

Corporate Report

REPORT NUMBER 216-2025-Corporate Services-Finance

DATE

PREPARED June 4, 2025

FILE

MEETING DATE August 11, 2025

SUBJECT 2026 Budget Direction and Calendar

RECOMMENDATION

WITH RESPECT to Report 216-2025-Corporate Services-Finance, we recommend that Administration prepare the proposed 2026 Operating and Capital Budgets consistent with this report;

AND THAT the 2026 Tax-Supported Operating Budget include a Municipal Tax Levy increase of no more than 2.6% before growth, for those programs and services within the City's direct control;

AND THAT the City Manager provide communication to local and outside boards and agencies, encouraging each organization to prepare their 2026 budgets in line with the 2.6% target;

AND THAT the Tax-Supported Operating Budget include a provision for growth revenues to be budgeted in accordance with the Assessment Growth Policy;

AND THAT Administration prepare a 2-year Capital Budget spanning the 2026 and 2027 years;

AND THAT the 2026 Tax-Supported Capital Budget include a Municipal Tax Levy increase of no more than 2.6%;

AND THAT the 2027 Tax-Supported Capital Budget include a Municipal Tax Levy increase of no more than 2.1%;

AND THAT Administration will include a provision in the 2026/27 Tbaytel Dividend Policy to supplement the total Tax-Supported Capital Budget increase to 5% each year;

AND THAT the dates for Special Committee of the Whole meetings to deliberate the 2026 Capital and Operating Budgets for the City of Thunder Bay be approved in accordance with Table 1: 2026 Budget Calendar, contained in this Report;

AND THAT any necessary by-laws be presented to City Council for ratification.

LINK TO STRATEGIC PLAN

The 2026 Budget Direction Report reflects the strategic direction to plan and deliver cost-effective services, with a focus towards ensuring accountability of the City's financial resources.

The recommendations within this Report support a stable and predictable Municipal Tax Levy mandate which will improve the City's competitiveness in attracting and retaining businesses and community members.

EXECUTIVE SUMMARY

This report recommends that City Council direct the preparation of the proposed 2026 Operating and Capital Budgets, with a target Municipal Tax Levy increase of 2.6% before assessment growth for City services (excluding local and outside boards and agencies). This target is determined based on the four-year average of the Consumer Price Index (CPI), consistent with the approach used in 2025.

The report further recommends that City Council direct Administration to prepare a multi-year Capital Budget spanning the 2026 and 2027 fiscal years, with a target Municipal Tax Levy increase of 2.1% in 2027.

In addition, the report recommends that the 2026-2027 Tbaytel Dividend Policy be developed with a provision to supplement the Tax-Supported Capital Budget, increasing total capital investment increase to 5% annually.

This Report also identifies the recommended 2026 Budget Calendar and associated timelines, with the distribution of the proposed Capital budget to members of Council on November 14, 2025. Review of the 2026 and 2027 Capital Budgets by Committee of the Whole would commence on November 24, 2025, with budget ratification scheduled for December 2, 2025.

The Operating Budget documents would be distributed to members of Council on January 9, 2026. Review of the 2026 Operating Budget by Committee of the Whole would commence on January 26, 2026, with budget ratification scheduled for February 3, 2026.

DISCUSSION

The Municipal Tax Levy is the total amount that needs to be raised from property taxes to fund City services, including local and outside boards and agencies, and to contribute to capital infrastructure programs.

City Council has limited control over the tax-supported levy increases established by local and outside boards and agencies. Outside boards and agencies – The District of

Thunder Bay Social Services Administration Board (TBDSSAB), Thunder Bay District Health Unit (TBDHU), and Lakehead Region Conservation Authority (LRCA) – determine their budget requirements for the year and levy the City of Thunder Bay accordingly. The Thunder Bay Police Service also determines its budget requirements which are approved by its Board.

The approved 2025 Tax-Supported Operating Budget included a growth-adjusted Municipal Tax Levy of \$241,013,000 and \$1,693,400 in Assessment Growth broken down as follows:

City Services	\$122,990,200
Local and Outside Boards and Agencies	\$ 94,380,200
Capital infrastructure programs from Tax	<u>\$ 22,642,600</u>
Municipal Tax Levy	\$240,013,000
Tax Levy – Growth	<u>\$ 1,693,400</u>
Growth-Adjusted Municipal Tax Levy	\$241,706,400

Through the 2025 Long-Term Financial Plan Update presented to Committee of the Whole on January 28, 2025, the projected mandate for the 2026 Municipal Tax Levy increase was 2.6% excluding growth.

2026 Preliminary Budget Pressures

As the 2026 budget process commenced, the budget pressures for 2026 were updated to include current inflationary pressures, assumptions, and approved initiatives:

Wages and Benefits (Inflationary)	\$ 6.9 million
Materials and Services (Inflationary)	\$ 1.7 million
Previous Directed/Approved Initiatives	\$ 1.2 million
Net Increase to Debt Servicing	\$ 0.5 million
User Fee Increases	<u>(\$ 1.5 million)</u>
Total Budget Pressures (Within City Control)	\$10.8 million or 4.5%

2026 Municipal Tax Levy Mandate

The average Municipal Tax Levy increase over the past 10 years has been 3.5% before growth compared to the average annual Consumer Price Index (CPI) of 2.6%. The average taxable assessment growth over that same period has been 0.6%.

Although the goods and services that a municipality consumes are not the same as the basket represented by the CPI, the residents and businesses of the City are directly impacted by these inflationary pressures. Municipal Tax Levy increases that consistently outpace the CPI, without the benefit of substantial growth, are not financially sustainable in the long-term.

The Growth pillar of the City's Strategic Plan speaks to attracting and retaining diverse businesses and community members. A stable and predictable Municipal Tax Levy can be a competitive advantage for the City as it seeks to drive responsible growth moving forward.

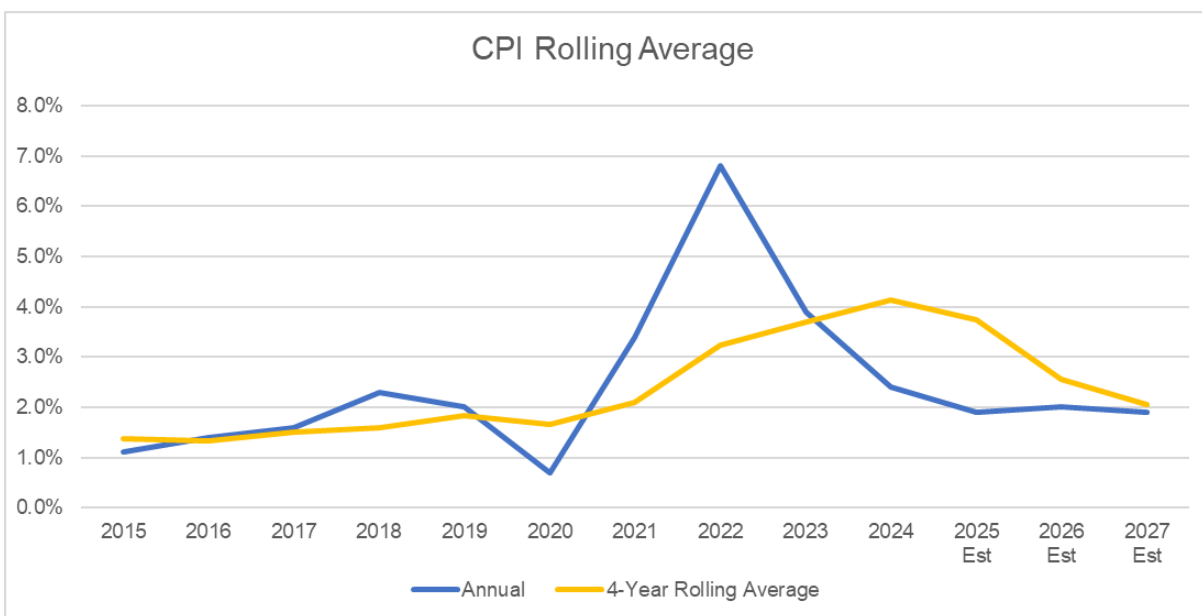
A Municipal Tax Levy mandate limited by inflation is a fair benchmark to balance inflationary impacts and affordability for taxpayers. The chart below tracks the annual and 4-year rolling average CPI since 2015. To maximize stability from year to year, a rolling 4-year average of CPI (Canada) is used, including the forecasted budget year CPI and the 3 prior year actual/estimates.

- 2023 CPI 3.89%
- 2024 CPI 2.40%
- 2025 CPI 1.90% (projected)
- 2026 CPI 2.00% (projected)
- 2027 CPI 1.90% (projected)

Projections are from the Bank of Canada Monetary Policy Report July 2025.

As of this Report date, the projected 2025 CPI is 1.9%, and the forecasted 2026 and 2027 CPI are 2.0% and 1.9% respectively.

Figure 1 - Comparison of CPI Rolling Average



Employing a 4-year average CPI for the 2026 budget year, Administration is recommending the 2026 Municipal Tax Levy mandate be set at no more than 2.6%, before growth, for those programs and services within the City's direct control. This rate will also serve as the target increase user fees for 2026.

With a CPI forecast of 1.9% in 2027, the preliminary target for the 2027 budget year would be an increase of 2.1%.

To achieve a 2026 tax-supported levy increase target of 2.6%, considering the budget pressures listed above, Administration continues to develop cost mitigation strategies. The intent of these strategies are to limit service disruption and ensure the City remains financially sustainable. This work will continue over the next several months and the impacts will be incorporated into the proposed budget. The 2026 Proposed Operating and Capital Budget Reports will highlight any significant changes to service levels necessary to achieve the target.

Assessment growth revenues for 2026 will be confirmed towards the end of the year. For preliminary planning purposes, Administration is anticipating 0.6% assessment growth which is consistent with the 10-year historical average. In accordance with the Assessment Growth Policy (05-02-06), the assessment growth will be added to the Municipal Tax Levy and proposed investments will be presented to City Council during budget deliberations.

2026-2027 Capital Budget

The Capital Budget will be developed in accordance with Council-approved plans and strategic priorities. The annual capital plan is funded through a combination of tax and rate revenues, reserves and reserve funds, grants, and debt.

To strengthen long-term planning and enhance financial transparency, Administration is proposing a 2-year capital budget. This approach aligns capital investment planning with asset management priorities and provides greater predictability for project delivery, funding requirements, and resource allocation.

This approach is permitted under the Municipal Act, 2001; however, the budget must be formally reaffirmed by City Council each year. Multi-year budgeting has been adopted by many municipalities across Ontario with Budget Policies that include clear parameters for when a subsequent year(s) budget may be amended during the multi-year period. The City's Budget Policy is set for review and update through the Long-Term Financial Plan process. An update, specific to multi-year budgeting, would enable City Council to approve amendments in the second year of a 2-year budget, under the following conditions:

- New or amended legislation or regulation that has a financial impact on the municipality.
- New Council direction that was not anticipated in the original budget.
- Significant changes to cost or revenue assumptions, such as inflation, funding shortfalls, or unforeseen pressures.
- Administrative adjustments that do not change the net budget but are required to support project delivery.

For the 2026 and 2027 Capital Budgets, Administration recommends the following:

- Index tax-supported capital funding increases to the 4-year rolling average of the CPI:
 - 2026 Mandate 2.6%
 - 2027 Mandate 2.1%
- Supplement the total Tax-Supported Capital Budget increase to 5% each year using the Tbaytel Dividend. City Council will be presented with the Tbaytel Dividend Policy for the 2026/27 period later this year. Administration is recommending that a portion of the Tbaytel dividend be allocated directly to capital rather than operations. This change would support efforts to close the City's capital infrastructure gap.
- The capital budget will be at least 80% capital renewal and a maximum of 20% for new capital. This disciplined approach will support the City's efforts to reduce the infrastructure deficit.
- Maintain the current level of annual debenture (\$7,648,600).

Rate-Supported Operations

The 2026 Rate-Supported Operating Budgets for Waterworks, Wastewater (Sewer), Solid Waste (Landfill Operations), Prince Arthur's Landing Boater Services, and Parking will be developed in accordance with the Council-approved Financial and Capital Plans.

Outside Boards and Agencies

City Council has limited control over the tax-supported budgets established by local and outside boards and agencies. Generally, these budgets are approved by the respective Boards in November and December and provided to Administration for inclusion in the City's Budget.

Administration recommends City Council direct the City Manager to send each of these organizations a letter, encouraging them to prepare their 2026 budgets in line with the 2.6% target provided in this report.

Any increases from local and outside boards and agencies, beyond the 2.6% target, would incrementally increase the total 2026 Municipal Tax Levy.

Proposed Budget Calendar

The recommended timelines for Council review of the 2026 Budget are provided in Table 1 below. The proposed timelines are consistent with the prior year approved schedule.

Table 1: 2026 Proposed Budget Calendar

Council Budget Review Process	2026 Proposed
Draft Capital Budget packages submitted to Budget Office	August 1, 2025
Final Capital Budget packages submitted to Budget Office	September 26, 2025
Draft Operating Budget packages submitted to Budget Office	September 26, 2025
Final Operating Budget packages and User Fee Schedules submitted to Budget Office	November 7, 2025
Capital Budget package delivered to City Council	November 14, 2025
Capital Budget package posted to City website	November 18, 2025
Community Engagement – Capital Budget Survey	November 18-25, 2025
Council Capital Budget Special Committee of the Whole Review	November 24, 2025
Capital Budget Ratification by City Council	December 2, 2025
Operating Budget package delivered to City Council	January 9, 2026
Operating Budget package posted to City website	January 16, 2026
Community Engagement – Operating Budget Survey	January 16-29, 2026
Long Term Financial Plan Update presentation – Special Committee of the Whole	January 22, 2026
Special Committee of the Whole Budget Review	January 26, 2026 January 28, 2026
Ratification by City Council	February 3, 2026
Tax Policy Corporate Report	May 2026

A significant amount of administrative effort goes into the budget process. The Executive Leadership Team (ELT) reviews all departmental budget submissions for inclusion in the final Capital and Operating Budget package. This process includes the review of budget submissions from city boards and agencies as well (Community Economic Development Commission, Thunder Bay Public Library, Thunder Bay Police Service, etc.)

The Long-Term Financial Plan Update presentation will launch Council's operating budget review cycle with a Special Committee of the Whole meeting proposed for January 22, 2026. This overview provides information about the City's proposed budget and the economic and fiscal environment, including significant future challenges and opportunities facing the City of Thunder Bay.

A Special Committee of the Whole meeting to review the proposed Capital Budget is proposed for November 24, 2025. Administration will be available to respond to questions related to the proposed Capital Budget. Based on the proposed schedule, ratification of the Capital Budget is scheduled for December 2, 2025

Special Committee of the Whole meetings to review the Operating Budget are proposed for January 26 and 28, 2026. Agendas will be provided for these meetings, and Administration will be available to respond to questions related to the proposed Operating Budget. Based on the proposed schedule, budget ratification is scheduled for February 3, 2026.

Strong Mayor Powers

Amendments were made to the Municipal Act, 2001 (Part VI.1) ("strong mayor powers") that grant new powers and duties to mayors of designated municipalities. On October 31, 2023, the City of Thunder Bay was added to the list of designated municipalities in Ontario Regulation 530/22 which grants powers and duties to the Mayor, in addition to their role as head of council and chief executive officer.

With respect to the annual budget, as a strong mayor municipality, the Mayor has the duty to present the proposed City Budget no later than February 1st to City Council. If the Mayor does not present a proposed budget, the duty would revert back to City Council. Mayor Boshcoff has indicated to Administration his intention not to exercise this power with respect to the 2026 Budget and has advised that he plans to provide a corresponding directive to the City Manager and City Treasurer following approval of the budget direction.

CONSULTATION AND COMMUNITY ENGAGEMENT

Open and effective community engagement supports accountability and transparency in the budget process. The proposed 2026 Capital and Operating Budgets would be available to the Public on the City of Thunder Bay website as of November 21, 2025,

and January 16, 2026, respectively. Printed copies of the Budget will also be made available for viewing at City Hall.

Last year, community consultation on the Budget included a public survey conducted prior to budget deliberations and an informal open-house style question and answer (Q&A) sessions for Council, Administration and members of the Public.

In recent years the budget team conducted Pre-Budget Consultation Surveys distributed through the City's Get Involved site, as well as through paper copies. These surveys have been self directed and voluntary, and provided residents with an opportunity to share their perspectives in advance of budget deliberations.

Although the survey is not necessarily a representative sample, survey questions about the clarity of the process and public understanding of the budget process are an important metric that Administration can use going forward to gauge how changes to public consultation and the budget presentation impacts public opinion.

For the upcoming 2026 budget process, Administration plans to gather community input on the proposed budget through budget surveys, similar to prior years. In-person consultation would take place on an ongoing basis through events such as Thunder Bay Talks. The goal is to allow for public engagement in the budget process by providing an opportunity for residents to learn more about municipal budget development while reinforcing transparency and accountability.

These initiatives are part of Administration's ongoing commitment to improving community engagement and ensuring residents have opportunities to participate meaningfully in the City's financial planning.

FINANCIAL IMPLICATION

There are no direct financial implications associated with this report. Budget directions provide Administration the parameters within which to prepare and deliver the Operating and Capital Budgets. The proposed 2026 Operating and 2026 and 2027 Capital Budgets are subject to City Council approval.

Achieving a Municipal Tax Levy increase of 2.6% in an environment with budget pressures of 4.5% will be challenging. It will require innovative approaches to realize efficiencies, consideration of modest adjustments to service levels, and potential delays for new initiatives.

Although the task will be difficult, fiscal prudence is warranted, and limiting future tax increases is appropriate to maintain affordability for existing residents and businesses, and to attract new growth opportunities in the community.

CONCLUSION

It is concluded that City Council should direct Administration to prepare the proposed 2026 Operating and Capital Budgets consistent with this report.

It is further concluded that the proposed 2026 tax-supported operating budget should target a Municipal Tax Levy increase of 2.6% in 2026 for the portion of the budget City Council has direct control over.

It is further concluded that Administration should prepare a two-year Capital Budget for 2026 and 2027, and that Municipal Tax Levy increases for those years do not exceed 2.6% and 2.1% respectively, with additional capital funding provided through the Tbaytel Dividend Policy.

It is further concluded that the proposed 2026 Budget Calendar (Table 1) should be approved.

BACKGROUND

In the fall of 2011, Administration provided City Council with budget preparation targets for Municipal Tax Levy increases for fiscal years from 2012 through 2014 (Report No. 2011.151 (Accounting & Budgets)). Administration has continued to seek guidance from City Council on budget preparation targets every year with the exception of municipal election years.

REFERENCE MATERIAL ATTACHED

None.

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REPORT SIGNED AND VERIFIED BY

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08/05/2025 (MM/DD/YEAR)