

NOTLRA COMMENTARY ON TOWN OF NOTL 2026 Budget

EXECUTIVE SUMMARY

On October 29, 2025, the “Budget Office” released the first draft of the 2026 financial budget (referred to as “base budget” hereafter). The document will be finalized on December 3. The Budget is a key financial planning document used in setting the property tax rates paid by NOTL property taxpayers. The NOTLRA is releasing this commentary, including specific observations and recommendations, to assist members of council in proposing amendments to the base budget before it is finalized.

The budget setting process is very condensed or abbreviated this year due to changes mandated by the province with the imposition of strong mayor powers. The inclusiveness of the consultative process is also impaired by this change, with decision making authority now being centrally consolidated among two elected officials (the Lord Mayor and Deputy Lord Mayor) working with Treasury department staff, as “The Budget Office.”

The Budget continues the trend set in the three prior years of this council’s term of increasing budgeted operating expenses at multiples of the rate of inflation. This year’s initial base budget increases operating expenses by 7%. But it proposes a much lower property tax increase of less than 2%. Increasing the levy at a rate far lower than spending is achieved by applying a number of reserves held in surplus (accumulated in prior years) to offset proposed cash spending increases and accrued expenses. These reserves include parking and municipal accommodation tax revenues collected in prior years.

Given the trend of actual revenue sources other than taxes, being significantly underestimated (by over 25% in the past two fiscal years alone) this effectively returns some unnecessary past tax increases to taxpayers in 2026. This reactive approach of correcting past budgeting errors retroactively, using creative financial engineering, is not sustainable. It also betrays a cynical and manipulative politically influenced approach to tax rate setting to provide relief in the year preceding an upcoming municipal election.

The NOTLRA supports the comparatively more modest 2026 tax increase proposed (at 1.8%) to help homeowners confronting affordability issues and the erosion of home equity values arising from recent real estate market trends, and while it is irrational to ever wish for a bigger tax bill, there is no foundation in the body of the budget to justify an increase well below the current rate of inflation. At a minimum, tax increases should at least cover inflation. Doing otherwise, simply pushes the inflationary challenges further down the road. However, the NOTLRA urges more financial discipline to curb the rate of spending increases. It also urges taking more action to grow revenue sources other than the tax levy to meet higher costs, rather than relying on reserve releases. Tax and expense increases this term have also grown at a far faster rate than in surrounding municipalities. We need to adopt best practices used in those municipalities to realign our cost structure and regain our competitiveness as a premier Niagara community in which to live.

The 2026 Base Budget also proposes decelerating the growth in the capital levy portion of the assessment at a time when our community faces several infrastructure challenges that need to be redressed through significant investments in capital expenditures. Senior levels of government are exerting pressure on municipalities to reduce development charges to address housing affordability concerns. The NOTLRA does not endorse going down this path. Developers must bear the full costs of the infrastructure needed to establish the services new communities need and reserves must be established to replenish them without shifting the burden onto households today. This shift creates intergenerational taxpayer inequities. We also urge increased activity to ensure our municipality attracts its fair share of funding from grants available under new cost sharing programs established by the federal government.

The town will also introduce a new schedule of planning application and building permit fees effective January 1, 2026. These fees have not been reset since 2005. They were not indexed to inflation over this period. The Planning Act requires municipalities to price planning department services on a full cost recovery basis. This has not been achieved. Significant fee revenues have been foregone, effectively shifting the burden of funding planning department activities onto the general tax levy for those who do not consume these services to bear. This is unfair.

The NOTLRA supports the building permit fee increases as proposed. However, it suggests implementing planning application fees in excess of those proposed. It suggests removing or reducing caps used to establish competitive parity with fees in surrounding municipalities. The planning departments in these municipalities may have different cost structures realize and economy of scale efficiencies differently than our town. We do not believe removing these caps will detract from the attractiveness of our town as a place to build.

List of specific recommendations:

1. Adapting “strong mayor” powers to the town budget setting process
2. Introducing more current / relevant comparative figures in the Base Budget package
3. Track record of budgeting: high growth rate in expenses
4. Track record of budgeting: understated revenues leading to growth in surplus
5. Track record of budgeting: investments in subsidiaries and other affiliated enterprises
6. Property tax increases: competitive parity with surrounding municipalities and general cost of living increases
7. Budgeting on different accounting bases (cash, accrual, and reserve)
8. Better integration of HR Planning with the financial budget
9. Insulating budget setting from partisan political forces
10. Approach to capital budgeting and infrastructure maintenance
11. Recovering planning department costs
12. Maximizing assistance from senior levels of government.

Detailed Observations and Recommendations:

1. Adapting “strong mayor” powers to the town budget setting process

Observation: Strong Mayor Powers were newly imposed on many Ontario municipalities, including the Town of NOTL, earlier this year. Strong Mayor Powers have unfavourably altered the Town’s budget setting process. Many municipalities have written a letter of renunciation to the Province of Ontario rejecting the imposition of strong mayor powers, seeking relief. NOTL has not. A motion to do so lost at council by a narrow margin, in a split decision. No public consultation was held prior to the motion being debated and defeated at Council.

The Town’s former Audit Committee and Budget Review Committee have been made redundant and their influence supplanted by a newly formed Budget Office.

These reforms undermine responsibility democratic government and erode the abilities of elected council members to influence budget setting.

The strong mayor reforms were made by the province mid-stream after the last municipal election, substantially altering the roles of elected representatives from what existed at the time residents last voted. Residents have not had any opportunity to provide input to town council about these reforms.

Implications: The required new Strong Mayor mandated Budget reforms have impaired the openness of the Budget setting process. There is less time for consultation. Responsibility for budget setting has been vested and consolidated in the hands of fewer individuals. The opportunities for councillors to canvas constituents to get feedback on Budget proposals have been reduced. Amendments they propose can be vetoed by the Lord Mayor, which then requires a 2/3rd, rather than simple majority, of council to sustain.

Recommendations:

1. Council should instruct the Town Clerk to research the viability of including a ballot question on the imposition of Strong Mayor Powers on the voting cards used in the next municipal election. The yes or no ballot question would require a clear expression of a voter’s views on whether they favour the use of strong mayor powers or not, as far as the exercise of such powers by town council are somewhat discretionary. Failing a ballot question being added, council should instruct staff to begin a consultative process engaging with residents to ask for their feedback on the use of strong mayor powers.
2. Considering the consensus views, as expressed in either the ballot question result or a public consultation, the town should commit to moving and debating a second motion to write a renunciation letter to the Premier of Ontario regarding the application of strong mayor powers on the town’s governance in general and on the Budget setting process in particular.
3. The consensus wishes of town voters, as expressed either in the ballot question result or public consultation, should inform council governance processes and practices. For example,

the Lord Mayor would commit not to use veto powers (in the budget process or otherwise) if the public consensus rejects strong mayor powers.

4. The Lord Mayor should commit to acting with restraint, to minimize the adverse impacts of the provincially imposed reforms, thereby re-establishing a collaborative budget setting approach, as a co-equal member of council, proceeding forward in a manner more similar to following the former budget setting process.

2. Improving inclusiveness of the budget setting process

Observation: The budget setting and financial control process has now been vested in a unit called “The Budget Office.” The Budget Office comprises members of Council and Town Staff, including Lord Mayor Zalepa, Deputy Lord Mayor Wiens, CAO Nick Ruller, Director of Corporate Services/Treasurer Kyle Freeborn, Manager of Finance Nick Alaimo, and Associate Director Lauren Kruitbosch. The Budget Office does not appear to have established links to resources outside their group that could give insightful input based on their expertise.

Implications: The balance between elected council members and staff may not be optimal to ensure adequate oversight. The skills of the elected council members seconded to the Budget Office (based on rank seniority) may not be best suited to provide oversight. The Lord Mayor and Deputy Lord Mayor already carry a disproportionately heavy workload compared to other council members that could impair their focus on Budget Office matters. Guidance that could be provided by including other councillors or external residents with requisite expertise will be foregone due to the insularity.

Recommendations:

5. Councillors should be seconded to the Budget Office based on skills/experience and not purely rank seniority.
6. Additional council members, particularly those with a career skillset encompassing a higher degree of financial acumen, should be invited to join the Budget Office.
7. A permanent financial advisory committee should be formed, with members recruited from among NOTL resident applicants, as a forum to provide input to the Budget Office.

3. Introducing more relevant comparative figures in the Base Budget package

Observation: The base budget currently uses only the prior year comparative budget figures as the basis for calculation of variances. The Budget is being prepared in November and actual figures for the first three quarters of the current year are also available for comparison. These could be extrapolated to compile a year end forecast. Significant variances from prior-year Budget can arise during the year.

Implications: Using more relevant current comparables would allow budget reviewers to better assess the magnitude of changes are not being utilized.

8. **Recommendations:** Align end of current year reforecast figures beside proposed Base Budget amounts for the following year to enhance comparative analysis. Use currently best available and relevant figures. Prior year budgeted amounts should also remain in the Base Budget package.

4. Track record of budgeting: high growth rate in expenses

Observation: The rate of increase in expenses incurred by the town has exceeded the general rate of inflation over the current council term. Actual operating expenses for the year 2022 were \$38.9 million according to the audited financial statements. Base Budget 2026 proposes operating expenses totaling \$43.2 million.

This is an increase of \$4.3 million or 11%. We have experienced general price inflation since 2022 of a more modest 8%. Moreover, the tax revenues have increased in this council term from \$15.5 in 2022 to a 2026 Base Budget amount of \$18.0. This is an increase of \$2.5 million, or 16%, double the rate of general inflation.

The increase is driven mainly by increases in staff compensation expenses. The pace of increase in compensation costs is not being offset by reductions in external consulting use, so formerly outsourced functions are not being consistently insourced using new hire resources acquired to increase staff headcount.

Implications: Large increases in expenses place undue strain on the tax levy in cases where other revenues do not keep pace. They may otherwise also cause the use of accumulated reserves to limit strain on levy inclines, eroding surplus funds.

Recommendations:

9. Implement a “zero based” (rather than “cost plus”) budgeting review to discourage department heads from spending all their current year budget unnecessarily to “protect their base” and to jockey for a head start position in competing for future year resources.
10. Implement business process improvement initiatives over all significant departments to re-engineer and streamline processes, removing redundancy and duplication. Better leverage automation and technology.
11. In case of staff vacancies arising due to normal attrition (resignation/retirement) require a business case justification before approving recruiting to refill the position.

5. Track record of budgeting: understated revenues leading to growth in surplus

Observation: In fiscal year 2023 and 2024 actual revenues earned in the year exceeded budgeted amounts by \$20.5 million or close to 25%. These revenues collected in excess of budget increased surplus by significant amounts. All these surplus amounts enhanced net financial assets, rather than being invested in tangible long-life assets.

Implications. Other revenues will be necessarily undervalued as a contributor to total revenues. Since the Budget is prepared on a balanced basis, this means the property tax levy increase was set at a level far higher than necessary if other revenues had been more accurately budgeted.

- 12. Recommendation:** Further focus is required to understand factors driving other revenue growth rates and those should be used to enhance the accuracy of the base budget.

6. Track record of budgeting: investments in subsidiaries and other affiliated enterprises

Observation: The town holds shares in the capital of a number of related enterprises, including the local power utility and the Niagara District Airport. On an accrual basis of accounting the undistributed earnings of these enterprises will be a net revenue source to the Town. While dividends received have been included in quarterly variance reporting, estimates of earnings have not been included in the Base Budget. The reasons for unexpectedly large earnings from the local public utility remain unexplained.

Implications: Other revenues as budgeted will be necessarily mis-stated. Since the Budget is prepared on a balanced basis, this means the property tax levy increase was set at a level higher than necessary if these “equity pick-ups” had been included. Town property owners also pay usage fees to the affiliated public utility. Profits may result from rates being set well above required cost recovery levels, further impairing cost affordability for NOTL households, on top of high tax levies that are set ignoring these earnings.

- 13. Recommendation:** The town’s representatives on the Boards of these enterprises should authorize release of their budget forecasts to the Town’s Budget Office. The Town should include these earnings estimates in the Base Budget. Financial management in these enterprises should coordinate with our Budget Office to track variances, enhancing accountability and transparency.

7. Property tax increases: competitive parity with surrounding municipalities and general cost of living increases

Observation: In the first three years of this council term increases in the property tax levy outpaced the rate of general price inflation in the broader economy and the increases in surrounding peer municipalities. This happened simultaneously with a decrease in home values. Between the Spring 2020 market peak in home values and today, residential real estate market average values have dropped by approximately one quarter. The MPAC property tax base is slow to adjust to current market values. Interest rates on home mortgage debt also increased for homeowners renewing mortgages over this period. Census data demonstrates that NOTL residents have a higher average age than in many other municipalities.

Implications: In times of high inflation, households struggle with affordability. The costs of carrying a home make up a significant part of most household budgets. When property tax increases are imposed in excess of already high general inflation, this only serves to compound affordability issues, particularly for retired seniors on fixed pensions. Some may be forced into taking out reverse mortgages to tap into home equity at a time when it is eroding due to residential real estate market forces. Where NOTL taxes increase at rates faster than surrounding municipalities it erodes the competitiveness of our local market. This impairs the ability of existing homeowners to seek refuge from high property taxes by relocating in surrounding municipalities.

Recommendations:

14. The Budget Office should use a macroeconomic analysis as a starting point in setting environmental parameters used in its annual Budget.
15. The Budget Office should set goals to contain expenses and tax levels increases to a cap tied to the rate of general inflation.
16. The Budget Office should set goals to ensure other revenues increase at rates exceeding the rate of general inflation. Fees, charges and tolls should, at a minimum, be indexed annually to the general rate of cost inflation to help balance the budget
17. The Budget Office should maintain close contact with peers in the treasury function in surrounding municipalities and do periodic information sharing “check-ins” with them, canvassing the directions and magnitudes of changes in their levies.
18. The Budget Office should set a goal to cap the NOTL levy increase by a percentage amount not to exceed the average in surrounding municipalities by more than a set pre-agreed factor.

8. Budgeting on different accounting bases (cash, accrual, and reserve)

Observation: In council report CS-25-026 the first sentence of the Executive Summary reads: “The Municipal Act, 2001, requires municipalities to prepare and adopt a balanced budget annually on a cash-operating basis.” The town must also keep its accounting books on an accrual basis and maintains it reserves earmarked in its surplus account for specific purposes. Base Budget 2026 does not achieve a balance of expenses with revenues on a cash or accrued basis. Instead, it offsets some reserves from surplus to notionally offset cash deficiencies to avoid funding them from the property tax levy. For example, the extra cash outlay of \$500,000 to fund an extra pay period that falls on the calendar this fiscal year is notionally offset by use of a parking reserve. On an accrual basis of accounting the recorded salaries and wages expense will not absorb the full additional cash outlay. The current Base Budget contains a weak high-level reconciliation integrating these three alternate bases of accounting.

Implications: Mixing and matching cash flows, accounting accruals, and reserves from surplus within the same Budget analysis document creates unnecessary confusion in assessing its impacts. This can undermine confidence in the integrity of the document. To the extent current operating expenses are

reserve release supported, the deterioration in the town's accumulated surplus position may be obscured.

- 19. Recommendations:** To enhance transparency the Budget should contain three complete views beginning with cash, layering on accruals and finally factoring in the use of reserves applied from surplus so stakeholders can better understand the true impacts on the town's cash position, both cash generated and used in the current year and cash held in reserves carried forward from prior years and applied in the current year Base Budget document. A three-column presentation is suggested.

9. Better integration of HR Planning with the financial budget

Observation: One of the largest operating cost lines in the Base Budget is salaries and wages. Although the Budget documents contain commentary on the impacts of certain approved new hires and the general committed rate of compensation increase for collective agreement staff members (3.5%) it does not contain a rigorous and sufficiently complete analysis. Also, no allowance is made for savings when vacant positions go unfilled following staff terminations and recruiting being completed.

Implications: Given the primacy of wages and salary to the operating expense line, stakeholders would obtain a better line of sight into the underlying drivers of this highly significant cost if there was a more robust integration of HR plans discernible in the Base Budget. These budget numbers will always be over budgeted due to staff turnover.

Recommendation:

- 20.** The Base Budget should contain a more detailed breakout of this expense line showing headcount carried forward from prior year, the increase escalations, the new budget for new hires and the final total. This should be done separately for staff subject to preset negotiated rates and other staff not subject to them.
- 21.** The Base Budget should show average salary figures (total budget divided by headcount).
- 22.** The Base Budget should allow some savings on vacant positions due to inevitable staff turnover.

10. Insulating budget setting from partisan political forces

Observation: In the first three years of the current term the increase in the tax levy was commensurate with the increases in budgeted expenses. In Base Budget 2026, the tax levy increase is set well below the increase in budgeted expenses. We are one year away from the next municipal election. Two of the members of the Budget Office are elected officials. Voters are more likely to support Budgets that lower property tax costs.

Implications: Observers may lose confidence in the integrity of the budget setting process believing it is being manipulated to enhance the re-electability of existing council members by posting a lower tax hike in the year prior to the election compared to other years.

- 23. Recommendation:** By setting consistent goals and approaches to budget setting in all years, the professional staff in the Budget Office can be better positioned to resist politically partisan directives to manipulate the budget setting process by taking non-sustainable measures in the pre-election year.

11. Approach to capital budgeting and infrastructure maintenance

Observation: There is a marked decrease in the escalation factor for funding capital projects in 2026 versus in prior years of this council term. The Capital fund transfer increase included in the 2026 Base Budget is only \$150,000 whereas it was augmented by \$650,000 (\$217,000 average per year) in each of the first three years of this council term.

Implication: The town's capacity to replenish its aging infrastructure at a time when it is under increased stress—due to increases in permanent population, tourist visit volumes and storm activity, related to climate change— may be compromised.

- 24. Recommendation:** The Budget Office should factor in increases in transfers from operating fund commitments to the Capital Budget on a consistent escalating basis, reflecting the importance of long-lived assets to offset tangible asset depreciation charges.

12. Recovering planning department costs

Observations: The Planning Act requires municipal governments to budget for the costs incurred by its planning department on a *full* cost recovery basis. This is achievable by setting unitized fees for planning applications and building permits at a sufficiently high level. The town's schedule of charges for planning applications and building permits has not undergone significant revision since 2005. The fees set in 2005 were not indexed to general economic inflation rates. Accordingly, town residents have been subsidizing planning department activity over the last 20 years to make up for deficient revenues from underpriced fee charges. This loss cannot be recovered prospectively. While the suggested revised schedule of planning application and building fee charges will improve recovery of planning department costs going forward, it will still leave significant unrecovered costs because the increase has been capped to enhance service charge price competitiveness with surrounding municipalities. Competitiveness with surrounding municipalities is a factor driven by our planning department's cost structure compared to other municipalities—a function of both relative scale and efficiency. Application volumes may fall going forward due to a continuing real estate activity market slump.

Implications: Setting planning fees at levels that do not recover full costs is unfair because it shifts financial burdens from the users of these services to general taxpayers that do not consume these services. It is also non compliant with clear planning act directives. Because costs incurred by the planning department will necessarily escalate due to salary and other general cost of living factors, failing to revise them frequently exacerbates the lost revenues relative to costs incurred, capping fees at levels below cost recovery to enhance competitiveness with average fees charged in surrounding municipalities makes the situation worse without any clear evidence of upside to the town, since developers use a myriad of factors in making land acquisition and development location choices, with planning fee costs being a relatively immaterial factor.

Recommendations:

25. Sometime in the new year, as soon as possible after the new fee schedule takes effect, council should introduce a motion to further escalate the planning fees upwards towards recovering 100% of the departmental costs, eliminating the caps imposed, based on average surrounding municipality charges.
26. The planning department, together with the Budget Office, should conduct a study to better understand the cost structure within the department, with a view to finding efficiency savings to align our costs more closely with surrounding municipalities.
27. The volume expectations used to unitize costs to a per application fee basis should be revisited to assess the potential impacts of the current real estate slump on applications and permit volumes.

13. Maximizing assistance from senior levels of government

Observation: The Base Budget posits no major increase in assistance received from senior levels of government. The November 2025 Federal Budget included a new Build Communities Strong Fund. The Build Communities Strong Fund will invest \$51 billion over 10 years, followed by \$3 billion per year ongoing, to revitalize local infrastructure. This includes a direct delivery stream that will provide \$6 billion to support regionally significant projects, large building retrofits, climate adaptation, or community infrastructure. This could include flood protection, and new community and recreational spaces. The funds will specifically include a community stream that will provide \$27.8 billion for local roads, bridges, water systems, and community centres.

Implications: If the town does not aggressively pursue these new opportunities to access financial assistance from a senior government level, other municipalities will receive a disproportionate amount of the available funding.

28. **Recommendation:** Base Budget 2026 should establish a target to recover additional revenues to fund town infrastructure projects by maximizing access to enhanced senior government assistance. The town department charged with intergovernmental affairs should be treated as a revenue centre for budget purposes and not a cost centre.

Media Q&A

Q1: What is NOTLRA's overall assessment of the 2026 Base Budget?

A1: NOTLRA supports the rate of tax levy increase in the Base Budget but, overall, considers the document seriously flawed. This is because of the relatively high increase in operating costs. Also, the over-reliance on raiding accounting reserves set aside from surplus accumulated in prior years, as an offset to higher expenses. There is a better opportunity to increase other revenues to balance off directly against expense hikes.

Q2: In NOTLRA's opinion does the 2026 Base Budget contain evidence of manipulation driven by politically partisan considerations?

A2: Yes, it does. The Budget manages to produce a recommended tax levy increase significantly below the high levels imposed in the three prior years of this council term. We suspect this is motivated by a desire to court favour with voters in a pre-election Budget, to better assure the re-election of incumbent councillors who will be candidates in next Falls election. The pressure to meet this partisan objective has evidently led the Treasury dept staff towards an over-reliance on non cash financial engineering to produce the desired result. This is not a transparent, sustainable, or honest approach to budget setting.

Q3: What is is NOTLRA's opinion about the reforms in the budget process required as a result of strong mayor powers being imposed by the province of Ontario on the town?

A3: NOTLRA generally does not support the imposition of strong mayor powers on NOTL nor the specific impacts of that interference in the Budget setting process. The reforms have made the process more insular with less opportunity for iterative, interactive input and feedback between town government and external stakeholders. The ability of elected council representatives to consult with constituents has been marginalized as more power has been vested and consolidated in the Lord Mayor's Budget Office. Also, NOTLRA does not support the exercise of veto power in budget setting by the Lord Mayor.

Q4: What opportunities for Base Budget amendments have NOTLRA identified?

A4: NOTLRA suggests revising the 2026 Base Budget to increase other revenues to levels aligning more closely with the current year-to-date actuals achieved, including revenues from parking and new sources of intergovernmental assistance. The new development plan application and building permit fee schedule should also be revised to recover more planning department costs, by removing the caps imposed to achieve competitiveness with surrounding municipalities. NOTLRA suggest factoring in cost savings goals to be achieved from business process re-engineering initiatives to be undertaken in all significant departments, including the Planning department.

Q5: What opportunities for improvements in the Budget setting process has NOTLRA identified to use in future years?

A5: NOTLRA suggests using zero based budgeting, beginning the process with an economic scan to set environmental assumptions, creating more formal and dynamic links with the HR Plan, setting up

mutual information sharing arrangements with surrounding municipalities, and reintroducing a forum for broader community consultation by forming a new financial planning advisory committee.

ABOUT THE AUTHOR and ACKNOWLEDGEMENTS

The principal author of this commentary, Steve McGuinness, is a NOTL Resident and a business columnist for The Lake Report newsweekly. He is the holder of an Honours BA in political science from McMaster University and a Masters of Business Administration degree from that same institution, with a major in Finance. Mr McGuinness is retired member of the CPA Ontario Institute, having qualified as a Chartered Accountant in 1987. In his career on Bay Street he advised major financial institutions, primarily on the tax implications of business operations in their financial reporting, products and on customers. He severed tenures with three of the Big Four accounting giants and also worked internally with large public corporations including BMO Bank of Montreal, Prudential Insurance, Transamerica, and State Street Bank.

Mr McGuinness would like to gratefully acknowledge the assistance of another Virgil resident in the preparation of this commentary. A former colleague, he is also a CPA and has recent experience working for a federal government agency in Ottawa. He wishes to remain anonymous.