

Staff Report



To	City Council
Service Area	Office of the Chief Administrative Officer
Date	Wednesday, October 30, 2024
Subject	2025 Draft Budget Update Companion Report – Council Budget Decisions

Recommendation

The following recommendations will be brought forward to City Council for decision at the Special City Council Budget meeting on November 27, 2024:

1. That the 2025-2027 rates fees and charges be readopted, in accordance with the adopted 2025 budget, and subject to any amendments in budget confirmation years 2026 and 2027.
2. That the Development Applications Fee By-law be amended to reflect the changes in Attachment-1.
3. That in accordance with the General Reserve and Reserve Fund Policy, total transfers to and from reserves and reserve funds for 2025 are approved.
4. That a one-time transfer from the Library Capital reserve fund (#157) to the Infrastructure Renewal reserve fund (#150) to properly align funding and expenditures for Baker District debt servicing costs is approved.
5. That Appendix A of the General Reserve and Reserve Fund Policy be amended to reflect the creation of a Housing Accelerator Fund (HAF) reserve fund (#304) and a Building Faster Fund (BFF) reserve fund (#306) in accordance with the terms and authority identified in the 2024-457 2025 Draft Budget Update Companion Report – Council Budget Decisions report, dated October 30, 2024.
6. That Council acknowledges the City’s reserve strategy deployed in the 2025 budget update results in operating contingency reserve balances that continue to be below approved targets, and that staff continue to be directed to replenish these reserves as a first priority through the allocation of year-end surplus until such point that they reach a minimum of 75 per cent of target over the multi-year budget period.
7. That Council acknowledges that the 10-year capital budget and forecast included in the 2025 budget update will significantly draw down the City’s capital reserve funds and rely on inter-reserve fund borrowing, and that this is expected to result in balances below policy targets at times during the budget and forecast period.
8. That Council acknowledges that the 10-year capital budget and forecast included in the 2025 budget update will be supported by debt financing at the same level as the debt strategy proposed in the 2024-2027 multi-year

budget, and that the projected debt levels are in excess of the credit rating agency criterion, which will likely impact the City's future credit rating.

9. That given the sustained increase in the size of the capital budget and forecast, the projected drawdown of reserve funds and increased reliance on debt, staff be directed to undertake a sustainability analysis on the overall level of tax supported capital funding, and report back to Council with any recommendations prior to the next multi-year budget cycle (2028 – 2031).
 10. That staff be directed to assess the long-term capital needs of the water and wastewater services, and the impact on customers of adjusting utility rates between the services to achieve a balanced capital reserve fund forecast for each service; and that proposed adjustments resulting from this assessment are presented as part of the 2026 budget confirmation process.
-

Executive Summary

Purpose of Report

The purpose of this report is to present items that fall outside of Strong Mayor legislation to Council for approval as part of the Draft 2025 Budget Update. This report accompanies the [Mayor's Draft 2025 Budget Update](#) that will be adopted at the end of the provincially legislated municipal budget process.

Key Findings

There are several occurrences where the Strong Mayor regulations, the Municipal Act and City financial policies are not fully aligned and where Council direction via by-law is required in addition to the deemed budget adoption. Specifically, these areas include:

- The requirement of a Council-approved by-law to levy any taxes, rates, fees, and charges;
- The requirement for Council approval for the use of, or changes to reserves in accordance with the City's General Reserve and Reserve Fund Policy; and
- Any instance where additional direction to staff from Council is required.

Strategic Plan Alignment

The 2025 Budget Update supports all the themes of the [Future Guelph strategic plan](#) and sets the pace for the implementation of initiatives and programs. Given the financial constraints demonstrated in this budget, it is expected that the targets for what can be achieved through the four-year period will need to be revisited and revised.

Financial Implications

This report has no direct financial implications, instead, it provides a mechanism for certain budget-related Council decisions. The financial implications of the budget are fully documented and presented in the 2025 Budget Update materials.

Report

With the introduction of Strong Mayor legislation, the budget process was altered to follow a new time-limited progression, with a budget to be deemed adopted as the final step.

There are several occurrences where the Strong Mayor regulations, the Municipal Act and City financial policies are not fully aligned and where Council direction via by-law is required in addition to the deemed budget adoption. This report includes detail for each of the required Council decisions recommended above, and is presented in three categories:

- Requirement for a Council-approved by-law to levy taxes, rates, and fees.
- Requirement for Council to approve the use of, or changes to reserves in accordance with the City's General Reserve and Reserve Fund Policy.
- Any instance where additional direction to staff from Council is required.

Requirement for a Council-approved by-law to levy taxes, rates, fees, and charges

Recommendation 1 above relates to taxes, rates, fees, and charges that require a Council-approved by-law in place annually in accordance with the Municipal Act.

The [2025 update rate, fee, and charges guide](#) provides a full list of every City rate, user charge and fee for 2025 and the remaining years of the Multi-Year Budget, 2026-2027. For more information on these fees rates and charges, please visit the [operating budget summary](#) where any increases or decreases in the rates are explained.

Requirement for Council approval to update the development planning fees

Recommendation 2 above relates to Development Application fees that require a Council-approved by-law in place to update fees.

A few Development Application fees have been recommended to be added or changed as part of this by-law update due to the Bill 185 changes that came into effect on June 6, 2024. This is because the City has been proactively working on improving current Planning processes and as part of this exercise and had already gone through a full comprehensive review of their fees on March 20, 2024. With the Bill 185 changes and the allowance for more than one submission (that had previously been removed as a result of Bill 23), a revision charge has been added to site plan applications for major revisions and minor revisions to enable recirculation and staff review of additional or updated reports. An initial meeting fee has also been included as pre-consultations are not mandatory as a result of Bill 185. The proposed by-law and updated fee schedule can be found in Attachment-1.

The requirement of Council approval for the use of, or changes to reserves in accordance with the City's General Reserve and Reserve Fund Policy

Recommendations three through five relate to reserves and reserve funds, and are administrative requirements for the approval of budgeted reserve transfers and the set-up of new reserve funds.

Recommendation three requests Council approval of the transfers to and from reserves and reserve funds that are included in the 2025 budget update, as required under the General Reserve and Reserve Funds Policy.

Recommendation four is for the approval of an administrative adjustment between the Library Capital reserve fund (#157) and Infrastructure Renewal reserve fund (#150). This adjustment was highlighted in the 2024 – 2027 multi-year budget

documents and has been executed as part of the 2025 budget update in collaboration with the Library. In 2023, capital funding was added to the budget to pay for the debt servicing costs associated with the Baker District. This addition was mistakenly added as a transfer to the Library Capital reserve fund (#157), instead of the City's Infrastructure Renewal reserve fund (#150). Transfers for 2025 and future have been corrected as part of the 2025 budget update, and this recommendation will re-direct the transfers from 2023 and 2024 to the correct reserve fund.

Recommendation five is for the set-up of two new grant-specific reserve funds for tracking of the Housing Accelerator Fund (HAF) grant (#304), and the Building Faster Fund (BFF) grant (#306). The segregation of these funds is a requirement of the grant agreement with the funders.

Staff are proposing that Appendix A of the General Reserve and Reserve Fund Policy be amended with the following new reserve fund terms and conditions:

Reserve Number: 304

Reserve Name: Housing Accelerator Fund Grant

Purpose: To fund the HAF program in accordance with the grant agreement.

Target Balance: No established maximum. Reserve fund balance must be positive.

Source of Funds: HAF grant in accordance with the grant agreement.

Use of Funds: Allowable uses of funds in accordance with the HAF grant agreement.

Authority/Timing: City Treasurer approval of transfers in accordance with the pre-approved purpose/use.

Reserve Number: 306

Reserve Name: Building Faster Fund Grant

Purpose: To fund the BFF program in accordance with the grant agreement.

Target Balance: No established maximum. Reserve fund balance must be positive.

Source of Funds: BFF grant in accordance with the grant agreement.

Use of Funds: Allowable uses of funds in accordance with the BFF grant agreement.

Authority/Timing: City Treasurer approval of transfers in accordance with the pre-approved purpose/use.

Any instance where additional direction to staff from Council is required.

Recommendations six through ten are more strategic in nature and request specific Council acknowledgement of expected deviations from approved policy, impact on the City's credit rating, and recommended direction to staff for follow-up work that is needed to ensure sustainability for the future.

Recommendation six seeks Council acknowledgement that the City's contingency reserves continue to be drawn upon to a significant extent to phase-in budget impacts on the tax levy over multiple years. Tax supported contingency reserves, as a group, are projected to fluctuate between 15 and 24 per cent of target, and rate supported contingency reserves are expected to fluctuate between 68 and 81 per cent of target from 2025 to 2028. This does not include any funds that may be deposited into these reserves as a result of year-end surpluses, but it does illustrate the need to prioritize rebuilding the balances with any future operating surpluses to reduce vulnerability to unexpected events and increase the capacity to smooth future budget impacts. Further details about the use of the contingency reserves can be found in the [Reserve and reserve funds](#) strategy document.

Recommendations seven and eight seek Council acknowledgement of the draw down of the capital reserve funds, the reliance on inter-reserve fund borrowing, and the use of debt as a financing tool to advance the capital budget and forecast that has been included in the 2025 budget update. Overall, a balanced capital reserve forecast has been achieved in every year except 2027, and in every category of capital reserve funds by 2034. Negative balances in the tax supported reserve funds from 2025 through 2033 will rely on inter-reserve fund borrowing until they return to balance in 2034. Any additions to the capital budget and forecast through Council amendments must be accompanied by an offsetting reduction of another project in the same time frame, or additional funds must be levied for capital to support it.

The proposed use of debt to advance the capital program is at the same level as was included in the 2024 – 2027 multi-year budget. However, this is an increase from current and recent past debt levels. Staff want to ensure that Council is fully informed of the anticipated impact of this forecast on the credit rating. It is important to highlight that while the City's debt levels are projected to exceed Standard & Poor's 30 per cent of operating revenue threshold, they are not expected to exceed the City's policy limit of 55 per cent, nor the legislated annual repayment limit. Further details can be found in the [Debt Strategy](#).

A potential reduction in the credit rating is an acceptable risk because of the demonstrated need for capital investment. There are risks associated with not executing capital projects that could also impact the credit rating assessment. Council will need to consider the outcomes of the capital plan versus the acceptability of an AA+ credit rating, which is still a desirable rating and comparable for municipalities the size of Guelph.

Recommendations 9 and 10 build on the earlier acknowledgements regarding the capital reserve and debt forecasts and seek Council direction for additional work to be done to inform future budget recommendations. Recommendation 9 seeks direction to undertake a sustainability analysis on the level of tax supported capital funding in comparison with the tax supported capital budget. It acknowledges that a substantial amount of asset management work was deferred beyond 2034 due to limitations in tax-supported funding. Recommendation 10 will review the customer impact of rebalancing the rates between the water and wastewater services. At this time, the water capital reserve fund is forecast to remain in a deficit for the full duration of the 10-year capital budget and forecast, while the wastewater capital reserve fund remains in a surplus. The water and wastewater rates need to be rebalanced to better support the capital needs of these services.

Financial Implications

This report provides a mechanism for certain budget-related Council decisions and does not have any direct financial implications based on the recommendations at this time. Consulting support may be required to execute recommendations 9 and 10, and if so, any budget impacts that require budget adjustments will be proposed through future Budget Monitoring Reports. The financial implications of the budget are fully documented and presented in the 2025 Budget Update materials.

Consultations and Engagement

None.

Attachments

Attachment-1 By-law Number (2024)-21003

Attachment-2 Development Application Fees November 2024

Departmental Approval

None.

Report Author

Stephanie Devost, Senior Corporate Analyst Budget Strategy

This report was approved by:

Shanna O'Dwyer
Acting General Manager Finance/City Treasurer
Office of the Chief Administrative Officer
519-822-1260 extension 2300
shanna.odwyer@guelph.ca

This report was recommended by:

Tara Baker
Chief Administrative Officer
Office of the Chief Administrative Officer
519-822-1260 extension 2221
tara.baker@guelph.ca