



**City of Kingston
Report to Council
Report Number 26-121**

To: Mayor and Members of Council
From: Desirée Kennedy, Chief Financial Officer & City Treasurer
Resource Staff: Corporate Management Team
Date of Meeting: May 5, 2026
Subject: Financial Overview and Fiscal Outlook

Council Strategic Plan Alignment:

Theme: Financial measures/budget

Goal: See above

Executive Summary:

The purpose of this report is to provide Council with an overview of current and future financial challenges and identify options to reduce operating and capital costs to the City while increasing non-tax revenues. City staff recognize that long term fiscal sustainability is critical to managing ongoing property tax increases while continuing to invest to meet current and future community needs.

Although this report raises concerns related to municipal financial sustainability, the intent is not to advocate that the City should cease important community investments. Rather, the pressures outlined are intended to highlight the importance of maintaining financial resilience over the longer term as service demands and related capital investments continue to grow, cost drivers evolve, and provincial policy changes continue to impact municipal revenues and service delivery responsibilities.

This report recommends tools and mechanisms that will support ongoing investments while minimizing impacts on property taxes. Options presented in this report would require changes in policies or structures but would have significant long-term implications unlike a one-time property tax increase that would create short-term financial capacity.

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Traditional tools and approaches such as property taxes and fees and charges are no longer sufficient to ensure long term financial sustainability and this report proposes policy options to enhance these traditional tools.

Municipalities across Ontario continue to face increasing fiscal pressures driven by a range of interrelated factors, including provincial policy changes, funding uncertainty, and broader economic conditions as outlined below:

- A continued transfer of responsibility to the municipal level for complex social issues, including affordable housing, homelessness, mental health, addictions services and health care in general, without sustainable or predictable funding tools.
- Reductions and constraints in provincial funding programs limiting available support for core municipal services and capital priorities.
- Provincial policy changes, including the cancellation of automated speed enforcement programs and the introduction of the Buy Ontario Act, are impacting municipal operations by reducing revenue opportunities and increasing costs.
- Wage and benefit pressures, collective agreement settlements, and rising benefit costs such as WSIB are increasing operating budget pressures.
- Aging infrastructure and infrastructure renewal backlogs (roads, transportation assets, parks, facilities & fleet) are putting pressure on capital budgets and replacement costs are rising faster than reserve contributions, creating long-term funding gaps.
- Projected population growth is contributing to increased requirements for growth-related infrastructure to ensure adequate capacity and service levels.
- Recent amendments and exemptions related to development charges have reduced the ability to fully recover growth-related infrastructure costs, shifting a greater share of funding responsibility onto the property tax base.
- Ongoing need for technology investments, system replacements, and cybersecurity protections is creating capital and operating budget pressures.
- Ongoing community demands for increased levels of services and delivery of services under provincial jurisdiction, such as health care, are impacting municipal budgets.

These pressures are compounded by broader economic conditions, including inflationary cost escalation, ongoing supply chain disruptions, and tariff-related impacts on the cost and availability of goods and services.

Collectively, these factors continue to constrain the City's financial capacity. As a result, municipal decision-making requires a careful and balanced approach to addressing core

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municipal responsibilities, including the delivery of essential services, supporting community programs that enhance quality of life, and ensuring long-term financial and service sustainability.

This report provides a comprehensive overview of the City's current financial position, an assessment of key fiscal components including the operating budget, capital infrastructure and funding sources, reserve and reserve fund levels, and debt levels, as well as a broader outlook on emerging financial pressures and longer-term fiscal considerations. Considering the current and future financial challenges, City staff are also recommending exploring the possibility to establishing a Finance Advisory Committee. The intent would be to have Council members and expert community members provide input and feedback on various financial policies and programs. Details would be reported back to Council based on a review of best practices.

Recommendations:

That Council direct staff to explore and report back on the following strategies to address ongoing budget pressures and long-term financial capacity:

- Opportunities to enhance returns on long-term investments, including the use of prudent investment strategies.
- Opportunities for increased returns on utility investments.
- Achieving full cost recovery for privately leased spaces.
- Identifying City-owned properties for Council's consideration for potential disposal.
- Identifying underutilized City-owned assets and evaluating opportunities to optimize their use, including repurposing or disposition.
- Opportunities for Municipal Services Corporations for water and wastewater and non-core municipal services such as the airport, employment lands and construction of affordable housing.
- The feasibility of expanding parking enforcement city-wide through an administrative monetary penalty (AMP) system.
- The possibility of establishing a Finance Advisory Committee based on best practices.

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Authorizing Signatures:

ORIGINAL SIGNED BY CHIEF

FINANCIAL OFFICER & CITY TREASURER

**Desiree Kennedy, Chief
Financial Officer & City
Treasurer**

ORIGINAL SIGNED BY CHIEF

ADMINISTRATIVE OFFICER

**Lanie Hurdle, Chief
Administrative Officer**

Consultation with the following Members of the Corporate Management Team:

Paige Agnew, Commissioner, Growth & Development Services

Jennifer Campbell, Commissioner, Community Services

Neil Carbone, Commissioner, Corporate & Emergency Services

p.p.

David Fell, President & CEO, Utilities Kingston

Jenna Morley, City Solicitor

Ian Semple, Commissioner, Transportation & Infrastructure Services

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Options/Discussion:**Operating Budget Performance and Outlook****2025 Operating Results and Working Fund Reserve**

[Council Report 26-074 - 2025 Year End Financial Report](#), presented at the April 21, 2026 Council meeting, provides information on the 2025 year-end operating results. The 2025 general municipal operating surplus of \$1.5M is one of the lowest reported in many years, particularly as it includes a one-time reduced budget request from Southeast Public Health of \$1.1M. Supplementary taxation revenues and greater than projected investment income helped to offset budgetary pressures associated with winter control costs, WSIB and absentee costs, transit fleet maintenance costs, and other staffing pressures. These results underscore the City's current fiscal constraints and the limited flexibility to absorb unexpected costs. The 2025 year-end surplus represented just 0.3% of the total municipal operating budget.

Year end operating surpluses have historically been the primary source of funding for the City's Working Fund Reserve (WFR). In previous years, savings from staff turnover and vacancies typically contributed to an annual surplus of at least \$1.0M; however, in 2025, staffing pressures and absenteeism in some departments, lower staff turnover and a tighter labour market resulted in total wage costs exceeding budget by approximately \$250K.

Reliance on year-end surpluses as a primary funding source for the WFR is not sustainable as limited budget flexibility, increasing financial pressures, and escalating costs continue to impact operating results.

Basis for Working Fund Reserve Target

The uncommitted balance of the WFR at December 31, 2025, is approximately \$6.0M. A preferred WFR range of \$9.0M–\$10.0M is derived from a review of annual operating requirements as well as assessment of financial risk exposure. The target considers the likelihood and scope of volatility in revenues and expenditures including:

- Baseline operating coverage (1% of gross operating budget): Provides a baseline to support overall budget variability across all municipal operations.
- Winter control exposure: Reflects the high variability and risk associated with winter maintenance operations, which can fluctuate significantly from year to year depending on weather conditions.
- Exposure to market volatility: Accounts for the uncertainty in revenues and expenses such as investment returns and fuel prices.
- One-time and unplanned expenditures: Provides flexibility to address unforeseen operating pressures, non-recurring expenditures or transitional requirements without placing undue pressure on property taxes.

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- Growth Variability / Assessment Risk: Supports delayed assessment increases and manages short-term volatility in municipal operations.

From 2015 to 2019, the average annual municipal surplus was \$3.3M which in accordance with policy was transferred to the WFR. Approved annual contributions from the reserve, inclusive of in-year budget amendments, averaged \$2.1M over the same period, effectively maintaining a consistent reserve balance.

The table below illustrates the annual municipal surplus that was transferred to the WFR for fiscal years 2022 through 2025 as well as contributions from the reserve. Increased reliance on the WFR in more recent years combined with reduced municipal surpluses, has placed downward pressure on the reserve’s balance.

Description	2025 (\$M)	2024 (\$M)	2023 (\$M)	2022 (\$M)
Annual Municipal Surplus transferred to Working Fund Reserve	1.1	1.2	0.8	1.4
Working Fund Reserve Contributions - Budgeted and In-Year Approvals	3.7	1.9	2.1	4.1

A phased replenishment strategy to restore the WFR will be considered as part of future budget planning, including modest annual contributions through the operating budget, continuing to prioritize the allocation of any year-end operating surpluses to the reserve, where available, and identifying cost containment or efficiency savings that can be redirected on a one-time or transitional basis. Maintaining a formal target range will support ongoing discipline and ensure progress toward restoring the reserve over a defined planning horizon without creating undue pressure on tax rates.

Future Year Operating Budget Gaps

Multi-year operating budget forecasts are useful in identifying potential funding gaps and emerging financial pressures, providing early insight into the financial challenges that will need to be addressed. They also allow for multi-year modelling of initiatives, supporting informed planning and decision-making.

Forecasts for 2027, 2028 and 2029 operating budgets were presented as part of the 2026 budget presentations, assuming a municipal services tax rate increase, aligning with the current strategic plan, of 2.5%, including 1% for capital, as well as a separate levy for external agencies of 1.7%, 1.28% and 1.25%, for 2027-2029, respectively.

Included in the three-year forecasts are annual amounts for assessment growth of \$3.5M in 2027 through 2029. These forecasts are based on the projected timing of the completion of construction projects.

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Assessment growth continues to be an important component in balancing the City’s operating budgets. As new development is completed and properties are reassessed, the resulting increase in the assessment base generates additional property tax revenues without increasing tax rates. This incremental revenue helps fund the cost of servicing growth, supports existing service levels, and provides capacity to address inflationary pressures and emerging priorities.

The table below summarizes the forecasted tax rate increases based on budget gaps currently projected for future years for municipal services only. Projections for 2027 and 2028 currently reflect projected tax increases for municipal services of 4.3% and 2.8%, respectively. It is expected that the 2029 budget gap will increase to reflect additional growth considerations and service level changes over the next year.

Budget Projections	2027	2028	2029
Total forecasted tax rate increase (municipal services portion only)	4.3%	2.8%	2.0%
Estimated maximum municipal services tax rate increase target (inclusive of 1% for capital)	(2.5%)	(2.5%)	(2.5%)
Percentage gap	1.8%	0.3%	(0.4%)
Dollar gap (per year, cumulative)	\$5.4M	\$6.2M	\$4.9M

Additional operating budget pressures combined with increased service demands, will continue to impact budget planning and contribute to overall operating budget gaps.

- Winter control expenditures have historically been budgeted based on a five-year average of seasonal activity. However, more recent weather patterns have resulted in increased frequency and intensity of winter events that are not fully reflected in the historical averaging methodology.

Actual winter control costs have exceeded budget in recent years, with a \$3M deficit incurred for the 2025 fiscal year. A revised methodology will need to be considered for 2027 and future operating budgets that better reflects the increase in frequency and severity of winter control events that more aggressively accounts for climate change and the need for resiliency. This adjustment will increase budget pressures, as funding levels are aligned more closely with actual operating requirements.

- Cost pressures arising from climate change considerations, such as the increasing costs of warming and cooling centres, and broader economic conditions and global market volatility such as fluctuations in the price of fuel, continue to impact operating budgets.

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- Ongoing staffing pressures are contributing to increased operating costs across multiple service areas including overtime and backfill requirements associated with sick leave and WSIB-related absences. Reduced staff availability necessitates the use of overtime and temporary coverage to maintain service continuity and required service levels, resulting in additional cost pressures.
- Increased costs related to wage settlements, particularly within emergency services, are placing upward pressure on compensation costs. Arbitration outcomes have generally not favoured employer positions, resulting in increased settlement expectations and limiting municipal flexibility in managing long-term labour affordability. The recurring inflationary impacts of benefit costs are also a factor in increasing compensation costs.
- Recent reductions and ongoing uncertainty in upper-level government funding, particularly in the areas of social and community services, combined with increasing expectations for municipalities to support provincial service areas such as housing and homelessness, mental health, addictions support and health care continue to place pressure on operating budgets. Upper-level government funding currently represents approximately 20% of total operating revenues. A reduction in these revenues increases the reliance on the property tax base to support these services.

Operating Budget Strategies

Senior management discussions continue to identify innovative and practical solutions to address operating budget pressures including:

- Cost-saving measures and expenditure controls
- Efficiency improvements
- Process modernization and service delivery improvements
- Service consolidation and workforce optimization opportunities through retirements and attrition
- Review and rationalization of underutilized assets
- Exploration of increased and/or new revenue sources
- New service structures to reduce City financial burden

Fees charged to users for various services are a primary source of municipal revenue, representing approximately 15% of the City's total municipal revenue budget. Fees and charges are reviewed and adjusted on an annual basis to ensure that service costs are appropriately recovered, including any capital component of service delivery costs, and that the proportion of user fees and taxation subsidy is maintained.

Services that provide a direct personal benefit should be appropriately funded through user fees and charges, while those that deliver a broader community benefit should continue to be supported through taxation. In practice, however, many municipal services fall along a

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continuum between these two categories, with both individual and community-wide benefits being realized to varying degrees. As such, there may be an opportunity to undertake a more comprehensive review of the City's fees and charges framework, to better align cost recovery with the actual beneficiaries of services.

In addition to the potential solutions noted above, strategies involving adjustments to service levels may be required to address ongoing budget pressures and to close funding gaps in accordance with future targeted tax increase assumptions. This may result in the reduction or elimination of service levels in select areas in order to reallocate funding to higher priorities, extending the phase-in of approved service enhancements, or delivering services through alternative or more cost-effective delivery models. Any proposed service level changes would be brought forward to Council as part of future reports. City staff are proposing to advance a number of strategies to minimize the potential impacts to service levels.

Capital Investment Planning and Outlook

The City's 15-year financial capacity and funding models reflect the capital and financing requirements for routine asset management costs incurred annually to maintain and rehabilitate existing assets, as well as growth related capital costs as determined by strategic priorities as set by Council and the 2024 Development Charges Background Study. On average, capital budgets reflect an approximate 65%/35% split between asset management and growth-related investments.

Capital expenditures are financed primarily through the City's capital reserve funds, using a pay-as-you-go method whereby funds are withdrawn from the reserve funds to pay for the capital costs or through the issuance of debt whereby funds are borrowed to pay for the capital costs and the capital reserve funds are utilized to pay debt principal and interest charges.

Over the next five-year horizon, capital expenditures are projected to total \$940M, including both asset management envelopes as well as strategic capital investments including major roadway upgrades along Midland Avenue, Cataraqui Woods Drive, and other sections identified in the Integrated Mobility Plan, transit facilities expansion, investment in additional parking facilities, employment land acquisition and servicing, and the investment in an aquatic and wellness centre. Funding of capital expenditures is projected to include \$615M from capital reserve funds, \$210M from debt and the remaining balance from grants and other external recoveries.

Capital Budget Pressures

The capital investments required to replace, maintain and rehabilitate existing capital assets as well as the growing need for growth-related infrastructure requirements continue to increase the level of capital spending. These pressures are further compounded by economic factors, including rising construction costs, market volatility including tariffs and the cost of fuel, and ongoing supply chain constraints, which can contribute to project cost escalations. Together, these factors are placing increased pressure on available funding sources, requiring difficult prioritization of capital projects to ensure affordability and alignment with long-term financial and asset management strategies.

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In late 2025, the Province of Ontario introduced the Buy Ontario Act (Bill 72), in part to address ongoing economic pressures such as imposed tariffs. The Act mandates that provincial ministries, agencies, and broader public sector organizations prioritize the procurement of Ontario-made goods and/or services. More recently, the Province issued a regulation prescribing municipalities and local boards to be considered public sector entities under this Act, along with a supporting Municipal Buy Ontario Procurement Directive.

Effective April 13, 2026, the Directive establishes requirements for made-in-Ontario fleet vehicles, mandating that light-duty passenger fleet vehicles be manufactured in Ontario or by Ontario Vehicle Producers. The Directive also prioritizes Ontario and Canadian-made goods and services for capital infrastructure projects, including roads / transportation and facilities projects, effective May 15, 2026. For capital infrastructure projects, municipalities will require vendors to submit a Domestic Supply Chain Plan confirming the proportion of Ontario and Canadian-made materials. Bidders may receive up to a 10% evaluation advantage based on this content. This legislation is expected to place upward pressure on capital costs and could potentially take precedence over traditional lowest-price procurement principles.

Asset Management Requirements

As required under Ontario Regulation 588/17, completion of the final phase of the City's asset management plans was presented to Council on December 16, 2025. This work provides a roadmap that will inform the prioritization and rationale of long-term municipal capital investment and funding resources as it relates to replacement and rehabilitation of existing assets.

While the mandated phases of the asset management plan have been completed, several initiatives identified through this work will be implemented to continue enhancing asset data and supporting financial strategies. Capital expenditure and funding models will be updated incrementally to reflect asset management requirements within available resources, prioritizing investments that will gradually reduce the infrastructure gap.

As part of the completion of the City's asset management plans, capital investment strategies were analyzed based on level of service and financial impact. The recommended Proposed Level of Service Scenario (Scenario #3) was established as a fiscally responsible option that balanced affordability and long-term risk over a more realistic and achievable 20-year timeframe. This scenario initially targeted a phased investment strategy which gradually increases capital investment for asset renewal to an average of \$163 million annually over the next 20 years across all service areas. It targets a phased annual investment over the next 10 years of approximately \$128 million, which represents an increase of approximately \$30M annually based on the current 15-year capital plan, the equivalent of a 10% property tax increase.

A number of other strategies will also help to manage asset management risk and reduce funding gaps, including continued prioritization of critical high-risk assets for renewal, increasing preventative maintenance activities and elevating and prioritizing asset monitoring and inspections.

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While a capital investment backlog and a shortfall in annual capital investment rates have been quantified, it is unreasonable to expect that these gaps can be addressed immediately. They will, however, help to inform future capital investment decisions.

Growth-related infrastructure requirements

Council previously endorsed a Medium Population, Housing and Employment Growth Scenario which projected the total population (permanent population and post-secondary students not captured by Census) to grow to 220,900 people by 2051, representing 66,800 new residents.

Permanent households are expected to increase from 57,800 to 84,800, growing at a rate of 1.3% annually, which means an additional 27,000 new permanent households will need to be constructed within the city between 2021 and 2051 to accommodate future population growth, an average of 900 units per year. This is a significant increase, as the city has had a historical average of 595 units annually (2006 to 2021).

The medium growth scenario formed the basis for the City's land needs studies and for the growth structure being advanced through the new Official Plan. Work continues on three major, interrelated planning projects: the new Official Plan, the Integrated Mobility Plan, and the Water and Wastewater Master Plans.

These projects are being advanced concurrently to ensure that Kingston's long-term land use framework, transportation networks, and servicing infrastructure are fully aligned to support projected population and employment growth scenario to 2051. Together, they will establish the coordinated policy and infrastructure foundation that will guide how and where Kingston grows over the next 25 years.

Council established a growth management framework that directs the majority (60%) of future growth to occur through intensification. A central premise of the new Official Plan is that the majority of growth be directed to the built-up and serviced parts of the city, as intensification within strategic growth areas and other places that can support complete communities.

A key recommendation was to increase the city's residential intensification target from 40% to 60% in the existing built-up area. This is a significant and intentional shift. It reflects a clear policy direction that future growth is to be directed inward first, making better use of the built-up area, strategic growth areas, corridors and serviced lands before considering outward expansion. However, in response to Council's endorsed growth forecast, there is also a need for urban boundary expansion which will come before Council later this spring.

While the plans noted above will establish the infrastructure and service framework required to accommodate future growth, the financial impacts will be developed as part of a subsequent phase of work to commence in 2027. It is anticipated that the outcomes will identify substantial capital investment. While intensification generally requires lower levels of new capital investment compared to urban boundary expansion, there is still the need for localized infrastructure enhancements and capacity upgrades within existing service areas. For example, Council approved a strategic direction in 2019 to proactively remove storm water from sanitary

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sewers through the approval of a 20-year sewer separation plan. The commitment to sewer separation is critical for accommodating growth, particularly in the downtown area, as it creates additional capacity in existing infrastructure.

Sewer separation projects will be an important capital investment for creating servicing capacity. The 2019 report to Council estimated an annual average budget for water and wastewater managed by Utilities Kingston of \$2.4M per year in addition to the City's budget of \$6.0M to \$7.0M annually for road and transportation capital costs to support the sewer separation work (based on 2018 construction values).

Growth-related infrastructure requirements will need to be carefully assessed and considered in the City's long-term financial models in the context of affordability, funding strategies, and long-term financial sustainability. The City has captured some growth-related expenses within its Development Charges Background Study update completed last year. This update does not include any costs supporting any urban boundary expansion.

Capital Funding Strategies

Addressing the challenges that come with the City's long-term capital infrastructure requirements, including both asset management renewal needs and growth-related investments, will require a blended and multi-disciplined approach to ensure infrastructure gaps are addressed while maintaining service levels and managing long-term financial impacts.

Asset management investment will require not only increased funding sources, but the advancement of other asset management planning activities that will further inform adjustments to the investments required, including:

- Updated data inputs
- Levels of service adjustments (where applicable) by refining and adjusting acceptable risk thresholds
- Completing more targeted condition assessments
- Extending asset life by continued implementation of rehabilitation & intervention programs
- Evaluating and exploring new innovative technologies
- Rationalize asset portfolios / disposing of underutilizing assets
- Municipal Services Corporations to reduce capital pressure on the City

In response to asset management planning efforts, a number of municipalities have recognized the importance of a dedicated capital levy as a funding tool in addressing asset investment gaps and have implemented such approaches accordingly. At a minimum, continuation of the City's dedicated capital levy, adjusted annually by a 1% incremental tax increase, will be critical in starting to address the necessary level of asset management investment required in future years. Like some other municipalities, consideration will also need to be given to enhanced or

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temporary increases to the levy to align funding with long-term asset management requirements.

As noted in the Operating Budget section, fees and charges are reviewed and adjusted on an annual basis to ensure the appropriate balance between user fees and taxation subsidy is maintained, and that service delivery costs are appropriately recovered. In the context of capital funding, it will be important that any review of fees and charges also considers and appropriately reflects the capital component of service delivery costs, where applicable, to ensure full lifecycle costs are captured and fairly allocated between users and the broader tax base.

In addition to traditional approaches such as pay-as-you-go funding, debt within established affordability limits, reserve contributions, and external grant funding, consideration will also need to be given to strengthening capital prioritization frameworks, implementing phased capital delivery, aligning investment timing with growth realization, and reviewing service levels to ensure long-term affordability. Alternative financing approaches and community partnership models may also be considered in support of broader infrastructure funding requirements.

Capital Reserve Funds

Capital reserve funds are funded primarily through taxes and user fees, including the annual 1% incremental capital levy, and are used to support both pay-as-you-go capital financing and the funding of annual debt charges. The table below reflects the current annual contribution and drawdowns of the capital reserve funds (excluding utility-related reserve funds).

With a current balance of approximately \$100M, capital reserve funds are projected to decline to approximately \$55M over the next five years, reflecting total planned capital expenditures of \$940M and a funding strategy comprised of both pay-as-you-go contributions and debt financing. The anticipated level of capital investment will continue to place increasing pressure on funding sources. As reserve fund balances are drawn down, increased reliance on debt financing may be required to support the municipal capital program and maintain service levels. Currently, debt servicing costs average approximately 20% of total capital reserve fund utilization.

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Capital Reserve Funds		Annual (\$)
Contributions from operating – 1% incremental tax levy	\$ 60.0M	
Contributions from operating – user fees	35.0M	\$ 95.0M
Development charges (including exemptions)		9.0M
Federal gas tax		8.0M
Utility interest / dividends		5.0M
Investment income		3.0M
Total contributions		\$ 120.0M
Capital expenditures – pay-as-you-go		95.0M
Debt charges		25.0M
Total drawdowns		\$ 120.0M

Development Charges – Exemptions, Deferrals and Financial Implications

The province has, over the last few years, introduced a range of mandatory exemptions and deferral requirements under the Development Charges Act, 1997 (DCA) to support housing supply and affordability. Exemptions on additional residential units, affordable and attainable housing, and non-profit housing developments are creating budget pressures as these costs are shifted to tax-supported funding sources to maintain infrastructure financing requirements. For fiscal 2025, \$4.2M of tax and rate supported statutory and non-statutory exemption payments were made to the Development Reserve Fund.

In addition, Development Charges (DCs) for rental housing and institutional development can be deferred and paid in equal annual instalments over a six-year period, commencing at occupancy. As of December 31, 2025, instalment payments of \$4.1M, remained outstanding under this deferral program.

DCs for other residential developments may now be deferred until the issuance of an occupancy permit rather than being collected at building permit issuance. As of December 31, 2025, this deferral represents approximately \$19M in DCs that would otherwise have been collected at building permit issuance in 2024 and 2025, but, under the revised legislation, will not be

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received until occupancy permit issuance. While these deferrals do not reduce total DC revenues, they create significant timing-related cash flow pressures.

Reduced DC revenues and delayed cash inflows increase reliance on municipal funding to advance growth-related capital projects. Where DC reserves are insufficient, the City may need to consider deferring project timing and/or utilizing debt financing to bridge funding gaps, resulting in higher debt servicing costs and potential impacts on debt capacity.

Collectively, these measures are intended to incentivize housing development; however, they have also shifted the responsibility for a portion of growth-related infrastructure costs away from development, placing additional pressure on municipal reserves and debt levels.

The 2024 Development Charges Background Study was approved by Council, with the corresponding rates implemented in 2025. In the absence of updated master plans, the focus of this study was limited in scope, focusing primarily on updating project costs and incorporating growth-related projects that were not previously captured. A new Background Study will be considered in the next couple of years, to reflect additional growth-related infrastructure required to accommodate future growth, following the completion of the Official Plan, Integrated Mobility Plan, Water and Wastewater Master Plans and other related servicing studies.

Municipal Debt Policy

Long-term debt remains a fundamental component of capital planning, enabling municipalities to finance growth-related capital infrastructure and large-scale capital projects over their useful life and to align costs with the beneficiaries of those investments. As the benefits extend into the future, so can the payment for those benefits through an annual debt charge, supporting the principle that users are responsible for the costs of the benefits they receive.

Projected Debt Balances

As outlined by regulation, a municipality's Annual Repayment Limit (ARL), as provided by the Ministry of Municipal Affairs and Housing (MMAH), represents the maximum amount that a municipality has available to commit to annual debt payments and financial obligations. The limit is based on a 25% calculation of annual operating fund revenues excluding certain revenues such as government grants, capital revenues and transfers from reserves and reserve funds and equates to a provincial total debt ceiling of approximately \$1.4 billion based on a 5% interest rate and loan periods of 15-20 years.

The table below provides summary information at December 31, 2025 of the total long-term debt issued and outstanding of \$425.3M, as well as total long-term debt approved by Council but not yet issued of \$41.0M, made up of \$15.0M to support the construction of the enclosure of the Culligan Water Park as well as approved debt funding of \$26.0M recommended as part of the municipal utility multi-year capital funding in 2025 for water growth projects and gas utility projects. The City's 2025 annual debt service costs, as a proportion of net revenue fund revenues, was 7.3%.

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The table also reflects 2026 approved capital funding from long-term debt of \$10.0M to support combined sewer separation and stormwater projects. Subsequent to the 2026 budget, an additional \$12.0M of debt financing was approved to acquire the Lemoine Point site and an additional \$8M of debt financing was approved as temporary internal financing for the Rigney St. employment land property purchase.

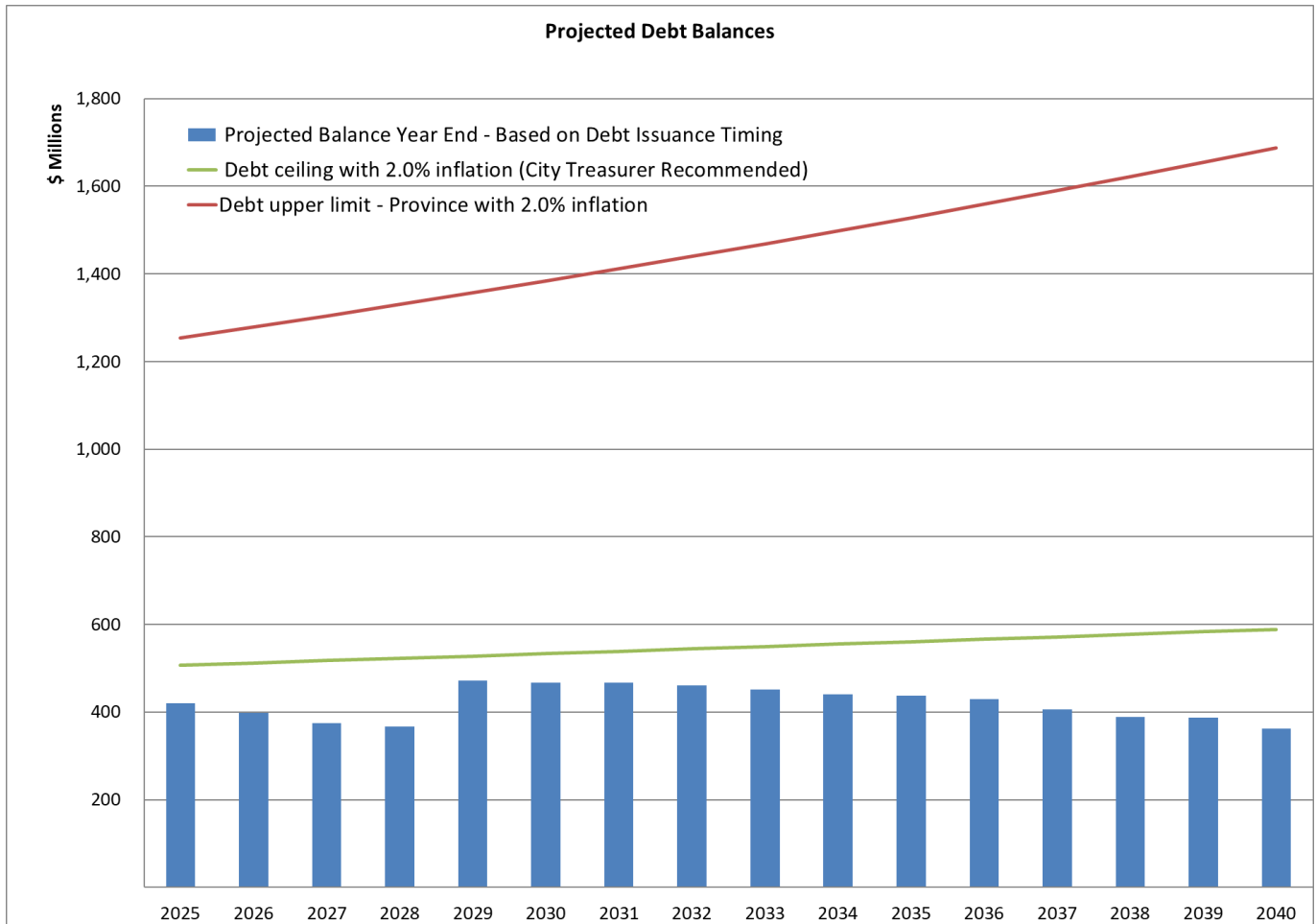
Total debt at December 31, 2026, after principal repayments, is projected to be \$474.9M, approaching the City’s self-imposed debt limit of \$500M.

Long-Term Debt Issued	Tax Supported (\$M)	User Charges (\$M)	Utility Rates (\$M)	Total (\$M)
Debt issued at December 31, 2025	153.3	100.1	171.9	425.3
Debt approved, not yet issued at December 31, 2025	15.0	0.0	26.0	41.0
Total Debt at December 31, 2025	168.3	100.1	197.9	466.3
New debt approved in 2026, not yet issued	30.0	0.0	0.0	30.0
2026 principal repayments	(9.3)	(4.4)	(7.7)	(21.4)
Projected Debt – December 31, 2026	189.0	95.7	190.2	474.9
Percentage by source	39.8%	20.2%	40.0%	100%

The graph below illustrates projected debt balances by year. The graph reflects assumptions for the expected timing of future planned debt financing for the capital expenditure requirements over the 15-year projection period, as well as estimated annual principal repayments.

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The vertical bars in the following table depict the level of debt over time. The graph includes a line that reflects the provincial ceiling of approximately \$1.4 billion, which is indexed in future years at the rate of 2%.

Debt Management Strategies

As part of the current Strategic Plan, Council approved financial parameters that include strategies to manage long term debt levels in order to maintain the City’s credit rating and provide for a longer-term debt reduction strategy. Accordingly, through the annual budget process, Council has endorsed a debt strategy that maintains the balance of outstanding debt substantially below the provincial ceiling, with a maximum capacity level of approximately \$500 million, escalated annually at 2% in line with projected inflation.

This self-imposed threshold is based on a mix of financial risk management, long-term planning, and policy considerations including:

- **Affordability** - Debt repayments (principal and interest) are generally funded from capital reserve funds which are also used to fund capital expenditures, in particular, costs to

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maintain existing capital assets, on a pay-as-you-go basis. The balance between debt and pay-as-you-go funding must be managed to ensure that debt servicing does not limit the municipality's ability to fund other capital priorities.

- **Interest rate risk** - Higher debt levels increase exposure to interest rate fluctuations. Maintaining a conservative debt ceiling helps manage uncertainty in borrowing costs and limits financial risk.
- **Capital plan and asset management strategy** - Debt is appropriately used to finance growth-related capital or used strategically for large, long-life assets such as roads, water and sewer) ensuring that future taxpayers contribute to the cost of assets from which they benefit. Internal debt limits reflect how much of the capital program should be debt-funded vs. pay-as-you-go.
- **Credit rating considerations** - Credit rating metrics include debt charges as a % of own-source revenues as well as total debt as a percentage of total revenues. A \$500M debt threshold represents approximately 100% of the City's annual revenues and is considered within an acceptable range based on benchmarks used by S&P Global Ratings.

The graph above reflects a net decline in the debt balance over the 15-year projection period, which, as noted above, is an important measure in maintaining the City's credit rating. These projected debt balances do not fully incorporate all of the growth-related projects that are anticipated to be identified through the Official Plan, the Integrated Mobility Plan and the development of other supporting master plans.

Historically, the City has strategically used debt to finance major projects, growth-related infrastructure, and to supplement asset management requirements. As capital reserve funds have built up over time, there has been a shift toward increased pay-as-you-go funding for asset renewal investment. Looking forward, debt management strategies will need to be reassessed in the context of updated asset management requirements and future growth-related infrastructure demands. The following objectives will continue to influence the City's capital financing and debt program:

- Adhere to statutory requirements and self-imposed limits
- Limit financial risk exposure
- Minimize long-term cost of financing
- Ensure long term financial flexibility
- Maintain appropriate balance of capital reserve funds
- Maintain a strong credit rating
- Be responsive and fair to both current and future taxpayers

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Any debt strategy will continue to require the prioritization and sequencing of capital projects to align spending with core service needs and available fiscal capacity, an ongoing focus on maximizing federal and provincial grant opportunities, the opportunities to leverage community partnerships and consideration for the desired balance of capital reserve funds including the need to increase the 1% incremental capital levy to mitigate the use of debt funding for asset management related investment.

Municipal Service Corporation and Borrowing Capacity

To address the asset management infrastructure requirements and infrastructure needed to support population growth, the City is exploring the establishment of a Municipal Services Corporation for its water and wastewater operations. A public municipal service corporation would provide the flexibility for more borrowing capacity for water and wastewater leaving incremental borrowing capacity for the City to support other municipal priorities and assets, subject to the availability of tax and fee revenue sources to meet debt servicing costs.

As illustrated in the table above, about 40% of the City's total debt balance relates to water and wastewater infrastructure. The remaining balance of debt represents debt funding for municipal assets. Water and wastewater operations are more highly leveraged than the rest of the City's debt, with an annual debt servicing representing 10% of water and wastewater revenues, compared to 7.3% for the City overall. Under a Municipal Service Corporation structure, as currently proposed for water and wastewater operations, water and wastewater revenues (representing 15% of the City's total revenues) and outstanding water and wastewater debt (representing about 40% of the City's total debt) would be transferred to a public municipal service corporation.

Because a larger share of debt than revenue would be removed from the City's books, the City's remaining debt-to-revenue ratio would improve and could provide the City with unused debt capacity of more than \$20M without increasing property taxes and municipal fees. This additional financial capacity would help to close a portion of the asset management gap previously noted in the report.

Recognizing the long-term financial pressures on the municipality, staff are also reviewing options to utilize the public municipal service corporation model for other services such as the airport, employment lands and affordable housing construction. It is anticipated that these municipal services corporations would also relieve operational and capital financial pressures on the City. This review is still in progress, and feasibility has not yet been determined.

Credit Rating Considerations

In October 2025, for the fourth consecutive year, the City received an AA+ credit rating with a stable outlook from S&P Global Ratings (S&P), the second highest rating that the agency can give a government.

The City's credit rating reflects sound financial management practices and supports continued access to favourable borrowing terms. It also enhances the City's financial reputation, which can

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assist in attracting businesses and developers, improving access to partnerships and funding opportunities, and supporting more favourable vendor and contracting arrangements.

The annual credit rating review, conducted by S&P includes an assessment of key financial and economic factors, including:

- Revenue stability and diversity (tax base strength)
- Operating performance (surpluses/deficits)
- Debt burden and affordability
- Liquidity and reserve adequacy
- Local economic conditions (growth, employment, income levels)

The review also incorporates a forward-looking assessment of expected capital needs and borrowing plans. A range of financial indicators are evaluated as part of the annual review process, including measures of total debt relative to annual revenues, as well as capital funding indicators that assess the municipality's capacity to fund capital investments from internal sources and meet annual debt service obligations.

In its most recent review, S&P highlighted the City's steady debt repayment trend, which contributed to a reduction in tax-supported debt as a percentage of annual revenues. The agency also recognized the City's planned approach in its funding models, which aligns new debt issuance with annual principal repayments, supporting stable debt levels over time.

The City's credit rating needs to be considered alongside other financial policy objectives when evaluating capital funding strategies, including the use of debt and pay-as-you-go financing from capital reserve funds. The City's current credit rating is important as a downgrade in the City's credit rating could result in less favourable lending terms and could also give rise to a public perception of financial risk, which could negatively affect investor confidence and potentially impact the City's reputation among businesses, developers, and funding partners.

Budget Strategies

This report identifies potential solutions being considered by staff as part of the annual budget process to address budget gaps and other financial pressures. In addition, a number of more strategic initiatives have been identified that will require further analysis, evaluation, and potential Council direction. These opportunities are outlined below and included in the report recommendations. Findings, along with any resulting recommendations, will be reported back to Council as analysis is completed.

Investment returns

Staff have identified opportunities to enhance returns on the current long-term investments portfolio and are scheduled to bring an updated Investment Policy to the Administrative Policies Committee later this spring that will explore broader investment vehicles, as permitted by legislation, to improve yields. In addition, staff will work with Utilities Kingston to identify

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opportunities to increase returns on utility-related investments including any potential opportunities to leverage municipal utility corporations to invest under different legislative frameworks where appropriate, while maintaining alignment with municipal objectives and risk parameters.

Optimization of City-owned assets and real property portfolio

Staff have identified a number of strategies related to the efficient use of City-owned assets and real estate holdings to identify opportunities for optimization, ensure appropriate use of space and improve financial returns.

- Review privately leased spaces within City-owned facilities to ensure full cost recovery, including capital investment costs; align lease revenues with prevailing market rates to ensure that the total cost of providing space is fully recovered.
- Identify City-owned properties and develop options for Council's consideration regarding potential disposition where continued ownership does not align with the City's strategic objectives.
- Identify underutilized City-owned assets, including facilities and fleet, and evaluate opportunities to optimize their use, including repurposing, redevelopment, or disposal, in order to maximize financial returns while balancing broader community benefit and service delivery needs.

Municipal Service Corporations

Staff will be reporting back on the potential implementation of a municipal service corporation for water and wastewater later this spring. City staff will continue to review options for additional municipal service corporations.

Parking Fines

The City has potential options to explore using administrative monetary penalties (AMP) for parking fines instead of using a provincial offense notice, as is the current system. The City only collects a portion of parking fines paid with the remaining portion going to the province. Moving parking fines to an AMPs system would enable greater collection of revenues to go into the parking reserve fund, which is drawn upon to support parking related operational and capital costs each year. Work is required to be undertaken to re-vamp the current program including Parking enforcement and use of administrative monetary penalties. Technology upgrades need to be evaluated as part of the review.

Other elements of the City's overall parking program can be explored to increase the annual contribution to the parking reserve fund including expanded hours for on-street and lot parking and an expanded residential on-street permit program to other areas of the city beyond what are currently in place. This would create an additional potential source of non-tax revenue to help address budget challenges faced in future years.

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Existing Policy/By-Law

None.

Financial Considerations

Included in the body of the report.

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Other City of Kingston Staff Consulted:

None.

Exhibits Attached

None.