

Staff Report



To	City Council
Service Area	Office of the Chief Administrative Officer
Date	Wednesday, October 29, 2025
Subject	2026 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 26, 2025:

1. That the 2026-2027 rates fees and charges be readopted, subject to any amendments in the 2027 budget confirmation year.
2. That in accordance with the General Reserve and Reserve Fund Policy, total transfers to and from reserves and reserve funds for 2026 are approved.
3. That the funding of FM Woods Station Upgrade (WT0064) for 2025 and prior approved budgets be adjusted to remove debt financing of \$49,207,200 and replace this with funding from the Water Capital reserve fund (152).
4. That Council acknowledges the City's tax-supported contingency reserve balances continue to be below approved targets, and:
 - a. That staff continue to be directed to replenish these reserves as a first priority through the allocation of any year-end surpluses in 2025 and future years until such point that they reach a minimum of 75 per cent of target.
 - b. That Council directs staff to assess whether allocations to rebuild the contingency reserves to their target balances should be included in the next multi-year budget cycle for 2028 to 2031.
5. That Council approves inter-reserve fund borrowing in 2026 to maintain OBC service delivery and that such inter-reserve fund borrowing be approved to maintain balance in the Ontario Building Code Stabilization reserve fund (188), which will see a shortfall as a result of transfers to address the 2025 deficit projection for this service.
6. That Council approves the use of inter-reserve fund borrowing and recognizes some reserve fund balances are below policy targets at times within the capital budget and forecast period based on the 10-year capital budget and forecast included in the 2026 budget update.
7. That Council approves the debt strategy included in the 2026 budget update and acknowledges that the projected debt burden level may impact the City's future credit rating.
- 8. That Council approves the application of assessment growth revenue above the amount budgeted to reduce the 2026 tax levy impact,**

contrary to the prescribed treatment under the Revenue Budgeting Policy.

9. That staff be directed to undertake an operating model analysis for downtown parking as part of the City-Wide Parking Study to identify any required adjustments to revenue, expenditures, and tax support provided for this service as part of the 2027 budget update.
10. That staff be directed to undertake an analysis of the capital and operating budgets for corporate building maintenance to ensure alignment with corporate requirements and identify any adjustments required to be reflected in the 2027 budget update.

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 2026 Budget Update. This report accompanies the Mayor's Draft 2026 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 of Guelph (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.

This report also provides Council with information about risk and deviations from policy that are embedded in the budget update, and it is an opportunity for staff to identify future work plan items related to the budget for Council's awareness.

Strategic Plan Alignment

The 2026 Budget Update supports all the themes of the Future Guelph strategic plan and sets the pace for the implementation of initiatives and programs.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

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 2026 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. The 2026 budget update is the third year of the strong mayor budget process for Guelph.

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

The [2026 updated rates, fees, and charges guide](#) provides a full list of every City rate, user charge and fee for 2026 and 2027. The 2027 fees will be confirmed through the 2027 budget update process. For more information on fees, rates and charges, please visit the [operating budget summary](#) where any increases or decreases in the rates are explained.

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

Recommendations two and three relate to reserves and reserve funds and are administrative requirements for the approval of budgeted reserve transfers.

Recommendation two requests Council approval for the transfers to and from reserves and reserve funds that are included in the 2026 budget update, as required under the General Reserve and Reserve Funds Policy.

Recommendation three is a capital funding adjustment for a capital project with budget approved in 2025 and prior years. The FM Woods Station Upgrade project (WT0064) was previously approved with expenditures totaling \$49.2 million, to be debt financed, and there is no change to the budgeted expenditures. This recommendation removes the debt financing from this project and replaces it with funding from the Water Capital reserve fund (152). This has been factored into the Water and Wastewater Capital reserve fund rebalancing work, and it enables the allocation of this debt capacity to other projects where it is required, in alignment with the updated Debt Strategy.

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

Recommendations four through seven are more strategic in nature and request specific Council acknowledgement of expected deviations from approved policy and

impact on the City's credit rating. Recommendations eight and nine identify future budget work that is required, but that staff did not have the capacity to undertake as part of the 2026 budget update process.

Contingency reserves

Recommendation four seeks Council acknowledgement that the City's contingency reserves continue to be below approved target balances. Tax supported contingency reserves, as a group, are projected to fluctuate between 15 and 20 per cent of target, while rate supported contingency reserves are expected to fluctuate between 75 and 80 per cent of target from 2026 to 2029. This does not include any funds that may be deposited into these reserves from 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. The [2025 Second Quarter Budget Monitoring Report](#) projected a tax supported deficit of \$1.9 million. While staff are making every effort to mitigate that deficit prior to year-end, it is highly unlikely that there will be a surplus to support the rebuilding of the contingency reserves this year. The low balance in the contingency reserves increases vulnerability and decreases flexibility to respond to the unexpected.

Further, after several years of detailed budget analysis and baseline adjustments, the City's budget is tighter than ever, and there is less capacity to absorb unplanned in-year impacts. There is also a much lower likelihood of realizing a surplus in any given year. For this reason, staff:

- Strongly recommend against any further usage of the tax-supported contingency reserves through this budget update, and
- Are seeking Council direction to assess whether adding an allocation should be added through the next multi-year budget (MYB) cycle for 2028 to 2031 to rebuild the contingency reserves to their target balances.

OBC Stabilization reserve fund

Recommendation five seeks Council acknowledgement that the 2026 operating budget for Ontario Building Code (OBC) administration includes a reduction in revenue based on the current development environment that requires a budgeted transfer of \$1.8 million from the OBC Stabilization reserve fund (188) to support the budgeted expenditures. However, this budgeted transfer is expected to push the OBC Stabilization reserve fund (188) into a negative balance based on the 2025 deficit projection for this service; therefore, inter-reserve fund borrowing is expected to be required in 2026 to maintain the OBC service delivery model. Further information about this can be found in the [Operating Budget Summary](#) on the budget website.

Capital reserve funds and debt

Recommendation six and seven 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 2026 budget update. Overall, a balanced capital reserve forecast has been achieved in every year, and in every category of capital reserve funds except development charges (DCs), by 2035. Negative balances in the tax supported reserve funds from 2029 through 2033 will rely on inter-reserve fund borrowing until they return to balance in 2034. After budget commitments, the

City's DC reserve funds are in a deficit in 2025 and are projected to remain in a deficit position beyond the 10-year forecast period. This is based on updated DC collection assumptions for 2025 through 2027 based on slow development activity, while many significant housing-enabling capital investments are still budgeted to move forward based on the capital prioritization framework. The reliance on inter-reserve fund borrowing means that the reserve forecast is very interconnected and 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 under the updated Debt Strategy is at the same overall level as was included in the 2024 – 2027 multi-year budget. The City's debt servicing costs and debt burden are projected to remain well under the legislated maximums and Council approved policy targets throughout the forecast period. However, the City obtains an annual credit rating review for the purposes of issuing debentures directly to the market and staff want to ensure that Council continues to be fully informed of the potential impact of the debt strategy forecast on the City's credit rating. Debt burden is one of several factors evaluated through the annual credit rating review. The Debt Strategy plans for issuing debt to support the capital plan that will exceed S&Ps lowest risk threshold (30 per cent of own source revenue) from 2027 through 2029. Through the 2025 credit rating review process, the impact of the increased debt burden was offset by an improvement to the budgetary performance score, largely driven by the implementation of the capital prioritization framework and the achievement of a fully funded capital budget and forecast through the 2025 budget confirmation process. This improved S&Ps confidence in the City's capital plan and supported the maintenance of the AAA credit rating for 2025. However, if any of the other factors in the credit rating change in coming years, a credit rating reduction is possible.

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 and which is the City's target rating in the Strategic Plan KPI framework.

Assessment growth revenue

Recommendation eight seeks Council approval for the application of assessment growth revenue above the amount budgeted to reduce the 2026 tax levy impact.

Assessment Growth (AG) revenue has been budgeted at 1.15 per cent of the base budget, or \$4.04 million, split proportionally between the City (67 per cent) and LBSS (33 per cent). Actual AG revenue for 2026 will be confirmed later in November but is now estimated at 1.33 per cent. This results in an additional \$619,732 in revenues split City \$415,220 and LBSS \$204,511. Under the City's Revenue Budgeting Policy, the full amount of this additional AG revenue would normally be transferred to the Growth Reserve Fund (156) and would help to offset the 2027 increase; however the Mayor directed staff to apply this increase to reduce the 2026 tax levy impact.

The Revenue Budgeting Policy prescribes that “If actual Assessment Growth Revenue varies from Budgeted Assessment Growth Revenue, the difference is transferred to or from the Growth Reserve Fund”. Therefore, we have included a recommendation for Council to approve this deviation from policy.

Future budget work

Recommendations **nine** and **ten** identify work that is required through future budget update processes that staff are aware needs to be done but did not have the capacity to undertake this year. This includes:

- Analysis of the budgeted revenues and expenditures for downtown parking, to be undertaken in conjunction with the City-Wide Parking Study to inform any budget updates to be made through the 2027 budget update. Post-covid parking revenues have seen considerable variances from year to year, and there are a number of changing factors in the downtown parking landscape that may impact these revenues in the coming years. It is prudent to revisit the assumptions and propose adjustments to ensure the long-term sustainability of this service.
- Analysis of the capital and operating budgets for Corporate Building Maintenance. This area has been under pressure over the past few years from higher than budgeted repair and maintenance costs associated with aging facilities. Work is currently underway to review these pressures, and any budget updates required will be proposed as part of the 2027 budget update.

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. The financial implications of the budget are fully documented and presented in the 2026 Budget Update materials.

Consultations and Engagement

None.

Attachments

None.

Departmental Approval

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