Council Report: C 81/2026

Subject: 2026 Second Quarter Operating Budget Variance Report - City Wide

Reference:

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Financial Planning
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To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2026 2nd Quarter Operating Budget Variance Report.

Executive Summary:

N/A

Background:

Annual operating budgets are required to be tabled for consideration prior to February 1 of each year and traditionally are based on the best available information and trends at that time. Key inputs to the operating budget include professional estimates, the current legislative environment, macroeconomic trends (such as currency fluctuations, commodity prices, unemployment figures, and business investment), and other relevant local information available. Inflationary pressures related to municipal expenditures and services, which can be very different from general consumer price increases, continue to place significant pressures on service budgets at the time budgets are developed and approval as well as during the fiscal year.

Due to the seasonal nature of some municipal operations, it is very difficult to accurately predict the financial position at year end. However, there are matters which may arise that should be highlighted and monitored to proactively address and implement any mitigation measures that must be taken. This report highlights to City Council those matters which have been brought to the forefront as of Q2 which will require mitigation and alternative funding sources to ensure that the year end position for 2026 aligns with the overall approved budget. Mitigation strategies have been actioned that help to offset some of the pressures. Additional updates will be presented to City Council in future quarterly and year end reports.

Discussion:

General Considerations

The Corporation's financial position in any given year can be directly affected by factors beyond its control, including tariff-related trade pressures, weather conditions, unemployment rates, fuel and utility costs, interest rates, decisions by upper levels of government, litigation settlements involving the City, and broader inflationary pressures. Mitigation measures are often difficult to implement given collective bargaining provisions and service levels which cannot be quickly adapted to reduce expenditures.

Council will recall that, to achieve the desired zero percent tax levy change, the 2026 Operating Budget included various risk-based provisions and estimates. While revenue projections and expenditure estimates were informed by known trends, assumptions, and professional judgment some elements of risk remained.

This report provides City Council with a high-level overview of the pressures currently projected to impact the year-end operating position. Material fluctuations, in addition to the projected variances identified as of the second quarter, may still occur should significant unforeseen events arise.

Municipal Levy

As at Q2, Administration has identified approximately $5.5 million in unrealized revenues and unanticipated expenditures, as outlined by department in the table below:

Department	Description	Variance ($)
Mayor's Office	Currently projected to be within budget.	-
City Council	Currently projected to be within budget.	-
CAO's Office	Currently projected to be within budget.	-
Corporate Security	Currently projected to be within budget.	-
Capital Planning	Currently projected to be within budget.	-
Financial Planning	Currently projected to be within budget.	-
Treasury & Financial	A year-end budget deficit of $100,000 is projected for net external revenues. Revenue generated	(100,000)

Accounting	through user fees is largely influenced by external factors and is subject to fluctuations in market and economic conditions. Based on current trends and activity levels, revenues are anticipated to be below budget by approximately $100,000 at year-end. The department is reviewing alternative sources of revenue as well as expenditure reductions to mitigate this deficit.	
Communications	The Communications Department is projecting a year-end deficit of approximately $500,000 primarily related to the provision of 311 services, which is lower than initially anticipated. The department will continue to seek efficiencies as part of ongoing mitigation efforts.	(500,000)
Council Services	The Council Services Department is projecting a year-end deficit of approximately $190,000. The variance is primarily driven by revenue shortfalls in By-Law Enforcement as revenues related to repeat offenders for dirty yard and property maintenance violations continue to fall below budget projections.	(190,000)
Human Resources	A year-end deficit of $150,000 is projected, primarily due to anticipated external legal fees associated with workplace harassment and violence investigations. These costs are inherently difficult to predict and can fluctuate significantly from year to year based on both the number of complaints received and the complexity of individual cases.	(150,000)
Information Technology	Currently projected to be within budget.	-
Legal	Currently projected to be within budget.	-
Culture	Currently projected to be within budget.	-
Fire & Rescue	WFRS is projecting a 2026 year-end deficit of approximately $1,260,000. This variance is primarily driven by ongoing overtime pressures associated with WSIB and other absences. Mitigating strategies through collective bargaining as well as implementation of elements of the Fire Master plan may result in the projected deficit being lower at year-end.	(1,260,000)
Parks, Recreation &	Currently projected to be within budget.	-

Facilities		
Building Services	Currently projected to be within budget.	-
Economic Development	Currently projected to be within budget.	-
Planning & Development	The Planning Department is projecting a 2026 year-end deficit of approximately $720,000. This deficit will be mitigated in future years if Council approves the upcoming results of the Planning Fee Review which will be brought forward as part of the 2027 user fee structure. It should also be noted that the current forecast does not incorporate any potential increase in planning activity that may result from potential future housing initiatives.	(720,000)
Transit Windsor	As of April 30, 2026, Transit is projecting a year-end deficit of approximately $5.12 million, excluding fuel. This projected shortfall is primarily driven by lower-than-budgeted revenues of $3.18 million, along with increased expenditures for overtime of $0.93 million and vehicle maintenance of $0.6 million. Additional cost pressures of $0.41 million are being experienced in contracted services, rental costs, security, and other operating expenditures. These pressures have been partially offset by minor savings in other areas and modest improvements in miscellaneous revenues. Mitigation measures will be implemented through targeted expenditure controls, prudent management of staffing and key operating cost pressures, and initiatives to stabilize revenues. Ongoing financial monitoring will continue in alignment with corporate financial directives and service delivery requirements, while ensuring the continued delivery of safe and reliable transit services.	(5,120,000)
Engineering	Currently projected to be within budget.	-
Pollution Control	Currently projected to be within budget.	-
Public Works	Public Works is projecting an overall deficit of $496,000 for 2026, excluding fuel. The department is experiencing cost pressures related to streetlight maintenance, which are expected to continue through the year. In addition, based on average	(496,000)

	winter conditions over the past five years, the department is projecting a deficit related to winter control services.	
Employment & Social Services	Currently projected to be within budget.	-
Housing & Children Services	Currently projected to be within budget.	-
Huron Lodge	Currently projected to be within budget.	-
Corporate Accounts	An overall Corporate deficit of $1.62 million is being projected for fuel. Administration continues to monitor the financial impacts of geopolitical conflicts in the Middle East on fuel prices and managing consumption where practical.	(1,620,000)
Corporate Accounts (Interest and penalties on Property Taxes)	A year-end surplus of $2 million is projected for Corporate Accounts related to interest and penalties on property taxes. Overdue property tax accounts are subject to interest and penalties as prescribed by By-Law 87-2026.	2,000,000
Corporate Accounts (Transfer to Reserves)	As a measure to balance the City's forecasted financial position for 2026, the $2.02 million transfer to the Budget Stabilization Contingency Reserve (Fund 139) may be deferred.	2,020,800
External Agencies	A surplus of approximately $460,000 is anticipated for the **Windsor-Essex County Health Unit (WECHU)**. This favourable variance is primarily attributable to an additional payment owing to the City of Windsor resulting from a recast of the 2024 comparative financial figures. The adjustment reflects updated allocations and final financial information identified through the agency's year-end review process. A surplus of $204,000 for **Handi Transit** represents the return of unspent prior year funding and will be reflected in the overall year-end position.	664,000
Essex Windsor Solid Waste Authority	Currently projected to be within budget.	-
Housing	Currently projected to be within budget.	-

Corporation		
Windsor Police Services	Currently projected to be within budget.	-
Windsor Public Library	Currently projected to be within budget.	-
	Total Projected Variance – Q2	**(5,471,200)**

Mitigating Measures

Council is reminded that a significant portion of municipal expenditures are directly tied to services that are considered to be mandatory. Little discretion is available to reduce operating expenditures in an effort to mitigate projected deficits. While some mitigating measures have been actioned to address the pressures noted above, to ensure that the 2026 year-end financial position is appropriately managed, Administration will continue to monitor both positive and negative variances within other operating departments to mitigate any unanticipated events which may materially change the projections as currently provided. Mitigation strategies as outlined below will be utilized to maximize available funding while maintaining service levels across the Corporation. Administration will also seek alternative funding sources which are non-levy related through the balance of the year.

At present, all departments have been requested to consider the need to fill positions prior to undertaking a recruitment. In addition, departments have been directed to closely monitor and restrict all discretionary spending and to forego any bulk purchases beyond what is required to meet operating needs to help reduce overall pressures and offset the projected corporate variance.

Beyond these measures, the Administration may need to consider further options if required to mitigate the projected corporate variance. These include:

- Limiting or deferring planned transfers to reserve funds – As noted in the Municipal Levy table above, the budgeted transfer to the Budget Stabilization Contingency Reserve (Fund 139) may be limited or deferred as appropriate.
- Transferring funds from reserve funds – To balance the overall year-end position, additional draws from existing reserves may be required, whether it be from the Budget Stabilization Contingency Reserve (Fund 139) or other reserve, as considered appropriate. As of the writing of this report there is $5.2 million remaining in the Budget Stabilization Reserve (Fund 139).

While use of the Budget Stabilization Reserve as a means to offset the projected deficit would result in the balance being fully expended, City Council is reminded that the City's overall reserve position remains strong. The establishment of specific purpose reserve funds and reserve accounts allows for a matching of revenue and expenditures which are program specific rather than having to rely on a general fund. Planned transfers to specific purpose reserves will continue to occur through the balance of 2026 unless otherwise required to support a year end deficit.

Other Non-Tax Levy Variance

In addition to the Municipal levy variance, other non-tax levy variances are estimated to result in a $322.751 million net surplus. Included in this amount are the following which will be transferred to/from the noted Reserves; On-Off Street Parking Reserve $nil, the Building Permit Reserve $1.68 million deficit and the Wastewater & Storm Water Reserves $2.0 million surplus.

Department	Description	Variance ($)
On-Off Street Parking Reserve	Currently projected to be within budget.	-
Building Permit Reserve	Building Services is projected to have an overall net operating deficit of $1,677,249 by year end. This is as a result of lower than anticipated permit revenue of $2.42 million offset by a surplus in salaries of $744K. The projected deficit has not been adjusted for any potential increase in activity resulting from Provincial housing programs and initiatives.	(1,677,249)
Wastewater & Storm Water Reserves	Stormwater and wastewater operations are collectively projected to result in an overall surplus of approximately $2.0 million by year end. This position reflects savings primarily driven by staff related variances across Public Works and Pollution Control, including vacancies from retirements, internal movements, and timing of hires, partially offset by retroactive wage adjustments and higher overtime costs. In wastewater operations, additional positive impacts include strong treatment related revenues and efficiencies in contracted biosolids processing, while some pressures remain from items such as chemical surcharge costs and reduced staff recovery revenue. Overall, both service areas continue to manage expenditures while responding to operational demands, resulting in the projected surplus position of $1.0 million. Additionally, a surplus of $1 million is projected on account of stormwater revenue.	2,000,000
	Total Projected Variance – Q2	**322,751**

Risk Analysis:

There are several potential risks that can impact the year-end financial results as follows:

- **Economic and market conditions:** Ongoing macro- and micro-economic pressures, including fuel costs, energy price volatility, commodity costs, interest rates, local unemployment levels, and supply and demand for goods and services, may affect both revenues and expenditures. Although Consumer Price Index rates have moderated in recent years, inflationary pressures affecting municipal operations remain elevated and may continue to place pressure on City costs.

- **Fuel price volatility:** Geopolitical instability, including conflicts in the Middle East, may result in further volatility in fuel prices. Given the projected fuel-related deficit identified in this report, changes in fuel costs could materially affect the City's final year-end position.

- **Revenue variability:** Revenues from user fees, planning activity, enforcement, licensing, transit fares, recreation programming, and other activity-based sources may fluctuate based on economic conditions, demand levels, service usage, timing of development activity, as well as legislative or policy changes (i.e. Federal policy changes impacting international students). Actual revenues may therefore differ from current projections.

- **Seasonal and weather-related impacts:** Seasonal variability related to winter control, storm events, recreation activity, and other weather-sensitive operations may affect both revenue and expenditure projections through the remainder of the year.

- **Staffing, overtime, and benefit-related costs:** Continued pressure from sick leave replacement, modified duties, WSIB claims, overtime in mandated or 24/7 operations, joint job evaluation or arbitration outcomes, and health benefit usage may require additional funding. Some of these costs may be mitigated through corporate provisions or reserves, where available.

- **Unavoidable operating expenditures:** Emergency repairs and maintenance, vehicle and equipment costs, materials and supplies, legal expenses, streetlight maintenance, security costs, and other non-discretionary expenditures may exceed current projections.

- **Reliance on mitigation measures and reserves:** The projected year-end position assumes that mitigation strategies, expenditure controls, deferred transfers to reserves, and other funding strategies will be sufficient to manage the projected variance. If financial pressures increase or mitigation measures are not fully realized, additional funding may be required to fund operating deficits.

- **Forecast uncertainty:** Quarterly projections are based on estimates, historical experience, known trends, and professional judgment. Actual year-end revenues and expenditures may differ from current projections as additional information becomes available or if unforeseen events occur.

Climate Change Risks

N/A

Climate Change Mitigation:

N/A

Climate Change Adaptation:

N/A

Financial Matters:

As at Q2, Administration has highlighted the significant factors within the “Discussion” section of this report which are projected to impact the 2026 year-end operating results.

Consultations:

All departments and ABC’s provided comments to augment and clarify the analysis performed by the Financial Planning Department.

Conclusion:

Administration is projecting additional pressures on the 2026 year-end operating results, including a tax levy deficit of $5.5 million, inclusive of a fuel-related deficit of $1.62 million across all City departments. Administration will continue to monitor revenues and expenditures through year-end and implement mitigation measures, where possible, with the objective of minimizing any final deficit.

A net surplus as it relates to other funding from non-tax levy sources of approximately $323K is projected however as noted, any surplus or deficit within these other funding sources must be retained within the specified reserve. Administration will continue to monitor the year-end projections inclusive of mitigation measures that may be required.

Planning Act Matters:

N/A

Approvals:

Name	Title
Lorie Gregg	Executive Director, Financial Planning/Deputy Treasurer
Andrew Daher	Commissioner, Corporate Services
Michael Chantler	Commissioner, Community Services
David Simpson	Commissioner, Infrastructure Services
Dana Paladino	Commissioner, Human & Health Services
Jelena Payne	Deputy CAO/Commissioner, Economic Development
Janice Guthrie	Commissioner, Finance & City Treasurer
Ray Mensour	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices: