



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: May 6, 2025

Report Number: SRCFS.25.017

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.25.017 - 2026 Capital and Operating Budget Strategy**

Purpose:

To support development of the City's 2026 Budget, this report seeks Council endorsement of the proposed timelines and guidelines for the development of the 2026 Capital Budget, Operating Budget and the Water, Wastewater and Stormwater Management Budgets.

Recommendations:

- a) That staff report SRCFS.25.017 regarding the 2026 Capital and Operating Budget Strategy, be received;
- b) That Budget Committee of the Whole recommends the Mayor directs staff to present a 2026 Draft Capital Budget that:
 - i) Continues to manage the City's capital program reflective of the City's Strategic Priorities;
 - ii) Maximizes all funding from external sources, development charges and reserve funding;
 - iii) Does not exceed the proposed funding envelopes, including project management and overhead costs:
 - a. \$34.5 million from Tax Supported Reserve Funds
 - b. \$33.3 million from Development Charges Reserve Funds
 - c. \$8 million from Cash-in-Lieu of Parkland Reserve Fund
 - d. \$34.1 million from Water and Wastewater Reserve Funds as per the Council Approved Financial Plan.
 - e. \$15.2 million from Water Quality Protection Reserve Fund for Stormwater Management projects as per the Council Approved Financial Plan.
- c) The Budget Committee of the Whole recommends the Mayor directs staff to prepare a 2026 Draft Operating Budget that:

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- i. Recognizes and responds to the financial pressures affecting residents, with particular attention to tariffs, the rising cost of living, and ongoing affordability challenges;
 - ii. Balances financial pressures on the City including the need to build and maintain growth related infrastructure and continuing to deliver important services that make our City a premium community in which to live;
 - iii. Reviews spending and find efficiencies to ensure financial prudence and sustainability;
 - iv. Supports and aligns with the City's Strategic Plan and its three pillars of growing a livable, sustainable community; focus on people; strengthening our foundations;
 - v. Utilizes the budget considerations outlined in staff report SRCFS.25.017 as a guideline
 - vi. Proposes a Capital Asset Sustainability Levy in the operating budget equivalent to 1.5% tax rate increase
- d) The Budget Committee of the Whole recommends the Mayor directs staff to present a 2026 Draft Water & Wastewater Budget that follows the principles of the 2024 Water and Wastewater Financial Plan;
- e) The Budget Committee of the Whole recommends the Mayor directs staff to present a 2026 Draft Stormwater Management Budget that follows the principles of the 2024 Stormwater Management Financial Plan;
- f) The Budget Committee of the Whole recommends the Mayor directs staff to proceed with the 2026 Budget process in accordance with the timelines outlined in Appendix "A" and guidelines described in staff report SRCFS.25.017

Contact Persons:

- Muhammad Raza, Manager, Fiscal Strategy and Long-Term Planning, ext. 6307
- Lisa Chen, Manager, Financial Planning and Analysis, ext. 6311
- Gigi Li, Director Financial Services and Treasurer, ext. 6435
- Sherry Adams, Commissioner Corporate and Financial Services, ext. 2521

Report Approval:

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

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Key Messages:

- The primary goal of the Budget Strategy is to promote fiscal responsibility so the City can effectively navigate the forthcoming economic challenges.
- An online survey will be launched by the end of May and will remain open for three weeks, focusing on key themes from the budget strategy. The results will be shared with Budget Committee of the Whole on September 16, allowing for consideration ahead of the 2026 Budget discussions.
- The Capital Budget Strategy includes funding envelopes for tax-supported, rate-supported, Development Charges, and CIL funding to maintain financial stability and support growth.
- The Operating Budget Strategy follows the mayoral direction and budget guidelines as outlined in this report.
- The Rate Budget Strategy follows the principles of the approved 2024 Water and Wastewater Financial Plan and the approved 2024 Stormwater Management Financial Plan.
- Staff recommend for the 2026 user fees to be indexed by the forecasted inflation, estimated at 2%.

Background:

The City of Richmond Hill follows a year-round budget process. Staff begin working on the following year's budget early in the current year. Starting the process early allows for ample time to collect data, conduct analysis and carefully consider relevant information. Throughout the year, staff collaborate closely with relevant departments and stakeholders to gather insights for budget preparation.

This report provides an overview of the factors that influence the budget, such as economic conditions, projected revenues, expenditure patterns, and community needs. It also seeks Council's endorsement for next year's capital and operating budget strategy before staff finalize the budget submissions over the summer months. This approach enables staff to make informed decisions, effectively allocate resources, and provide essential services to the community in a fiscally responsible and efficient manner that aligns the budget with the strategic priorities and goals of the City.

Discussion:

The Mayor has directed staff to commence the 2026 Budget process in Mayoral Decision 04-25, specifically:

1. The 2026 budgets must address the economic challenges residents are facing, particularly the threats of tariffs, rising cost of living and ongoing affordability crisis. This should be accomplished by balancing financial pressures on the City including the need to build and maintain growth related infrastructure and

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continuing to deliver important services that make our City a premium community in which to live.

2. To constantly review spending and find efficiencies to ensure financial prudence and sustainability.
3. The budget must support and align with the City's Strategic Plan and its three pillars of growing a livable, sustainable community; focus on people; strengthening our foundations.
4. To consult with the Budget Committee of Whole on the preparation of the draft Capital and Operating City budgets for the 2026 Fiscal Year, including a schedule of meetings for Budget Committee of the Whole to comment on the draft 2026 Capital and Operating budgets in the Fall of 2025;
5. To follow the practices and processes that generally conform with the budget and business planning processes used in the year 2024 and 2025, while still complying with the Provisions of Part VI.1 of the Act;
6. To continue to work collaboratively with all stakeholders including gathering input from Members of Council, City Staff, and the public; and
7. To periodically brief me on the progress of the draft budgets and business plan, as requested by me.

Annual Budget Cycle and 2026 Budget Timelines

The continuous budget cycle overlaps with the reporting of the prior year's financial results of operations and the current year's year-end forecasts, as they are taken into consideration prior to finalizing next year's proposed budget.

The typical Budget Committee of the Whole process is outlined in Table 1 below (except the year following an election where the Municipal Act requires the budget to be approved in the relevant budget year), highlighting the upcoming meetings on the 2026 Budget process.

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Table 1: Typical Budget Committee of the Whole Process

Item	Process	Budget Year	Timeframe
1.	Prior year's financial results	2024	April to June
2.	Budget Strategy	2026	April to June
3.	User Fees Review and Updates	2026	June (earlier than previous years)
4.	Current year's interim financial results	2025	September
5.	Current year's capital project status	2025	June and November
6.	Capital Budget and Forecast	2026	November
7.	Operating Budget and Financial Outlook	2026	November

The detailed timelines for the 2026 Budget deliberations is outlined in Appendix “A”, with an online budget engagement survey launching at the end of May, the Budget Book published online at the end of October, and a staff proposed 2026 Capital and Operating Budget presentation to Budget Committee of the Whole on November 18, 2025, and the Mayor's Budget adopted on December 10, 2025.

Online Budget Engagement

As endorsed by Council through the recommendations of staff report, *SRCFS.24.044 – 2025 Budget Survey Results*, “any future budget engagements will continue with an online survey to solicit feedback, in addition to promoting the budget and its overall process through various digital and social media”. An online survey will be launched by the end of May and will remain open for three weeks, focusing on key themes from the budget direction. The results will be shared with Budget Committee of the Whole on September 16, allowing for consideration ahead of the 2026 Budget discussions.

External Budget Pressures

It is crucial to consider several external factors that could significantly influence the City's fiscal landscape. Key among these are the Province's economic performance, inflation trends, interest rates, the impact of U.S. tariffs, and the state of the housing market. These have an impact on both the operating and capital budgets. Forecasted financial indicators (see Appendix ‘B’) highlight other 2026 pricing pressures as the City begins to prepare the capital and operating budgets.

The Bank of Canada has been adjusting its policy interest rate in response to economic conditions. After maintaining a rate of 5.00% from July 2023 to May 2024, the Bank reduced the rate steadily since June 2024, bringing it down to 2.75% by March 2025.

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The City has an investment income allocation strategy that is utilized to partially offset increase in expenses that are expected to continue. Staff will look to minimize cost increases or look for alternative cost savings where feasible.

As of March 2025, Ontario and Toronto Consumer Price Indices were 2.3% and 2.2% respectively, on a year-over-year basis, compared to February's 2.7% for Ontario and 2.8% for Toronto. The City's 2025 inflation forecast was 3% and the 2026 inflation forecast is 2.0%.

Recent U.S. tariffs on Canadian exports, including a 25% tariff on steel, aluminum, energy and vehicles, have introduced new challenges for Ontario's economy. These tariffs are expected to increase construction costs, increasing the City's capital investment costs, and potentially slowing down residential construction and exacerbating affordability issues.

The non-residential building construction price index was 3.8% at the end of December 2024 compared to 5.4% in December 2023. This rate is expected to increase pending the outcome of U.S. tariffs discussion.

Legislative Updates

The legislative environment has a significant impact in a municipal government setting. Previous and continuing changes to the Provincial and Regional with respect to development planning and affordable housing initiatives, employment standards and implementation of the Blue Box Transition continue to impact the City.

Capital Budget Pressures and Strategy

The City of Richmond Hill's ("City") Capital Budget and Forecast process follows an iterative approach whereby the first year's capital budget is approved, and the nine-year capital forecast is received by Council for information purposes. Direction from the Mayor and Council at the beginning of the process enable staff to develop a strategy that can achieve long-term capital sustainability. The ten-year capital budget and forecast development approach provides both the immediate capital investment needs, as well as identifies the longer-term outlook of future capital needs, so the budgetary pressures can be addressed in a financially sustainable manner.

Through ongoing evaluation and review of the City's long-term plans, staff adjust the capital budget to reflect changing needs, emerging priorities and external circumstances. This process enables the City to prioritize capital projects, allocate resources efficiently, and make informed decisions that support a growing, changing and developing community.

Capital funding prioritization is based on achieving strategic priorities, addressing regulatory needs and an asset management risk assessment. The funding source is dependent on the type of infrastructure investment: state of good repair (existing assets) and new or growth assets. Projects with both elements are funded based on the

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proportionate share. The distinction delineates funding eligibility based on legislation or internal policy as shown in the following table.

Eligible Funding Source by Infrastructure Investment Type

Eligible Funding Source	State of Good Repair Investments	New or Growth Investment
Tax Supported Reserve Funds	✓	×
Rate Supported Reserve Funds	✓	×
Development Charges	×	✓
Cash-in-Lieu of Parkland Reserve Fund	×	✓
Community Benefits Charges	×	✓
Canada Community Building Fund and other Grants	Dependent on funding agreement conditions	

Asset Management Plan

The budget process also considers the City's Asset Management Plan for optimal prioritization of infrastructure needs and capital funding allocation. Staff is preparing an update to the City's Asset Management Plan that has an estimated replacement value of \$12.8 billion for Council review. This plan aims to identify average annual funding need from 2025 to 2034 for non-rate supported services with a request to increase investment expenditure annually to address infrastructure backlog and the ongoing asset renewals.

To comply with the last phase of the O. Reg. 588/17 (July 1, 2025), proposed future level of services was included in 2025 Asset Management Plan and brought forward to Council for consideration. Council's direction to address the infrastructure backlog, proposed level of service and funding shortfall will help guide the City's required investments.

Financial Implications:

2025 Capital Budget Strategy Considerations

Staff will continue to manage the City's capital program reflective of the City's Strategic Priorities while maximizing all funding from external sources, development charges and reserve funding. The strategy being recommended for the 2026 Capital Budget is following the similar approach as previous years i.e. using a funding envelope for each major funding source.

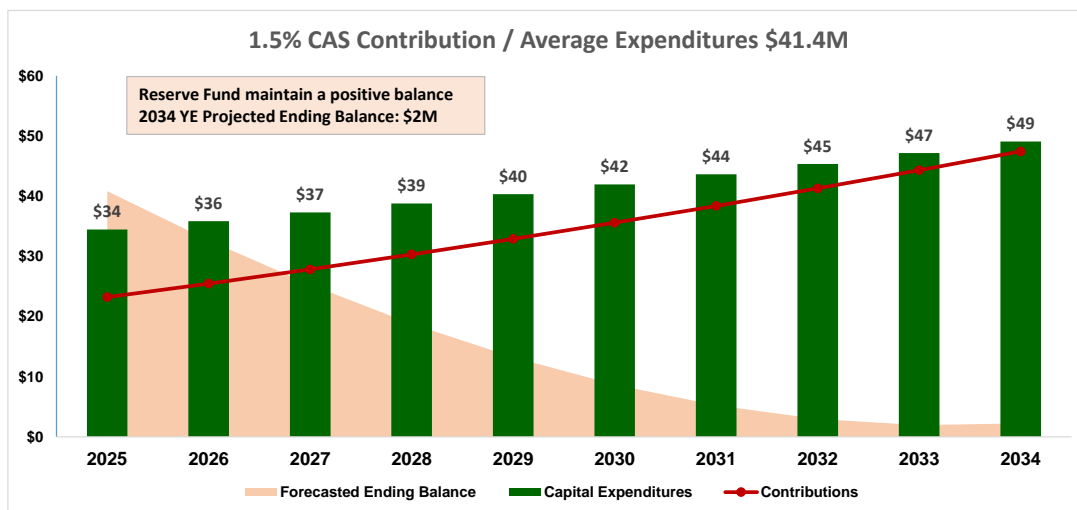
Tax Supported Funding Envelope

Staff developed the tax supported funding envelope by analyzing the projected expenditures based on the 2025 Capital Budget Forecast, indexing it to mimic the

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annual non-residential construction building price index while accounting for the annual tax supported reserve fund contributions from the Capital Asset Sustainability Levy (“CASL”) of 1.5%.

This resulted in a \$34.5M cap for 2026, inclusive of project management and overhead costs. This strategy maintains a positive reserve fund balance throughout the capital forecast period. The green bars indicate capital expenditures, inclusive of project management and overhead costs based on a funding cap utilizing a historical capital budget average, indexed by the annual non-residential construction building price index. The red line represents the annual funding contributions from the CASL, increasing at a 1.5% tax rate equivalent until 2034.



The chart above also highlights that the reserve fund is trending towards a deficit even with a positive reserve fund balance throughout the capital forecast period which indicates that current funding levels are unsustainable and would require Council direction to attain the City’s financial sustainability goals as part of the ongoing financial sustainability strategy

Rate Supported Funding Envelope

The rate supported funding envelope consist of two separate components: water and wastewater, and stormwater management.

Both these envelopes were developed in line with the principles of the respective Financial Plans approved by Council on May 29, 2024, for Water and Wastewater and November 13, 2024, for Stormwater Management.

This resulted in a \$34.1M funding cap for water and wastewater and \$15.2M for stormwater management, inclusive of project management and overhead costs.

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Development Charges Funding Envelope

Based on CMHC's preliminary review of the short-term growth forecast, the trend of housing starts across Ontario is down by 16% in 2024 from 2023. Ontario did not meet the housing target for 2024 set by the Province, partly due to rising construction costs, a shortage of workers, and the high-interest rate environment.

For the City, this is evident from the fact that actual DC revenues collected in the past couple of years have been lower than forecasted, confirming that the City is not realizing its projected growth. As a result, a cap of \$33.3M is set for DC funding (the same approach was applied in 2024) to align with the recent growth trend.

Cash in lieu of Parkland ("CIL") Funding Envelope

CIL historical collections are approximately \$8M per year, which is supported by the 2024 collections of approximately \$8M in 2024. A cap of \$8M will be applied on CIL of Parkland funding (same approach in 2024).

2025 Operating Budget Strategy Considerations

As staff begin preparations for the 2026 Budget, staff will follow the Mayoral direction and consider economic challenges, including rising costs of living, affordability concerns, and the potential impacts of the U.S. tariffs.

To ensure financial prudence and sustainability, staff will maintain a rigorous review of spending and identify efficiencies wherever possible. The proposed budget will align with the City's Strategic Plan, along with Corporate and Divisional goals.

Appendix 'C' presents the updated 2025-2027 Financial Outlook prepared as part of the 2025 Operating Budget process, which outlines financial pressures from base, legislative or growth/service enhancement requirements. A 5.61% tax rate increase was originally forecasted for 2026 (4.11% general, 1.5% Capital Asset Sustainability), reflecting the need to sustain service levels while addressing budget pressures, wage settlements, rising commodity costs, property assessment growth, and phased enhancements in public works and fire services. Staff aim to manage costs through fiscal responsibility and operational efficiencies to reduce the 2026 tax rate increase. The 2026 Outlook included over 40 staffing requests. In order to keep in line with the budget direction and propose a budget below the 2026 Outlook, vacant positions will be considered for repurposing where possible in lieu of new staffing requests. In extenuating circumstances, any exceptions will be highlighted during budget deliberations.

Property Assessment

In March 2020, the Ontario government deferred the 2021-2024 Property Assessment update to provide relief to residents. As of the time of writing, there has not been a formal announcement on the timing of the next update.

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Maintaining the same assessment values in 2024 does not affect the total amount of taxes collected by municipalities. Individual property assessment values are used to calculate each property owner's share of the total taxes paid. Consistent with prior years, the 2024 property value assessments for an average single, detached residential property in Richmond Hill is \$1,148,000 and classifications for all Richmond Hill properties will remain unchanged. Property assessment growth has been estimated at 1%.

Inflation

As a public service provider, personnel costs represent the majority of the City's operating budget. The Ontario government is increasing the minimum wage from \$17.20 to \$17.60 an hour effective October 1, 2025, representing a 2.4% increase based on the Ontario CPI rate at the end of 2024. The 2026 Budget will continue to face financial challenges from increased wages and provisions from recent negotiated wage settlements. These will be partially mitigated through user fee increases.

The U.S. tariff impacts will present cost escalations in the operating budgets.

In light of 2024 year end surplus, staff will continue to update budget request assumptions in alignment with actual financial trends and 2026 corporate and divisional priorities for 2026.

Blue Box Transition

The Blue Box Transition will be completed by December 31, 2025, and by January 1, 2026, producers will be fully responsible for providing Blue Box services province-wide. The financial impact of the new waste management agreement will be reflected in the proposed budget.

Public Works Enhancement Program Approved in 2019 (Phase-In)

In March 2019, Council adopted the Public Works Enhancement Program, which included windrow-clearing services. The financial impact was to be phased-in over a number of years with funding from the Community Enhancement and Economic Vitality Reserve Fund resulting in an annual tax rate impact of \$557,400. The 2026 operating budget will reflect year 7 of the 8-year phase-in plan.

New Firefighters Approved in 2022 (Phase-In)

The cost of 16 new firefighter positions approved as part of the 2022 Operating Budget were to be phased in over 5 years, resulting in an annual tax rate impact of \$550,000. The 2024 operating budget will reflect year 4 of the 5-year phase-in plan.

A number of mitigating strategies have also been identified:

- Realign budgets to what can reasonably be achieved based on 2024 actual results

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- Utilize Tax Rate Stabilization Reserve for one-time budget impacts
- Phasing in of the investment income strategy
- Prolong Public Works Enhancement Program funding / New fire fighters funding phase-in
- Maximize revenue opportunities through the cost recovery portion of User Fees and use of Reserve Fund utilization from overhead recoveries from non-tax supported programs
- Review City operations for potential service level and process changes
- Review opportunities to generate savings and efficiencies

User Fees Review and Update

As part of the City's annual budgeting process, staff consider potential increases for all existing user fees and propose new fees. The City's goal throughout the annual review of fees is to ensure services continue to be of value to the community while maintaining fiscal responsibility. User fees are often set at rates that allow for partial to full recovery of the costs required to provide the service.

The City continues to face higher prices for utilities and wages, these pressures impact the cost of operating City facilities, fleet vehicle usage and streetlight illumination, amongst other operations. Staff recommend for the 2026 Budget process that the majority of fees be indexed by the forecasted inflation, estimated at 2%.

In addition, staff will review service levels, seek alternative delivery methods and consider new services to increase user fee revenues. *The* results of the User Fee Review will be tabled for Budget Committee of the Whole's consideration at the June 24, 2025, meeting.

Operating Budget Strategy

In consideration of the economic challenges residents are facing, particularly the threats of tariffs, rising cost of living and ongoing affordability crisis. Staff propose a balanced approach and recommend that Budget Committee of the Whole endorses a 2026 Operating Budget Strategy that:

- Recognizes and responds to the financial pressures affecting residents, with particular attention to tariffs, the rising cost of living, and ongoing affordability challenges;
- Balances financial pressures on the City including the need to build and maintain growth related infrastructure and continuing to deliver important services that make our City a premium community in which to live;
- Reviews spending and find efficiencies to ensure financial prudence and sustainability;

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- Supports and aligns with the City's Strategic Plan and its three pillars of growing a livable, sustainable community; focus on people; strengthening our foundations;
- Utilizes the budget considerations outlined in staff report SRCFS.25.017 as a guideline;
- Proposes a Capital Asset Sustainability Levy in the operating budget equivalent to 1.5% tax rate increase.

Water, Wastewater and Stormwater Management Budgets

As a lower tier municipality, the City of Richmond Hill purchases water from York Region at a wholesale rate and in turn, charges a retail rate to residents and businesses based on actual water usage. Wastewater is then collected from individual properties and directed back to York Region sanitary sewer mains. The 2026 Draft Water & Wastewater Budget will follow the principles of the recently approved 2024 Water and Wastewater Financial Plan which assumes the wholesale cost of water will increase by 3.3%, inflationary impacts on the City's operating costs of maintaining the water and wastewater system, and projected volumes and revenues generated from residents and businesses through the retail rate.

The 2024 Stormwater Management Financial Plan was approved by Council in November 2024 and outlines the long-term rate increases.

The Rate Budget Strategy will be to follow the principles of the approved 2024 Water and Wastewater Financial Plan (6% user rate increase) and to follow the principles of the approved 2024 Stormwater Management Financial Plan (50% user rate increase) to build up stormwater rate supported capital reserve fund and budget room to pay off future principal and interest on debt.

Relationship to Strategic Plan 2024-2027:

Presenting Budget Committee of the Whole the 2026 Budget strategy relates to Pillar 3, Strengthening our Foundations, specifically, Priority 1, Make decisions that are evidence based and data driven to enable the City's long term financial sustainability, as well as social, environmental and economic sustainability.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. All attachments have been reviewed and made accessible. If you require an alternative format please call the contact person listed in this document.

- Appendix A – 2026 Budget Process Timelines
- Appendix B – Financial Indicators
- Appendix C – 2026-2028 Financial Outlook

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Report Approval Details

Document Title:	SRCFS.25.017 - 2026 Capital and Operating Budget Strategy.docx
Attachments:	<ul style="list-style-type: none">- SRCFS.25.017 - Appendix A - 2026 Budget Process Timelines.pdf- SRCFS.25.017 Appendix B - Financial Indicators.pdf- SRCFS.25.017 Appendix C - 2025 Budget Three-Year Outlook 2026-2028.pdf
Final Approval Date:	Apr 22, 2025

This report and all of its attachments were approved and signed as outlined below:

Gigi Li - Apr 17, 2025 - 5:26 PM

Sherry Adams - Apr 18, 2025 - 1:40 PM

Darlene Joslin - Apr 22, 2025 - 7:52 AM