax Journal, 2022 — constrained municipal revenue base, infrastructure financing, own-source revenue, reserves, development charges, debt financing, asset management and fiscal-health measures.
3. A Municipal Fiscal Impact Model: Real-World Policy Modeling — scenario analysis, infrastructure gaps, operating/capital linkages, quality-of-life effects and capital financing alternatives.
4. Municipalities Under Pressure One Year Later, AMO/OMSSA/NOSDA, January 2026 — rising housing and homelessness pressures, municipal cost pressures, need for coordinated cross-government action and outcome-based spending.
5. Municipality of Chatham-Kent, Tax Policy 2025 — local tax ratios, assessment impacts, weighted assessment growth, tax burden shifts and the role of Council-approved tax policy.
6. Ontario Municipal Act, 2001, s. 290 and s. 417 — annual budget obligations, balanced estimates, treatment of surplus/deficit and authority to establish or maintain reserve funds.
7. Ontario Regulation 403/02 and Ontario guidance on municipal debt — annual repayment limit, long-term borrowing for capital projects and restrictions on using long-term debt for operating expenses.
8. Ontario Development Charges Act, 1997 and Ontario guidance on development charges/community benefits charges — growth-related capital financing, reserve funds, use restrictions and community benefits charge framework.
9. Infrastructure Ontario Loan Program — affordable long-term financing for municipal and public-sector capital assets, with repayment terms generally matched to the life of the asset.
10. Infrastructure Ontario P3 model and delivery approach — use of P3/AFP for larger or complex projects where risk allocation, lifecycle delivery and value-for-money analysis support the model.