THE REVENUE TOOL WE LOVE TO IGNORE

Why Municipal Utilities Deserve a Seat at the Budget Table

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FEATURE INSIGHT

The Revenue Tool We Love to Ignore: Why Municipal Utilities Deserve a Seat at the Budget Table

Every year, municipalities across Canada dedicate hundreds of hours to developing their annual budgets. Administration carefully analyzes revenues and expenditures, departments prepare business cases, Council debates priorities, and the public is invited to participate in discussions about taxation and service levels. It is one of the most important exercises undertaken each year because it determines how communities will be funded and what services residents can expect.

Yet amid all of this thoughtful planning, one of the municipality's most significant financial responsibilities often receives only a fraction of the attention.

Municipal utilities.

For many municipalities, utility rates are reviewed quickly, adjusted modestly—or not at all—and then forgotten until the following year. Unfortunately, this approach overlooks one of the few revenue tools municipalities actually control and one of the most important contributors to long-term financial sustainability.

Reliable utilities are often most noticeable only when they stop working.

MUNICIPAL REVENUE TOOLBOX

Municipalities Have a Very Small Revenue Toolbox

Unlike provincial or federal governments, municipalities have very limited options when it comes to generating revenue. They cannot create new income taxes or sales taxes, and they have little flexibility to respond to changing economic conditions through new revenue streams.

In reality, municipalities rely on only a handful of funding sources:

- Property taxation
- User fees
- Development-related revenues
- Utility rates
- Franchise fees
- Government grants

That is an incredibly small toolbox considering the vast range of services municipalities are expected to provide.

Because revenue options are so limited, every tool must perform its intended function. If one revenue source is underperforming, the financial pressure almost always shifts somewhere else—typically onto property taxes.

Ironically, while municipalities spend months carefully reviewing taxation strategies, utility rates frequently receive only limited discussion despite representing one of the largest and most controllable sources of municipal revenue.

ESSENTIAL SERVICES

Utilities Are Far More Than Monthly Bills

Most residents think about utilities only when the monthly bill arrives.

Municipal professionals, however, know that behind every utility bill exists one of the most complex and expensive public infrastructure systems a community owns.

- ✓ Utilities are responsible for delivering services that residents simply expect to work every single day.
- ✓ Clean drinking water protects public health and supports every home and business.
- ✓ Wastewater systems safely collect and treat sewage, protecting both public health and the environment.
- ✓ Stormwater systems quietly manage rainfall and snowmelt, reducing flood risks, protecting infrastructure, and increasingly helping communities adapt to more frequent extreme weather events.

- ✓ Reuse and recycling programs keep communities clean while supporting waste diversion, environmental stewardship, and sustainability initiatives.

These services are fundamental to the quality of life in every municipality. In fact, one could argue that no municipal service has a greater direct impact on the daily lives of residents than the utilities that operate almost entirely out of sight. Perhaps that is why they are so often overlooked.

When water flows, toilets flush, stormwater drains properly, and garbage disappears every week, nobody notices. Success, in the utility world, is often invisible.

Municipal utilities include visible services such as waste collection and extensive infrastructure operating behind the scenes.

THE COST OF STANDING STILL

The Hidden Cost of Holding Utility Rates Constant

One of the most common discussions during budget deliberations is the desire to "hold the line" on utility rates. At first glance, that sounds fiscally responsible. Residents appreciate stable utility bills, elected officials avoid difficult conversations, and administration can move on to other priorities. The problem is that utility costs never stand still.

Every year municipalities experience increasing costs associated with:

- ✓ Water purchases
- ✓ Chemicals and treatment

✓ Electricity	✓ Fuel
✓ Labour	✓ Equipment maintenance
✓ Regulatory compliance	✓ Infrastructure renewal

Inflation does not pause simply because utility rates remain unchanged. When revenues stay flat while costs continue rising, municipalities are forced to make difficult choices. Maintenance is deferred, reserve contributions are reduced, capital replacement is postponed, or operating deficits quietly emerge within utility operations.

Eventually, the shortfall has to be funded somehow. More often than not, that funding comes from property taxes.

THE HIDDEN SUBSIDY

The Subsidy Nobody Talks About

Many municipalities unknowingly subsidize their utility operations. This rarely happens because of a deliberate policy decision. Instead, it develops gradually over many years.

- ✓ Rates remain unchanged.
- ✓ Operating costs increase.
- ✓ Reserve contributions disappear.
- ✓ Infrastructure replacement is delayed.
- ✓ The general tax levy quietly absorbs costs that should properly be funded through utility revenues.

While this may appear harmless in the short term, it creates two significant problems. First, it shifts costs from utility users onto all taxpayers, reducing transparency and fairness.

Second, it increases pressure on future property tax increases because utilities are no longer financially supporting themselves. Ironically, municipalities often spend considerable time debating whether taxes should increase by two or three percent while overlooking the opportunity to reduce that pressure through proper utility rate planning.

That is a conversation worth having.

BUSINESS WITHIN GOVERNMENT

Utilities Are Businesses Within Municipalities

One of the greatest misconceptions surrounding municipal utilities is that they are simply another municipal department.

They are not.

Utilities function much more like individual businesses operating within the municipality.

Each utility has:

- Customers
- Operating expenses
- Infrastructure replacement requirements
- Reserve requirements
- Revenue
- Capital assets
- Debt obligations
- Long-term financial risks

Like any well-managed business, they require long-term financial planning rather than annual adjustments based solely on affordability or political considerations. Utility rates should be based on the true cost of delivering the service—not simply on what seems acceptable in a given budget year.

Utility systems require operating discipline, capital planning, reserves, and long-term financial management.

ASSET MANAGEMENT

Asset Management Begins with Utility Rates

Municipalities across Canada have invested tremendous effort in developing asset management programs.

- ✓ Asset inventories are improving.
- ✓ Condition assessments are becoming more sophisticated.
- ✓ Long-term capital plans are being developed.

Yet many municipalities continue to fund those same assets using utility rates that have changed very little over the past decade.

There is an obvious disconnect.

A long-term asset management strategy is only meaningful if it is supported by a long-term financial strategy. Utility rates should do far more than simply pay today's operating bills.

They should also provide sustainable funding for:

- Infrastructure rehabilitation
- Asset replacement
- Debt servicing
- Future system expansion
- Capital reserves
- Emergency contingencies

Without those components, municipalities are effectively asking future taxpayers to pay for today's infrastructure decisions.

That is not sustainability. It is simply deferred funding.

SUSTAINABILITY

Environmental Sustainability Requires Financial Sustainability

There is another important connection that is often overlooked. Strong utility funding leads directly to stronger environmental outcomes. Communities that invest in their utilities are better positioned to:

- ✓ Reduce water loss through leak detection and system renewal.
- ✓ Improve wastewater treatment performance.

- ✓ Expand recycling and waste diversion programs.
- ✓ Protect rivers, lakes, and groundwater.
- ✓ Build resilient stormwater systems capable of managing increasingly severe weather events.
- ✓ Reduce greenhouse gas emissions through more efficient infrastructure.

Environmental sustainability is often discussed as though it exists independently from finance. In reality, the two are inseparable.

Without sustainable funding, environmental objectives quickly become unfunded aspirations rather than achievable outcomes.

🗣 **STRATEGIC CONVERSATION**

It's Time to Change the Conversation

Perhaps the most important shift municipalities need to make is philosophical rather than financial. Utility rates should no longer be viewed as an annual administrative exercise.

They should become a strategic discussion about the long-term health of the municipality.

Every municipality should routinely ask itself:

- **?** Are our utilities fully recovering their costs?
- **?** Are property taxpayers subsidizing utility operations?
- **?** Are we adequately funding future infrastructure replacement?
- **?** Are reserves sufficient for major capital renewal?
- **?** Are today's customers paying their fair share?
- **?** Are our utility systems financially sustainable for the next generation?

These are not accounting questions.

- ✓ They are governance questions.
- ✓ They are asset management questions.
- ✓ And ultimately, they are community sustainability questions.

THE BOTTOM LINE

The Bottom Line

Municipal utilities rarely receive the attention they deserve. Roads, recreation facilities, parks, and community projects often dominate public discussion because they are highly visible. Utilities, by contrast, operate quietly beneath our streets and behind the scenes.

Yet every glass of clean drinking water, every properly functioning sewer system, every storm that passes without flooding neighbourhoods, and every recycling truck that arrives at the curb is made possible by an extraordinary network of infrastructure that municipalities have spent generations building.

- ✓ Those systems represent some of the largest public investments our communities will ever make.
- ✓ They deserve more than an annual glance during budget season.

If municipalities are serious about financial sustainability, asset management, environmental stewardship, and limiting future tax increases, utility rates must become a regular part of strategic financial planning—not simply an afterthought once the tax discussion is complete.

After all, the best utility systems are the ones nobody notices. The challenge is ensuring we don't forget about them either.

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