



Council Report

Report Number: CORP2026-022
Meeting Date: April 21, 2026
Title: 2025 Financial Year End Position
Description: To provide 2025 Year End Position to Council and to seek deficit disposition approval
Author and Title: Jessica Hood, Supervisor Budget and Financial Planning

Recommendation(s):

That Report CORP2026-022, **2025 Financial Year End Position**, be received;

That the 2025 Transit Area Rate deficit of \$605,207.32 be levied on the 2026 final tax bills;

That the 2025 Ontario Provincial Police area rate deficit of \$921,295.36 be levied on the 2026 final tax bills; and

That the 2025 General Operating Deficit of \$16,894,051.70 be financed as follows:

Reserve	GL Account	Amount
Asset Management Reserve - Uncommitted	1.32045 A412430	142,000.00
Fleet Reserve - Public Works	1.32070 A331184	95,029.28
Fleet Reserve - Fire	1.32070 A33193	144,670.37
Fleet Reserve Expansionary Capital	1.32070 A415260	250,000.00
Capital Contingency Reserve - Haul Routes	1.32248 A331185	482,298.23
Capital Contingency Reserve - 68 LSN	1.32248 A354025	14,738.00

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Capital Contingency Reserve - Forestry and Trail	1.32248 A408086	352,773.54
Capital Contingency Reserve - Uncommitted	1.32248 A412430	3,825,990.33
Property Development Reserve - Agricultural Land Lease	1.32035 A407713	139,968.21
City Heritage Reserve - Heritage Victoria	1.32275 A408091	8,930.44
City Heritage Reserve - Anne Langton	1.32275 A408092	1,428.69
City Heritage Reserve - Somerville Heritage	1.32275 A409067	8,539.63
Short Term Rental Reserve	1.32282	130,674.00
General Tax Rate Stabilization - Economic Development	1.32285 A331182	247,295.25
General Tax Rate Stabilization - Public Works	1.32285 A331184	2,131,473.12
General Tax Rate Stabilization - Social Services Programs	1.32285 A408080	37,833.45
General Tax Rate Stabilization - Human Services	1.32285 A408081	1,989,197.16
General Tax Rate Stabilization - Uncommitted	1.32285 A412430	4,388,032.65
Special Projects Reserve - Uncommitted	1.32296 A412430	325,773.10
General Contingency Reserve - Planning	1.32090 A331192	176,134.50
General Contingency Reserve - Local Economic Development	1.32090 A410997	136,096.03
General Contingency Reserve - Uncommitted	1.32090 A412430	1,815,576.97
Bobcaygeon H Wilkinson Library	3.24055	1,650.25
Subdivider for Water - Emily	3.2407	13,454.71
Woodville M. Cronin Estate	3.2409	232.04
Grand Island Reserve - Fenelon Township	3.24095	34,261.75

Total Reserve Transfers		\$16,894,051.70
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Background:

The purpose of this 2025 year-end report is to provide the City’s operating results for the year ended December 31, 2025. The Operating Budget is predominantly financed through property tax revenue and user fees (approximately 60 percent), which are used to support City service delivery.

The Operating Budget is segregated into the General and Area Rated Services. Area Rated Services relate to Transit, Kawartha Lakes Police Service (KLPS) and Ontario Provincial Police (OPP).

Water and Wastewater fees collected from residents and businesses support the operation, maintenance and repair of the water and wastewater systems; these financial results are included in the Water & Wastewater Fund.

Kawartha Lakes Haliburton Housing Corporation is also included in this surplus disposition report.

Throughout 2025, the Canadian economy experienced inflation, with a mid-year rate of 1.7 percent. By year end, inflation rose to 2.5 percent, (representing a 0.6 percent point increase compared to December 2024 of 1.8 percent).

The Bank of Canada held its policy interest rate during 2025 at 2.25%, as part of ongoing efforts to maintain price stability and keep inflation close to the 2 percent target.

The City’s 2025 year-end deficit of \$18.4 Million represents approximately seven percent on the gross 2025 budget of approximately \$271 Million. This report explains the variances and pressures on the 2025 year, which was impacted by unforeseen extreme weather events, the rise in inflation, and the global economy.

At the regular Council meeting of March 24, 2026, Council approved the following policy regarding annual surplus deficit dispositions:

CW2026-036

That Report CORP2026-001, **Budget and Surplus/Deficit Disposition Policy**, be received;

That Council Policies CP2021-014 – Budget Policy, CP2023-003 – Capital and Special Projects Policy, and CP2024-009 – Operating Surplus Disposition Policy be rescinded;

That the Budget and Surplus/Deficit Disposition Policy as outlined in Appendix A to report CORP2026-001 be adopted, numbered and inserted into the Corporate Policy Manual.

That any future operating surpluses for the Kawartha Lakes Haliburton Housing Corporation be administered as per section 3.12 of the Budget and Surplus/Deficit Disposition Policy; and

That this recommendation be brought forward to Council for consideration at the next Regular Council Meeting.

At the Audit Committee meeting held on March 30, 2026 staff reported the 2025 budget pressures and the deficit strategy. Direction was provided by the Committee for staff to report to Council at the Committee of the Whole on April 7, 2026.

At the April 7, 2026 Committee of the Whole meeting, Council was presented with the 2025 financial results and pressures. A copy of this presentation is attached to this report as Appendix E.

Included in that April 7, 2026, presentation was a table summing the 2025 Financial Pressures:

2025 Pressures	Amount (in Millions)
Ice Storm	\$2.2
Roads Operations – Winter Control netted with Summer surplus activity	\$5.5
Interest Income shortfall	\$1.1
Forest Fires and other fire pressures	\$2.0
Shortfall in Supplemental taxes – market and tariffs	\$1.1
CUPE market adjustment accrual	\$3.5
Contracted snow plowing – parking lots	\$1.4
Area Rate Deficits:	
Transit	\$0.6
OPP	\$0.9
2025 preliminary deficit – March 30, 2026	\$18.3

This report seeks Council approval of the staff recommended 2025 deficit financing in accordance with City policy and further explains the 2025 Budget to Actual variances.

Rationale:

Annually, the budget process produces an operating budget that provides residents and businesses with quality levels of service through the effective and efficient use of resources. The budget is a static plan and over the course of the year, circumstances arise that amend the expected course of action thereby creating budget variances.

The City’s year end position is allocated between the General and Area Rated Taxation components:

Taxation type	Amount
General	\$16,894,052
Area Rated	\$1,554,864
Total 2025 Unaudited Deficit	\$18,448,916

General Rated Tax Deficit

The City incurred a gross General Rate Deficit of \$17,306,322 in 2025.

This was reduced by the following transfers to/(from) reserves according to CORP2026-001 Operating Surplus Disposition Policy.

Transfer to Reserve	Policy Section	Amount
Building Code Act	3.1	(\$614,342)
Fleet Reserve - Paramedics		\$23,332
Fenelon Falls Powerlink Reserve	3.6	\$159,864
Norland Dam Reserve	3.7	\$9,501
Public Art	3.10	\$9,375
Total policy directed transfers		(\$412,270)

After these policy-directed reserve transfers, the 2025 net general tax deficit remaining is \$16,894,052. Staff recommend financing this deficit from reserves after thorough evaluation of available funding sources. These reserve recommendations are included on the first and second pages of this report, and in Appendix D.

Please see Appendix A for a summary of the 2025 budget vs actual variance.

Corporate Items (\$3.7M deficit)

Supplemental Taxes

Supplemental tax revenue was included in the 2025 budget to reflect growth as per the Growth Management Strategy. However, due to prevailing economic conditions, the City did not realize the anticipated level of Municipal Property Assessment growth, resulting in a \$1.1 Million shortfall in supplemental tax revenue for 2025.

Investment Income

In 2025, the City experienced a significant weather event resulting from the March Ice Storm. The storm caused extensive damage and led to substantial cleanup costs that utilized the City's cash flow of approximately \$28 Million. The City has also interim cash flowed some major projects, such as, the Summit Wellness Centre of approximately \$16.5 Million.

Consequently, this resulted in an approximate loss of \$1.1 Million in investment income.

To note, in 2026, although the Provincial government is providing considerable financial support for the ice storm, the City has received approximately \$9 Million to the time of writing this report, with the remaining \$16.6 Million yet to be received from the total grant confirmed of \$25.6 Million.

Ice Storm

In response to the 2025 Ice Storm, the City incurred significant costs related to cleanup and recovery efforts, totaling over \$28 Million. Through the Municipal Ice Storm Assistance (MISA) program, the City received \$25.6 Million in provincial funding, resulting in a net cost of \$2,207,543 to be borne by the municipality.

General

Wages

The City incurred additional wage-related costs due to unforeseen events throughout 2025. Overall, the City's wages were approximately \$5.6 Million overbudget.

These wage-related overruns are reflected in the variance analyses of the individual departments outlined below.

Of the total wage-related deficit, \$3.5 Million is attributable to the City's commitment to conduct a market review and compensation adjustment for CUPE 855. The City had set aside just over \$750,000 in a reserve to offset this increase and it has been applied in this year end, for a net impact of approximately \$2.75M. This market evaluation is expected to be complete by mid-2026.

The remaining wage-related deficit is a result of increased overtime costs primarily in Public Works and Fire Services to the amount of \$800K. These increases were primarily related to winter storm response and the August 2025 Forest fire response.

Beyond market rate adjustments and overtime, the salary-related deficit is approximately \$2.1 Million. No single department is responsible for the wage overrun; rather, all departments experienced wage-related pressures. These impacts were driven by a combination of factors including:

- employee backfill requirements,
- positions added during the year (post budget adoption), and
- the need to address anomalies in the original budget assumptions

Contracted Snowplowing

With an increase in weather events combined with an unforeseen increase in contract pricing, this increased the cost of contracted snowplowing services throughout the year. The City utilizes contractors to provide winter maintenance for parking lots and walkways at various facilities. As a result, the deficit related to contracted snowplowing in 2025 was \$1.8 Million. This accounts for a component of the deficit in both Community Services and the Fire departments.

Corporate Services (\$1.6 Million deficit)

In 2025, cell phone charges were centralized under Information Technology (IT) rather than being allocated across the operating segments that utilize these services. As a result of this modernization initiative, the IT budget absorbed an additional approximate \$250,000 in unbudgeted costs. This improves monitoring of devices and allows for efficiencies in plan pricing of cell phones. Several factors contributed to increased costs across Corporate Services in 2025, including:

- Additional labour costs associated with staff working directly on the CUPE 855 market adjustment project and for modernization initiatives to inform business efficiencies
- WSIB costs were overbudget in People's Services by \$200,000. However corporately, the overall net decrease was \$114,000 as other operating segments experienced WSIB related surpluses
- Increase in costs that are difficult to predict at budget preparation time such as retiree benefits. This represented a \$150,000 increase to that of the budget.
- Multiple postal disruptions that required Corporate Services to pivot the delivery of tax billings to residents, leading to additional costs
- Increased cyber security IT contracted costs

Public Works

Winter Control

Throughout 2025, the City experienced significant winter events compared to prior years. Increased weather events, coupled with a salt shortage that drove up prices, resulted in a Roads Operations deficit of \$5.5 Million.

To mitigate winter control cost fluctuations, the City has an established reserve of \$2.1 Million as of December 31, 2025. To offset the Roads Operations deficit, the reserve will be fully utilized. Moving forward, the City will prioritize rebuilding the general tax stabilization reserve, to provide for financial stability regarding weather event fluctuations can have on operations.

Fleet (\$1.1 Million deficit)

As a result of challenges filling staffing positions throughout the year, the Fleet division incurred increased contracted service costs to ensure vehicles were properly maintained.

Forest Fires

During the summer months of 2025, the City responded to two significant forest fire events. These events resulted in unforeseen costs of approximately \$700,000, predominantly driven by volunteer firefighter wages, cost-recovery for support provided by the Ministry of Natural Resources, and equipment repairs and maintenance.

Area Rated Deficit

Table A:

Area Rate	Initial Surplus (Deficit)	Transfer (to) from Reserve	Remaining Operating Surplus (Deficit)
Ontario Provincial Police (OPP)	(\$942,750)	\$0	(\$942,750)
Kawartha Lakes Police (KLPS)	\$124,435	(\$124,435)	\$0
Transit	(\$636,212)	\$24,098	(\$612,114)
Total	(\$1,454,527)	(\$100,337)	(\$1,554,864)

The calculation of Area Rate surplus/(deficit) includes the tax levy raised, as well as Supplementary taxes and write offs incurred in year.

The Ontario Provincial Police provide the City with an annual billing statement that reflects the budget for the upcoming year and includes a reconciliation of costs from the prior year. The statement received in late 2025 included both the 2026 budget year and the 2024 reconciliation adjustment of \$776,719, which contributed to the overall deficit in this area for the year ended 2025.

The primary driver of the 2025 Transit deficit was increased wage (\$179,000) and equipment costs (\$200,000) associated with expanded service routes, with revenue not increasing proportionately. For 2026, the Transit budget has been right sized to reflect these service level changes.

As of December 31, 2025, the Area Rated Reserve balances are as follows:

- OPP \$503,629
- KLPS \$281,298
- Transit \$ 0

While the OPP Area Rate Reserve maintains a year-end balance, staff recommend preserving this balance and funding the deficit through a Special Area Levy. In recent years, OPP costs have been increasing and are anticipated to continue.

The City's calculated billing for 2026 indicated a 26% increase over 2025; however, the Province has capped the allowable increase at 11%. As a result, the City is expected to continue experiencing OPP-related financial pressures until the cap is lifted, reinforcing the rationale for preserving the reserve balance.

Water and Wastewater Surplus

The Water Wastewater (WWW) Operations had a surplus of \$528,754 in 2025. In accordance with CORP2026-001, this surplus was transferred to the Water and Sewer Rate Stabilization Reserve, resulting in a year-end balance of \$1,411,704 following the 2025 adjustment.

The surplus position is attributed to the following key factors:

- Water and Sewer user fee revenue exceeded budget by approximately \$648,000, reflecting higher consumption levels and/or new system connections in 2025
- Revenue surplus of \$489,000 was generated from the newly implemented Extra Strength Surcharge
- Contracted services along with salaries, wages and benefits, and debt principal and interest expenses, were collectively approximately \$608,000 over budget.
- All other expenditures were in line with budget expectations.

The WWW financial summary is included in Appendix B.

Kawartha Lakes Haliburton Housing Corporation (KLHHC)

KLHHC ended the 2025 year with a surplus of \$609,775. This was primarily the result of the delay in the Hamilton Street debenture until December 2025 due to the capital building project not being formally closed by the KLHHC Board until the summer of 2025. Late expenses were still occurring after the official completion date in 2024. The 2025 budget included estimates for this debenture occurring at the beginning of 2025 and this delay in debenture proceeds resulted in savings in debenture principal and interest payments of \$330,000.

In 2025 the Hamilton Street building was fully occupied, and Murray Street was nearing completion in Quarter three. Overall, the rental revenue earned on KLHHC building stock was over-achieved by approximately \$250,000.

In 2025 the City of Kawartha Lakes (City) initiated a reserve strategy that includes a corporate wide lens and the setting of optimum reserve balances. In 2001 Council approved KLHHC maintaining the annual operating surplus in a KLHHC reserve, with the understanding that deficits would be funded by this reserve as well.

As per the current reserve strategy, the optimum balance of the KLHHC Operating Surplus Reserve has been calculated to be \$441,000. The current balance in this reserve is \$479,531 on December 31, 2025, which exceeds the optimum balance. Therefore, staff recommend that the KLHHC Operating Surplus be returned to the City (\$371,467) and to the County of Haliburton (\$238,308). This change in City Policy will be provided to the KLHHC Board in May 2026 for information.

The City and County of Haliburton will support the KLHHC Operating Surplus reserve in the event the balance falls below the optimum level. This methodology was approved in the City's Budget and Disposition Policy (CORP2026-001). The resolution approved by Council included the following wording:

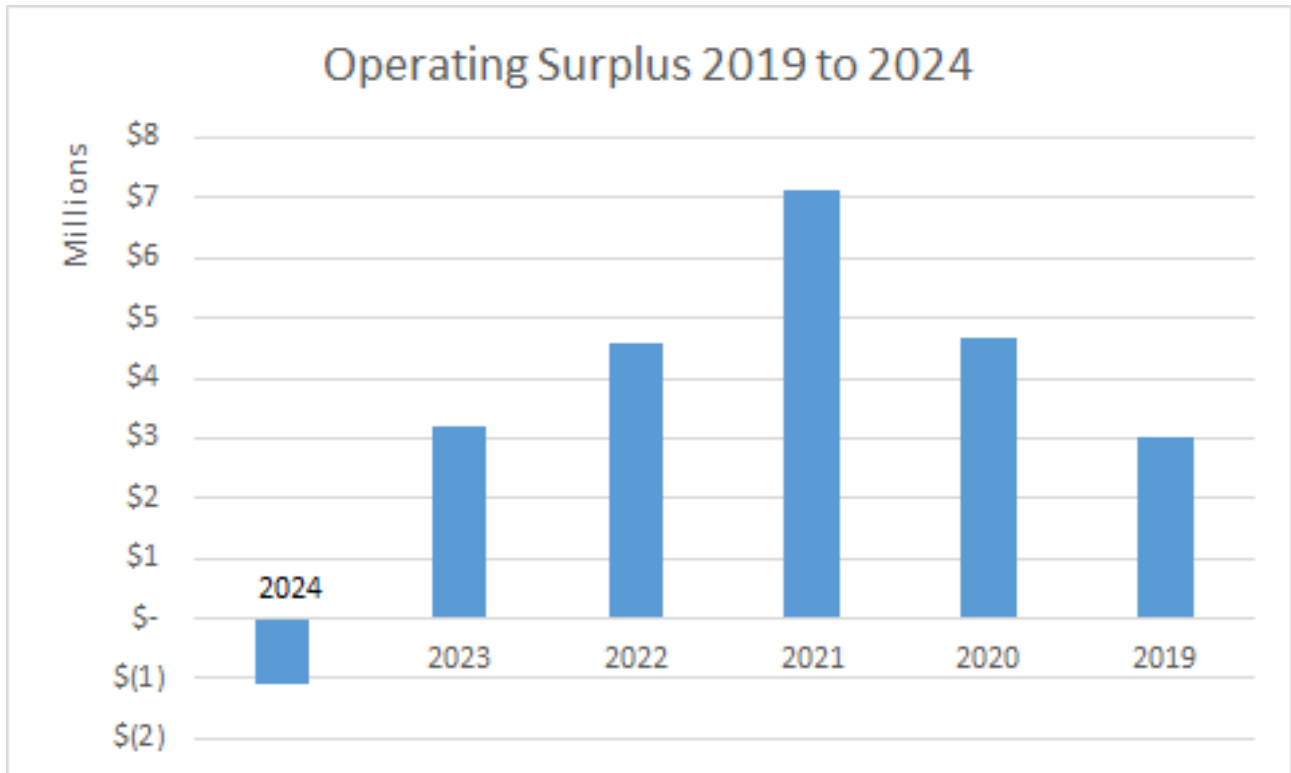
That any future operating surpluses for the Kawartha Lakes Haliburton Housing Corporation be administered as per section 3.12 of the Budget and Surplus/Deficit Disposition Policy.

Section 3.12 of the approved Budget and Surplus/Deficit Disposition Policy states that "any residual net surplus (deficit) remaining after the application of 3.3 through 3.12 shall be transferred to (from) the General Tax Stabilization Reserve. This means that

any portion of KLHHC surplus related to the City's portion will be transferred to the General Tax Stabilization Reserve and not the KLH HC Operating Surplus Reserve.

City Council as Shareholder, will receive KLHHC's 2025 year-end audited statements at their annual general meeting.

Table B – Operating Surplus graph 2019 to 2024



Other Alternatives Considered:

The March 2026 Council updated Budget and Surplus Deficit Disposition Policy standardized the allocation of surplus funds to the Tax Stabilization Reserve to aid in counterbalancing deficits in future years. However, due to the deficit incurred by the City in 2025, the balance in the Tax Stabilization Reserve is insufficient to fully fund the shortfall.

As a result, a comprehensive review of City reserves was undertaken. The recommended approach considers both the consolidation of legacy reserves and the development of a more strategic, city-wide reserve framework.

An alternative to the proposed reserve utilization, Council could direct staff to include the 2025 deficit in the 2026 final tax levy. This alternative is not recommended, raising an additional \$16,894,051.70 of taxes would equate to an approximate 11%.

Under the Municipal Act, municipalities are not permitted to operate with a deficit.

Alignment to Strategic Priorities

The 2025 Financial Year End Position Report supports the strategic goal of Good Government. This report details the effective use of financial resources by departments working within budget constraints.

Financial/Operation Impacts:

The General Tax deficit of \$16,894,052 is recommended to be financed by reserves, as outlined in Appendix D.

The City has prioritized building reserve balances to provide adaptability and flexibility in years of financial pressures, such as those experienced in 2025. It should be noted that the City's reserves are healthy and well managed. The value of reserves, after disposing of the 2025 deficit is \$30 Million. This does not include the obligatory fund reserves which have legislated requirements around use such as Development Charges, Legacy CHEST and the Canada Community-Building Fund (CCBF and former Infrastructure Gas Tax), Transit Gas Tax and the Parkland in Lieu Reserve Funds. The balance at the end of the year for these obligatory reserve funds is \$20 Million.

In Quarter two of 2026, Council will receive an update to the City's Long Term Financial Plan that will include a reserve strategy to continue building reserves, with emphasis on the Tax Stabilization and Environmental Disaster Recovery Reserve to ensure we can respond effectively to increasingly unpredictable and severe weather events while minimizing service disruptions and financial strain.

The surplus in Water and Wastewater has been transferred to the Water and Wastewater User Rate Stabilization reserve, in accordance with Budget and Surplus/Deficit Disposition Policy Section 3.15. The remaining balance in the Water and Wastewater User Rate Stabilization reserve after this funding adjustment is \$1,411,704

The KLHHC 2025 surplus will be refunded to the City (\$371,467) and the County of Haliburton (\$238,308). The remaining balance in the KLHHC Operating Surplus Reserve is \$479,531.

Consultations:

Senior Management Team

Treasurer

Attachments:

Appendix A – Operating Summary



2025 Operating
Summary

Appendix B – Water and Wastewater summary



2025 WWW
Summary

Appendix C – Kawartha Lakes Haliburton Housing Corporation



2025 KLHHC
Summary

Appendix D – 2025 Reserve Usage to Fund Deficit



2025 Deficit
Funding

Appendix E – April 7 Committee of the Whole Presentation



April 7 COW
Presentation

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