Staff Report

Report To: Corporate Services Committee

Report From: Kate Allan, Director of Corporate Services

Meeting Date: September 10, 2026

Report Code: CR-26-078

Subject: 2026 T2 Financial Update

Recommendations:

THAT in consideration of Staff Report CR-26-078 respecting 2026 T2 Financial Update, the Corporate Services Committee recommends that City Council receive the report for information purposes.

Highlights:

- The City is currently forecasting a **modest year-end deficit**, with weather-related costs, aging infrastructure and legal expenditures partially offset by strong tax-related revenues, facility bookings, transit performance and staffing gapping.
- The 2026 results highlight several longer-term financial pressures, particularly increasing maintenance requirements for aging assets, continued exposure to weather variability, and the operational impacts of staffing vacancies.

Vision 2050 - Strategic Plan Alignment:

Strategic Plan Priority: The recommendation contributes to core service delivery or a corporate initiative that enables service delivery for one or more strategic priorities.

Previous Report/Authority:

Report CR-26-043 Re: 2026 T1 Financial Update

Background:

The City of Owen Sound operates on a calendar year budget cycle. This report summarizes the City's financial position for the first eight months of the fiscal year (January to August 2025) and provides a forecast through year-end.

Forecasting methodology remains consistent:

- Year-to-date actuals are compared to budget.
- Year-end projections for September to December are developed using prior-year trends and known adjustments.

This update excludes financial information from the Owen Sound Police Board and the Union Public Library. Updates from both organizations will continue to be reported to Council through their respective governance structures.

Analysis and Options:

With approximately two-thirds of the fiscal year complete, the City's financial results provide a more reliable indication of the likely year-end position than was available at T1. At this time, the City is forecasting a modest deficit; however, the variance is not considered significant relative to the overall operating budget and may change as the final four months of the year are realized.

Unlike 2025, there are no significant one-time revenues, such as the WSIB surplus rebate, materially influencing the forecast. The variances identified to date are primarily associated with normal municipal operations, weather, staffing, asset maintenance and service demand.

Taxation and Revenue

Taxation and tax-related accounts are currently forecast to generate a positive variance of approximately **$200,000**, primarily from supplemental taxation and penalty and interest revenue.

Higher supplemental taxation is generally a positive indicator of assessment growth being added to the tax roll. Penalty and interest revenue, however, requires a different interpretation. While it contributes positively to the City's financial position, higher penalty and interest revenue can also indicate that taxpayers are taking longer to meet their property tax obligations. Staff will continue to monitor tax receivables and collection trends as indicators of the financial health and capacity of the City's tax base.

Other revenue areas are also performing well. Facility booking revenues are forecast to be approximately **$200,000**, or 20%, above budget, reflecting continued strong utilization of City facilities. Building activity also remains healthy, and the Building Division is expected to fully fund its operations, resulting in an estimated positive variance of approximately **$75,000**.

Transit is similarly tracking favourably. Fare and pass revenues are exceeding expectations while contracted operating costs remain generally aligned with budget. This is a particularly favourable variance because it is being driven by service revenue rather than expenditure deferral or a one-time funding source.

Weather-Related Operating Pressures

Weather continues to be one of the most significant variables affecting the City's operating results.

Following a second consecutive heavy winter, winter control is currently forecast to be approximately **$500,000** over budget. Although this represents a significant variance, winter control costs fluctuate considerably from year to year. Recent experience has been above the City's longer-term average, and it would not be prudent to assume that two consecutive difficult winters represent the new baseline without considering a longer period of experience.

The very wet spring has also affected operations beyond winter control. Parks experienced additional maintenance requirements, while increased precipitation and runoff contributed to higher leachate volumes at the landfill and corresponding treatment costs.

These variances demonstrate the City's financial exposure to weather. A difficult winter or unusually wet spring affects more than one operating account and can simultaneously increase costs across roads, parks, facilities and waste management while affecting revenues from weather-dependent services. Maintaining sufficient financial flexibility remains important because the timing and severity of these pressures cannot be predicted through the annual budget process.

Facilities and Asset Maintenance

Facility costs are currently slightly above budget, with the most significant variance relating to the Police Station, where maintenance expenditures are approximately **$100,000** over budget. This includes mould remediation and improvements to windows and HVAC systems undertaken following an indoor air quality assessment to reduce the risk of future contamination.

While these expenditures are considered largely one-time in nature, the underlying issue is not. The Police Station is an aging municipal asset, and increasing maintenance requirements should be expected as building systems age. Similar pressures exist across portions of the City's facility portfolio.

This trend is also visible when expenditures are considered by object code. Approximately $300,000 of the City's $360,000 annual building repair budget has already been spent with four months remaining in the fiscal year.

Historically, building maintenance has been an area where available operating funding has not always kept pace with the maintenance requirements of the City's assets. As future budgets are developed, there may be value in considering whether additional resources should be directed toward planned and preventative maintenance within operating budgets, rather than relying predominantly on eventual capital replacement. Appropriate preventative maintenance can extend asset life, reduce emergency repairs and, in some circumstances, defer larger capital expenditures.

Traffic signal maintenance is experiencing a similar, although smaller, pressure, currently estimated at approximately **$50,000** over budget.

Staffing and Labour Relations

Temporary vacancies continue to generate financial savings across the organization. Gapping savings are currently forecast at approximately **$284,000**.

As noted in previous financial updates, gapping is not an entirely positive variance. Vacancies reduce salary expenditures, but they also reduce organizational capacity. The financial savings therefore need to be considered alongside impacts on workload, project delivery, service levels and the ability of remaining staff to absorb additional responsibilities.

The 2026 results also incorporate the outcome of the Fire interest arbitration process, which resolved outstanding wage matters dating back to 2018. The City had accrued funding in prior years for the anticipated retroactive wage settlement, and those accruals were sufficient to fund the retroactive payments.

The final 2026 wage rates established through arbitration were, however, slightly higher than the amounts incorporated into the 2026 budget. Fire operations are therefore currently expected to be approximately **$100,000** over budget as a result of the wage adjustment. Given the length of time during which final wage rates were unknown, this variance is considered manageable and is substantially different from an unplanned operating overrun.

Corporate and Other Expenditure Trends

A review of expenditures by object code provides additional context regarding emerging pressures.

Legal expenditures are currently a notable area of concern. Against an annual City-wide budget of approximately $200,000, approximately **$240,000** has already been spent. Planning-related legal support accounts for approximately $70,000 of the pressure, with additional costs associated with Police matters and insurance claims finalized during the year. Legal expenditures can be difficult to forecast because individual matters can develop quickly and may extend across fiscal years.

Insurance expenditures are generally tracking as anticipated for 2026. However, the City's longer-term financial plan assumes that insurance reserves will be required to supplement future operating budgets where annual premiums exceed the amount funded through the tax levy. This remains an area requiring ongoing monitoring.

Training expenditures are approximately 75% spent at the two-thirds point of the year. While this will continue to be monitored, the timing of training and professional development is not necessarily distributed evenly throughout the year and does not, on its own, indicate a material year-end pressure.

Fleet expenditures are currently tracking generally in line with budget.

Overall Financial Position

Taken together, the City is currently forecasting a **modest year-end deficit**. No single variance is driving the overall position. Instead, the forecast reflects the cumulative effect of weather-related costs, facility and infrastructure maintenance, legal expenditures and the final Fire wage settlement, partially offset by stronger taxation-related revenues, facility bookings, transit performance, building activity and staffing gapping.

Importantly, the 2026 forecast does not currently contain an unusual one-time positive variance comparable to the WSIB rebate received in 2025. The current position therefore provides a relatively clear view of the underlying push and pull within the City's operating budget.

With four months remaining, the forecast should still be treated with some caution. The final result will be influenced by the timing of expenditures and revenues as well as weather conditions through the remainder of the year, particularly the beginning of the 2026/2027 winter season.

Staff will continue to monitor these accounts and other emerging pressures. At this stage, the projected deficit is not considered significant; however, the trends related to weather exposure, aging facilities, legal costs and organizational capacity provide useful information beyond the year-end variance itself and should inform future operating budgets and longer-term financial planning.

The Owen Sound Police Service financial position is not incorporated into the City's forecast presented above. Police financial results are reported to Council through the Police Services Board's respective meeting minutes. Current information indicates that Police Services may be trending toward a deficit; however, Council should rely on the Board's formal financial reporting for its year-end forecast.

Resource Alignment:

Financial Resources

There is currently a modest deficit forecasted at year end. In the event that the deficit persists it will be funded through the tax stabilization reserve per the reserve and reserve fund policy. All reserve transfers are approved by Council as part of the year end reporting process.

Human Resources

N/A.

Time and Scheduling

N/A.

Technology and Infrastructure

N/A.

Climate and Environmental Impacts:

There are no anticipated climate or environmental impacts.

Communication and Engagement:

This report has been posted to the City’s website with the agenda in advance of the meeting. Historic financial statements are available on the City’s website.

A final year end report will be provided in the first term of the new year.

Report Developed in Consultation With:

City staff and department heads.

Attachments:

None.

Reviewed by:
Kate Allan, Director of Corporate Services

Submission approved by:
Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan, Director of Corporate Services at kallan@owensound.ca or 519-376-4440 x 1238.