

2. Increased asset deterioration due to climate events, and
3. Significant allocations from reserves over the last several years.

As part of the 2025 budget process, Council directed staff to identify reduction options to achieve a 4% tax increase for 2025 and 2026, and over \$14 million in reductions were brought forward (outlined in Appendix D). Council approved all reductions for 2025, and for 2026, Council directed staff to:

- incorporate the 4% option into the 2026 draft budget as a starting point,
- identify reduction options to offset the upcoming debt servicing for Crystal Pool, and
- identify additional reduction options of \$1 million for Council to be able to add back some of the reductions incorporated in the 2026 draft budget.

The draft 2026 operating budget totals \$389 million and the draft 2026 capital budget totals \$98.8 million. The main cost drivers for 2026-2030 are employee compensation, debt repayments, asset management/infrastructure renewal funding, and ongoing budgets to implement the actions in the Community Safety and Wellbeing Plan; offset by \$5.4 million in reductions identified as part of last year’s process. The table below provides a summary:

| | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Employee compensation | 5,107,000 | 3,522,000 | 3,254,000 | 3,392,000 | 3,595,050 |
| Authorized new debt | 1,885,930 | 2,173,570 | 1,065,830 | 846,130 | 406,130 |
| Crystal Pool debt | 1,230,000 | 1,240,000 | 2,890,000 | 3,260,000 | 3,237,000 |
| Infrastructure funding* | 5,500,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Inflationary and other increases | 3,655,300 | 2,725,590 | 3,255,840 | 4,004,900 | 5,378,290 |
| Reductions directed for inclusion in draft for 2026 | -5,396,000 | | | | |
| Community Safety and Wellbeing – City | 4,186,265 | 2,900,000 | | | |
| Total City Increase | 16,168,495 | 17,561,160 | 15,465,670 | 16,503,030 | 17,389,420 |

* Note: New property tax revenue from new development (NMC) is used to offset the infrastructure funding increases. For 2026, \$1 million is identified separately in this table, as part of the \$5.4 million in reductions

In addition, VicPD increases are significant. For 2026, their request includes base budget increases with four additional traffic officers and four additional patrol officers; the nine officers requested by the City for the CSW Plan priority actions; as well as a Crime Reduction Unit which they are recommending that the City request and fund as optional resources per section 5 of the Framework

Agreement. Furthermore, the Province has rendered their decision on the section 27 appeal regarding the Late Night Program and has ordered that it be added to the police budget as a cost-shared service. A further section 27 appeal is still pending, and if approved, would add over \$925,000 to the budget for four officers and three civilians (approximately \$800,000 for the City's share).

Before further reductions are considered and incorporated, the draft budgets for 2026-2030 result in the following tax increases, including VicPD:

| | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| City Tax Increase | 16,168,495 | 17,561,160 | 15,465,670 | 16,503,030 | 17,389,420 |
| | 8.29% | 8.39% | 6.94% | 6.97% | 6.93% |
| Police Tax Increase* – shared with Esquimalt | 6,496,400 | 4,658,010 | 4,505,890 | 4,312,740 | 4,165,790 |
| Police – Section 27 appeal, Late Night Program; shared | 198,560 | | | | |
| Police – Community Safety and Wellbeing (9 officers and equipment); City only funded | 1,850,575 | | | | |
| Police – Proposed Crime Reduction Unit (8 officers); City only funded | 1,241,120 | | | | |
| | 5.02% | 2.22% | 2.02% | 1.82% | 1.66% |
| Total Tax Increase | 25,955,130 | 22,219,170 | 19,971,560 | 20,815,770 | 21,555,210 |
| | 13.31% | 10.61% | 8.96% | 8.79% | 8.59% |

*Future Police numbers subject to change

To achieve a maximum 4% tax increase for the City portion, the following reduction amounts would be required:

| | 2026 | 2027 | 2028 | 2029 | 2030 | Total |
|---|-----------|-----------|-----------|-----------|-----------|------------|
| Reductions Required to Achieve 4% City Portion | 8,379,000 | 9,186,000 | 6,551,000 | 7,034,000 | 7,350,000 | 38,500,000 |
| Revised Total Tax Increase | 9.02% | 6.22% | 6.02% | 5.82% | 5.66% | |

This report outlines potential budget containment options, their impacts and trade-offs for Council's consideration. Staff followed the guiding principles approved by Council last year and used a

methodology that examined services/programs across the organization, phased reductions based on the estimated time to implement, aligned with the results from the statistically valid Ipsos public consultation survey, and limited the impact on services.

Budget sessions with Council are scheduled starting in November. Upon conclusion of the discussions, staff will request Council's direction on the overall budget to inform the development of the Financial Plan Bylaw. To enable utility user fees to come into effect on January 1, 2026, staff recommend that the related rate bylaws be considered for introductory readings on November 27, 2025, and adoption on December 4, 2025.

PURPOSE

The purpose of this report is to introduce the Draft 2026-2030 Financial Plan and to outline potential budget containment options to reduce property tax increases for Council's consideration.

BACKGROUND

Legislation

The City's annual budget covers the City's fiscal year which is the calendar year. Therefore, the City typically aims to have an approved financial plan early each year so that staff can start delivering on the various programs and projects as approved by Council.

Section 165 of the *Community Charter* requires that a financial plan be approved annually following public consultation as required by section 166. The financial plan must be approved before the tax rate bylaw is approved, and before May 15 as required by section 197. The financial plan can be amended during the year, but property taxes can only be levied once.

Policies

Three policies guide the financial planning process: Financial Sustainability Policy; Reserve Fund Policy; and Revenue and Tax Policy. These are attached as Appendix C.

The Financial Sustainability Policy consists of 14 separate policies that guide financial plan development. Several policies are especially relevant to this year's Draft Financial Plan as outlined below.

The policies for tax increases and new services include the following:

Tax increases

- Policy 2: First cover cost increases for existing services, then other enhancements

New services

- Policy 3: Funding for new services
 - Reduction in cost of existing service (reallocation of funding)
 - Increased revenue other than taxes
 - Tax increase

These two policies are intended to minimize unintended consequences by supporting deliberate decision-making. In other words, choosing to reduce a service by reallocating the funding to another service is encouraged rather than underfunding a service, which would result in a service level reduction or deferred maintenance due to insufficient funding.

The policies on infrastructure funding, debt and reserves aim to provide sustainable funding levels for ongoing capital programs and larger capital projects. They consider intergenerational equity by funding ongoing programs with ongoing revenues, while smoothing out the impact to taxpayers of larger investment needs in any given year through the use of reserves and debt. They include the following:

Infrastructure funding

- Policy 1: Recognizing the significant need for infrastructure funding, all new tax revenue from new development (NMC) is used for infrastructure funding and allocated to the annual capital budget.
- Policy 6: Consider a tax increase for increasing capital infrastructure investment annually
- Policy 11: Strive to develop appropriate reserves to meet future financial obligations
- Policy 12: Once capital projects are completed, ongoing maintenance costs to be included in the operating budget and future upgrade and/or replacement in the capital budget

Debt

- Policy 8:
 - One-time capital projects (not ongoing programs)
 - Attempt to take on new debt only in years where other debt issues are retired (avoids tax increases related to new debt)
 - Internal borrowing through the City's Debt Reduction Reserve (lower interest than external borrowing) with maximum 15-year repayment term

Two policies guide revenue review and generation:

Fees and Charges/Alternative Revenues and External Funding

- Policy 9: Fees and charges to be reviewed regularly considering the cost of providing the service, consider minimum increase equal to inflation (CPI)
- Policy 5: To diversify revenue base, look for new revenue sources and external funding that are consistent with the Five-year Financial Plan, 20-year Capital Plan and Strategic Plan

One policy guides the use of prior year surplus which is generated by expenditure budgets not been fully expended or revenues exceeding the budgets:

Surplus

- Policy 10: Surplus is not ongoing revenue and is to be used for one-time expenditures only or transferred to infrastructure reserves

Guiding Documents

The Financial Plan is the end result of a larger planning process. The Draft Financial Plan is developed based on direction provided through the Strategic Plan, various master plans, frameworks, condition assessments, action plans and strategies. The priorities identified in each of these plans feed into the Draft Financial Plan. Significant consultation with the public is also part of developing many of these plans. The following lists some of the plans and strategies in place:

- Official Community Plan
- Victoria Housing Strategy
- Climate Leadership Plan
- Victoria 3.0 Economic Action Plan
- Parks & Open Spaces Master Plan
- Urban Forest Master Plan
- Create Victoria
- Victoria Music Strategy
- Downtown Public Realm Plan
- Harbour Pathway Plan
- GoVictoria Mobility Strategy
- Accessibility Framework
- Equity Framework
- Pavement Asset Management Plan
- Sewer System, Water System, Stormwater System Master Plans
- Surface Infrastructure Asset Management Plan
- Facilities Condition Assessments
- Green Fleet Plan

Previous Council Direction

As outlined during the 2024 financial planning process, significant funding increases are required to support prudent asset management. The need for additional funding is a result of factors such as:

1. Significant cost escalation due to supply chain challenges, labour shortages and inflation;
2. Climate events that are deteriorating the City's assets faster than anticipated;
3. Annual capital funding increases not keeping up and reserve funding being reduced; and
4. Significant utilization of reserves for ongoing life-cycle replacement because of the lack of annual funding increases, as well as funding some large capital projects such as Topaz Park and Multi-modal Corridor improvements. Since reserves are not limitless, the usage over the last several years has been too high and is not sustainable going forward.

To address these challenges, a funding strategy was introduced as part of the 2024 financial planning process and included:

1. A \$5 million funding increase each year from 2025 to 2030 for annual ongoing capital life-cycle renewal programs offset by new property tax revenue from new development;
2. Using the majority of funding available in the main capital reserves over a five-year period until the annual property tax funding is increased to a sufficient level; and
3. Using debt for four capital programs (fleet replacement, transportation improvements, public washroom accessibility improvements and park redevelopment) to enable earlier delivery and avoid expected cost escalation that is anticipated to exceed the interest cost payable on the loans.

As part of the 2025 financial planning process, Council directed staff to use the following principles when identifying budget reduction options:

- Focus on ongoing, property tax funded programs and services
- Avoid adding new or expanding services/programs/assets

- Avoid negatively impacting existing assets and increase deferred maintenance
- Pause actioning new/expanded initiatives to reduce or avoid additional tax increase, even if previously directed by Council

Staff brought forward reduction options for 2025 and 2026 on December 12, 2024, totalling over \$14 million (Appendix D).

On March 13, 2025, Council directed staff to:

- incorporate the 4% option into the 2026 draft budget as a starting point,
- identify reduction options to offset the upcoming debt servicing for Crystal Pool, and
- identify additional reduction options of \$1 million for Council to be able to add back some of the reductions incorporated in the 2026 draft budget

While Council did not give explicit direction for years beyond 2026, the discussions signalled that future tax increases were all too high. As such, and to avoid repeating the process of identifying reduction scenarios each year, staff took a longer-term view and have identified containment options for each year in the Five-year Financial Plan. Since some options will take time to implement, this future-looking approach will enable these options to be explored further.

In July 2025, Council endorsed the CSW Plan in principle and approved funding of \$10.35 million for eleven priority actions for the CSW Plan and directed staff to bring back the budget implication of the Plan as part of this year's budget process. Appendix E outlines budget requirements to continue delivering the on-going components of the 11 priority actions. The total, \$8.9 million (\$7.1 million plus \$1.85 million for policing), has been incorporated into the budget and are phased over 2026 and 2027. Once the budget has been approved to advance this work, it is recommended that Council consider approving the CSW Plan.

Financial Plan Overview

The Financial Plan includes a five-year operating budget and a twenty-year capital plan. The plan outlines high-level overviews of the various services, programs, projects and initiatives and the associated budgets.

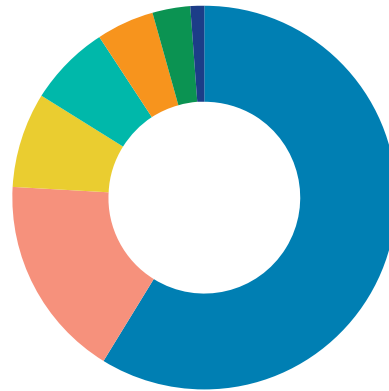
Operating Budget

The operating budget includes resources to deliver approximately 200 services including recreation, road maintenance, the provision of clean water, land-use planning, solid waste collection, arts and culture programs, parks and playground maintenance, and public safety.

The majority of the City's funding comes from property taxes and utility user fees from the water, sewer, solid waste and stormwater programs. The City has some additional revenue sources, including parking, construction permit fees, recreation, Victoria Conference Centre, business licences and property leases.

Operating Revenues by Type
2026 Draft Budget

- Taxation - 59%
- User Fees and Charges - 17%
- Parking Fees and Fines - 8%
- Other Income - 7%
- Cost Recovery - 5%
- Grants - 3%
- Reserves - 1%

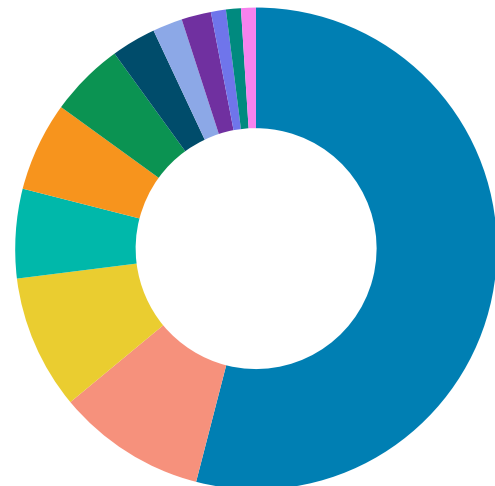


How each service is funded ranges from full funding from user fees (water, sewer and solid waste utilities; development approval and permit processes; and parking services), and partial funding from user fees (stormwater utility and recreation) to fully funded by property taxes (police, fire, bylaw and most corporate support functions.)

The majority of the City’s services are delivered by staff, therefore the largest expenditure is salaries and benefits, followed by materials and supplies, contracted services and capital investment.

Operating Expenditures by Type

- Salaries and Benefits - 54%
- Material and Supplies - 10%
- Contracted Services - 9%
- Transfers to Reserves - 6%
- Transfers to Capital Budget - 6%
- Transfers to Utility Reserves and Capital Budget - 5%
- Debt Principal and Interest - 3%
- Equipment - 2%
- Greater Victoria Public Library - 2%
- Fiscal - 1%
- Other Personnel Costs - 1%
- Grants - 1%



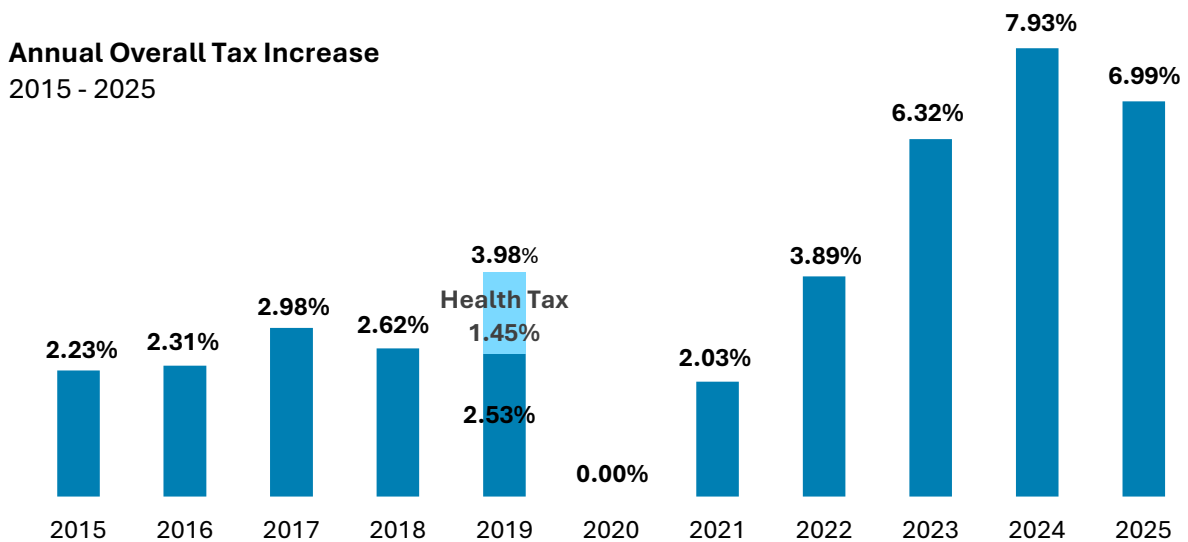
Capital Budget

The capital budget includes the various programs and projects to upgrade and rehabilitate the City’s infrastructure. Funding for the capital budget includes user fees (water, sewer and stormwater infrastructure), grants received for specific projects, property taxes, reserves and debt. Reserve funding is generated through allocations from property taxes and user fees, as well as other sources such as development cost charges and Federal contributions from the Canada Community-Building Fund. Ongoing programs are typically funded by ongoing revenue sources such as property taxes/user fees, but over the last several years have also been augmented by funding from reserves due to insufficient property tax funding to cover the capital costs. Larger projects, such as bridge replacement or construction of an arena, have primarily been funded through grants and debt, which is consistent with the City’s debt policy.

Capital plan funding levels are determined through policy decisions, taking into account the City’s risk tolerance. Each year, funding is allocated to all asset groups and, as asset management information is updated, proposed budget increases are typically implemented incrementally over time recognizing taxpayers’ ability to pay balanced with the responsibility to appropriately steward the City’s assets.

Historical Tax Increases

For context, the City’s historical tax increases have been relatively low, especially compared to the construction cost increases over the last several years which have ranged from 5-15% and may continue to increase.



ISSUES & ANALYSIS

The following summarizes the operating and capital budgets as well as reserve and debt levels.

OPERATING BUDGET

Overview

The City delivers approximately 200 programs and services which are included in the Draft Financial Plan and assumes that services will generally continue to be delivered at existing levels. The budgets factor in market cost pressures related to employee compensation, insurance, software licencing, construction, and the supply of materials, services and equipment.

Highlights of City Services



Revenues

The City's main sources of revenue through fees and charges are updated regularly and, in most cases, annually. Examples include:

- Victoria Conference Centre – updated annually based on bookings
- Water, sewer, storm drain, and solid waste user fees – updated annually
- Real estate leases – budgets updated to market as new leases or renewals are negotiated
- Recreation fees – typically updated annually
- Development and construction permit fees – many charged as a percentage of construction value and revenues increase as construction costs increase; planned review in 2026
- Parking revenues – reviewed annually

Utilities

The major cost drivers for the City's utilities are salaries, materials and equipment, CRD tipping fee and bulk water rate increases, and increased funding for the capital budget. For the average household there would be an annual increase of \$15 for water, \$9 for sewer, \$19 for stormwater, and \$16 for solid waste.

| Water Cost Drivers | Dollars \$ | Percentage % |
|---------------------------|--------------------|---------------------|
| CRD Water Purchase | \$1,073,590 | 3.88% |
| Salaries & Benefits | \$ 208,760 | 0.75% |
| Materials & Equipment | \$ 65,040 | 0.24% |
| Transfer to Capital | \$ (190,000) | (0.69%) |
| Total | \$1,157,390 | 4.18% |

| Sewer Cost Drivers | Dollars \$ | Percentage % |
|---------------------------|-------------------|---------------------|
| Salaries & Benefits | \$ 502,760 | 4.86% |
| Materials & Equipment | \$ 23,470 | 0.23% |
| Transfer to Capital | \$ (89,000) | (0.86%) |
| Total | \$ 437,230 | 4.23% |

| Solid Waste & Recycling Cost Drivers | Dollars \$ | Percentage % |
|---|-------------------|---------------------|
| Salaries & Benefits | \$ 99,530 | 2.43% |
| Materials & Equipment | \$ 100,220 | 2.45% |
| Transfer Station | \$ 40,000 | 0.98% |
| Total | \$ 239,750 | 5.86% |

| Stormwater Cost Drivers | Dollars \$ | Percentage % |
|--------------------------------|-------------------|---------------------|
| Salaries and Benefits | \$ 56,310 | 0.58% |
| Transfer to Capital | \$ 634,000 | 6.57% |
| Material and equipment | \$ 104,590 | 1.08% |
| Total | \$ 794,900 | 8.23% |

Staff propose bringing forward bylaws for utility rate increases to the November 27, 2025 daytime Council meeting for consideration of introductory readings followed by adoption at the December 4, 2025 daytime Council meeting. Bringing the bylaws forward in this manner will authorize the increases to come into effect on January 1, 2026.

Greater Victoria Public Library (GVPL)

The City's share of the GVPL's operating and facility maintenance budget request, and the City's lease and building costs for its branches is estimated at \$6.86 million, which is an increase of approximately \$552,000 and equates to a tax increase of 0.28%. The Library Board and staff are scheduled to present their budget request to the City on December 4, 2025.

Victoria and Esquimalt Police Board

The Police Board's approved provisional budget was presented at the joint Police Board, Esquimalt Council and Victoria Council budget meeting on October 22, 2025. The City's portion (86.33%) of their net budget request totals approximately \$77.9 million, including optional resources, which is an increase of \$9.8 million and would result in a tax increase of 5.02%.

In addition, a section 27 appeal under the *Police Act* to the Director of Police Services is still pending and, if approved, would be an additional \$925,000 (City portion approximately \$800,000) resulting in an additional tax increase of 0.41% for Victoria's share.

New Property Tax Revenue from New Development (Non-Market Change/NMC)

As per the Financial Sustainability Policy, because significant additional funding is required for ongoing lifecycle renewal capital programs, all new property tax revenue from new construction is used for the annual capital budget to offset the planned annual \$5 million increase in property tax funding. The draft Financial Plan includes \$1 million in this new tax revenue, meaning that there is a tax increase equal to \$4 million for this infrastructure funding in the draft budget. However, the final amount will not be known until the end of March when BC Assessment has finalized the assessment roll for the year. If the final amount is greater than the \$1 million estimate, Council's direction is to use that to reduce the tax increase further.

2025 Surplus

A surplus is created when revenues exceed budget expectations and/or actual expenditures are lower than expected. Per the Financial Sustainability Policy, since surplus is not ongoing, it should only be used for one-time items or be transferred to infrastructure reserves. The actual amount of surplus will not be known until year-end activities have concluded and the City's financial statements produced. At this point, it is estimated that the surplus will be approximately \$1.7 million. This amount has been built into the draft plan and is proposed to fund the program that is focused on mitigating the impacts of overnight sheltering in public space. It is recommended that any remaining amount in addition to what has already been allocated be transferred to the Buildings and Infrastructure Reserve.

Five-Year Operating Budget

To develop the future years of the five-year operating budget several assumptions have been incorporated including: no changes to services or service levels; collective agreement increases (if in place); known cost increases, such as hydro, at already announced rates; and unknown cost increases (the majority) at an inflationary factor of 2%. It is likely that new information will emerge, and any cost implications would be factored into future financial plans.

CAPITAL BUDGET

Overview

The capital budget was developed based on the principle that all asset groups are allocated some funding. In addition, the annual capital investment needs are determined through asset master plans, condition assessments and Council direction. Asset master plans outline the level of funding that is considered sustainable to maintain or improve service levels, and the priorities for infrastructure investment.

The following chart outlines the proposed capital investment:

Capital Expenditures by Category



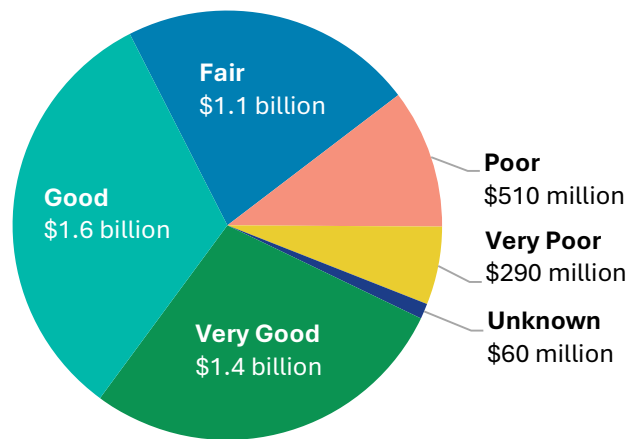
Asset Management

The City owns \$4.9 billion of infrastructure assets that are essential for delivering reliable services to residents, businesses, and visitors. Every day, City staff monitor, maintain, renew and replace 36 unique types of infrastructure across eight asset categories: structures, facilities, parks and open spaces, transportation, stormwater, wastewater, waterworks and fleet. Asset management is a continuous process of understanding the current physical condition of these assets and the financial requirements needed to sustain the services they provide to the community.

The majority of the City’s infrastructure investment is guided by asset master plans and condition assessments, which use a range of criteria to determine priorities. These criteria include risk assessment and service delivery, condition assessment and remaining design life, capacity requirements including future population growth, enhancing resiliency to meet climate change, tsunamis, and seismic hazards, reducing rain inflow and infiltration to sewers, and optimizing energy use.

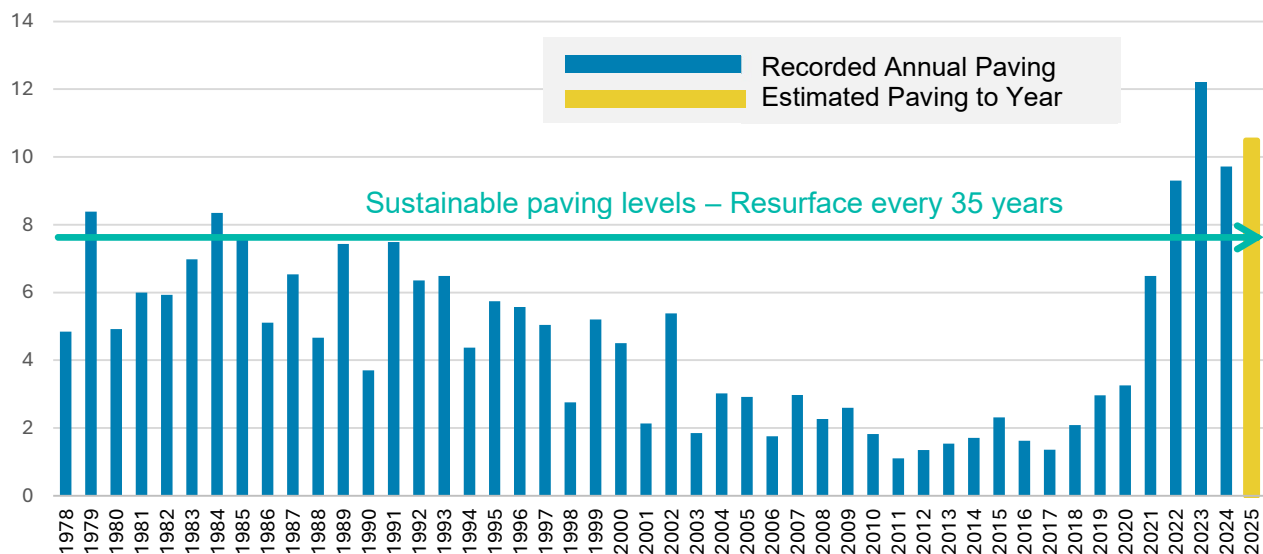
Historically, asset lifecycle renewal programs have been underfunded causing the level of deferred maintenance we are currently facing. If budgets are reduced due to insufficient funding, the City’s assets will continue to deteriorate, leading to significant operational risks. Without adequate investment in capital upgrades and maintenance, the degradation will accelerate to the point where full asset replacement becomes unavoidable, resulting in substantially higher costs compared to proactive upkeep.

The condition level of the City's \$4.9 billion in assets is distributed as seen in the below chart; included in the 'poor', 'very poor' and 'unknown' condition levels are portions of the City's transportation, structures, facilities and underground utility assets.



The below graph depicts historical paving levels against sustainable levels as determined by asset master planning. Due to under-investment in previous decades, the City now faces the need for addressing deferred maintenance and higher ongoing operating costs for emergent roadway repairs.

Kilometers of Road Paved Per Year



As part of the 2025 financial planning process, staff identified capital reductions totalling over \$4.4 million in ongoing reductions. This means that each year in the 20-year capital plan has already been reduced by this amount. For 2026, to balance the capital budget within the available funding, staff reassessed project timelines and budgets and have removed an additional \$11 million. Given these significant changes no further reductions are recommended related to existing asset life-cycle renewal programs.

If some or all of the planned \$5 million increase in property tax funding is not approved, reductions to ongoing lifecycle renewal programs that are included in the draft capital plan will be required, which would likely increase deferred maintenance. Important to note is that program budgets would be

reduced for each year of the plan. In other words, if the funding is reduced by \$1 million in 2026, programs will have to be reduced by \$20 million over the life of the plan. Examples of the programs that are funded through this source include:

- Major and local road paving
- Playground renewals
- Crosswalk renewals
- Facilities infrastructure renewals, including community centres
- Retaining wall rehabilitation
- Traffic signal renewals
- Park infrastructure renewals

In 2021, staff conducted a comprehensive review of corporate asset management practices with the objective of standardizing how asset information is captured and communicated for all 36 types of infrastructure owned and managed by the City. Outcomes from the review were incorporated into the City's corporate asset management program and led to the development of the Corporate Asset Management Summary, first published last year and updated as presented in Appendix F. The summary includes an overview of the assets owned by the City and a description of the primary services they provide, the remaining design life of City infrastructure, and the physical condition of these assets. The summary also provides an assessment of current service sustainability as measured by established maintenance practices, asset condition, and formalized and dedicated funding plans.

The Corporate Asset Management Summary provides a snapshot of the current state of City-owned infrastructure and is intended as a resource for Council during the financial planning process. Key findings from the summary are noted as follows:

- 16% of assets are in poor or very poor condition with a combined replacement cost of \$800 million.
- Most of the City's asset groups are performing satisfactorily in terms of their current service sustainability, but only one-quarter of assets can maintain service sustainability into the future under existing conditions and planned funding.
- Condition has not yet been assessed for \$60 million (1%) of assets.

Staff are regularly updating information on asset condition, service levels, and the financial requirements to provide reliable services to the community now and into the future, as well as the risks faced with the current state of infrastructure. This information is intended to further support Council's financial deliberations by prioritizing and scheduling asset funding levels over time. Notwithstanding these details, Council should anticipate an increasing share of assets deteriorating into poor and very poor condition and growing costs for infrastructure replacement.

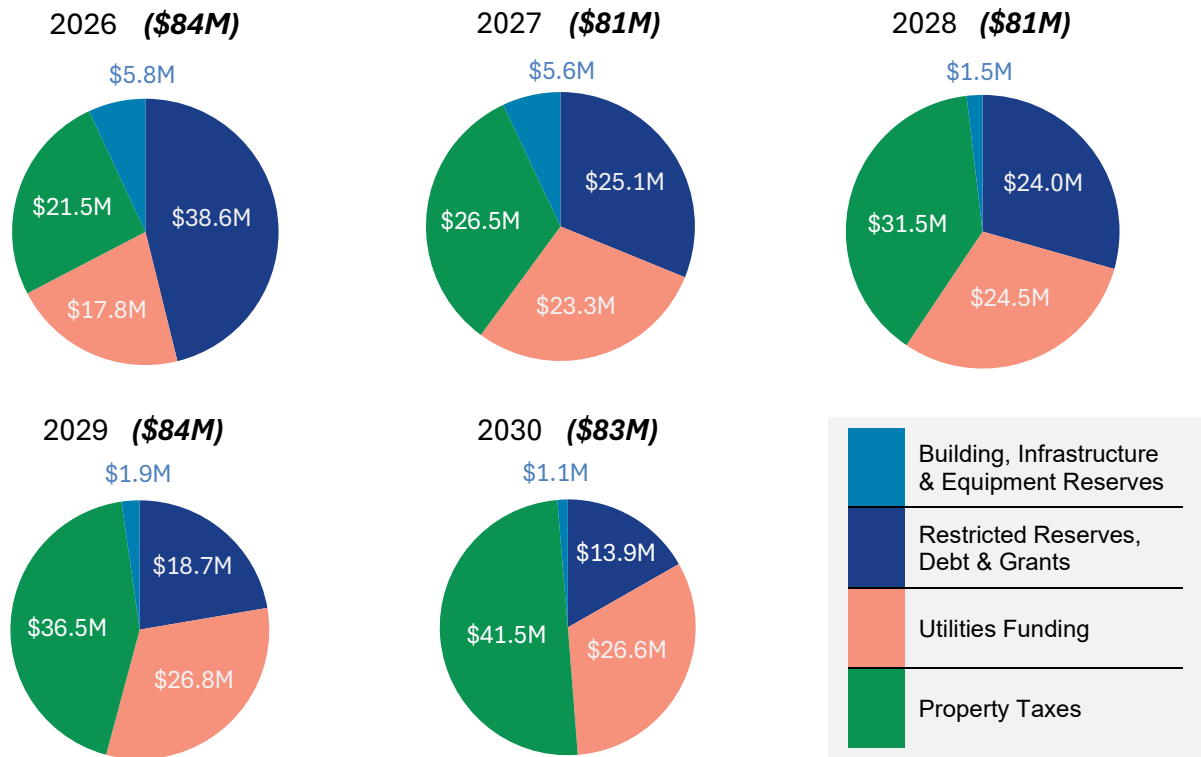
Approved Funding Strategy and Additional Funding Requirements

The approved funding strategy to increase property taxes for the capital budget by \$5 million per year from 2025 to 2030 aims to ensure that infrastructure lifecycle renewal programs can continue and reach sustainable funding levels by 2030.

It's important to note that the increase in property tax funding will not result in increased capital budgets but simply replaces the insufficient reserve funding; in other words, this will not increase reserves but will provide the funding for the annual ongoing capital lifecycle upgrades. The charts

below show the increasing taxes in green, and the decreasing reserve funding in blue.

Capital Funding (Excl. Crystal Pool)



Additional funding would be needed for larger stand-alone projects such as the replacement or upgrade of the central library, Ship Point Master Plan implementation, and potential large facility upgrades/replacements including Fire Station No. 3 and the Public Works Yard. Debt funding would likely be required since reserve funding is insufficient. As previously reported, the *Community Charter* contains provisions for external borrowing, including limits, voter assent requirements and approval by the Inspector of Municipalities. The City’s authorized borrowing levels are essentially at the assent free limit (the limit that does not require voter assent); however, any additional borrowing would require voter assent through an alternative approval process or referendum and the resulting debt servicing costs would likely require tax increases.

20-Year Capital Plan

For many capital investments, such as underground infrastructure and complete streets projects, longer-term asset master plans identify the priority order of renewals for coming years and decades. Those plans also indicate the estimated funding for those renewals. For these investments, ongoing budgets have been included in the 20-year capital plan.

Where future year budgets are yet to be determined due to scoping work underway, the capital plan indicates “TBD” (to be determined).

It can be difficult to determine the exact funding needs far into the future, therefore all future year amounts are best estimates only.

RESERVES

Reserves are set up to save up funding for future investment with the intent of smoothing out the impact on taxpayers, especially in years where larger than typical investments are needed. The Reserve Fund Bylaw outlines the purposes and authorized uses for each reserve and the Reserve Fund Policy further details each reserve.

Minimum balances have been established for each reserve and the methodology for determining overall target balances vary depending on the type of reserve, and those balances are in some cases based on supporting asset master plans or acquisition strategies, if available. However, the minimum balances are only one part of the equation and recommended capital budget spend levels also need to be taken into account.

Some reserves, such as the Canada Community-Building Reserve and the Local Amenities Reserve, receive funding from external sources. Other reserves, such as the Financial Stability reserves, have target balances aligned with operating costs and are generally funded each year to ensure adherence to those targets. Several reserves, such as the Victoria Housing Reserve and the Art in Public Places Reserve have guiding strategies/plans in place that set relevant targets and in turn guide investment levels. The methodology for determining the target balances for the City's two land acquisition reserves - Tax Sale Lands Reserve and Parks and Greenways Acquisition Reserve – is to base funding levels on acquisition strategies. Both these strategies are under development and will include funding options. Currently these two reserves receive funding through land sales.

While minimum target balances are established based on asset replacement costs, desired reserve levels also take into account:

1. Asset renewal needs identified through asset master plans and condition assessments.
2. Other funding sources that might be available such as taxes, user fees and grants.
3. Policy choices. Examples include:
 - a. 'Pay as you go' results in heavy reliance on reserves and ongoing revenue sources such as utility user fees and taxation. This is essentially the City's policy for utilities.
 - b. 'Save up before you spend' results in significant reserve levels. This is rare in a municipal context because demands are typically high, and it is difficult to delay projects long enough to save enough in reserves. When possible, the City aims to save enough in reserves to smooth out the impact of higher needs in some years.
 - c. Borrowing levels. If the borrowing policy is broad and is the main funding source for much of the capital budget, less is needed in reserves. The opposite is the case if the borrowing policy is limited. The City's Policy aims to limit borrowing to larger stand-alone projects only to minimize the impact on taxation.

Some reserves are restricted under the *Community Charter* (for example capital reserves, Tax Sale Lands reserve and Development Cost Charges reserves), others under agreement (for example all Police reserves and the Arena reserve), and others due to the funding source (for example utility reserves, Artificial Turf Field reserve and Recreation Facilities Reserve.)

Appendix G outlines the methodology for reserve target balances and any restrictions in place.

While the City has many reserves, most are for a specific purpose. There are four general capital reserves that can be used for most infrastructure improvements or equipment purchases: Buildings and Infrastructure, Canada Community-Building, Equipment and Vehicles and Heavy Equipment. The proposed funding strategy uses the majority of funding in these reserves over the next five years.

| General Purpose/ Main Capital Budget Funding | Projected Unallocated Balance | | | | |
|---|-------------------------------|------------------|------------------|------------------|------------------|
| | 2025 | 2026 | 2027 | 2029 | 2030 |
| Buildings & Infrastructure | 3,692,263 | 2,137,433 | 1,108,033 | 3,004,323 | 3,755,423 |
| Canada Community Building | 5,139,001 | 5,002,471 | 2,132,801 | 320,131 | 67,461 |
| Equipment | 887,779 | 173,779 | 53,779 | 236,779 | 190,779 |
| Vehicles & Heavy Equipment | 1,684,348 | 1,684,348 | 1,347,348 | 1,736,348 | 5,348 |
| | 11,403,390 | 8,998,030 | 4,641,960 | 5,297,580 | 4,019,010 |

The table below outlines the estimated uncommitted year-end reserve fund balances if all planned work for 2025 is completed. These estimates assume that Council will approve the additional \$5 million annual tax increase for 2026-2030 for the capital budget and budgeted contributions to the reserves. Without the annual contributions and tax increases, the capital budget would require reductions because the general-purpose reserve balances (Buildings and Infrastructure, Equipment, Vehicles and Heavy Equipment and Canada Community-Building) would be insufficient.

| Description | Unallocated Balance Dec 31, 2025 | 2026 Budget Transfers In | 2026 Budget Transfers Out & Committed | Projected Balance Dec 31, 2026 |
|--|-------------------------------------|-----------------------------|---|-----------------------------------|
| General Purpose/Main Capital Budget Funding | | | | |
| Buildings & Infrastructure | 3,692,263 | 2,542,170 | 4,097,000 | 2,137,433 |
| Canada Community Building | 5,139,001 | 4,246,470 | 4,383,000 | 5,002,471 |
| Debt Reduction | 1,922,090 | 2,000,000 | - | 3,922,090 |
| Equipment | 887,779 | 1,000,000 | 1,714,000 | 173,779 |
| Vehicles & Heavy Equipment | 1,684,348 | 2,500,000 | 2,500,000 | 1,684,348 |
| | 13,325,481 | 12,288,640 | 12,694,000 | 12,920,121 |
| Utilities | | | | |
| Sewer Utility Equipment and Infrastructure | 29,667,790 | 400,000 | 1,679,000 | 28,388,790 |
| Stormwater Utility Equipment and Infrastructure | 4,765,757 | 100,000 | 30,000 | 4,835,757 |
| Water Utility Equipment and Infrastructure | 48,793,280 | 1,770,000 | 359,000 | 50,204,280 |
| | 83,226,827 | 2,270,000 | 2,068,000 | 83,428,827 |
| Special Purpose/Restricted | | | | |
| Archives Equipment | 38,468 | - | - | 38,468 |
| Art in Public Places | 833,761 | - | 150,000 | 683,761 |
| Artificial Turf Field | 636,661 | 157,500 | - | 794,161 |
| Climate Action Reserve | 3,501,569 | - | 768,310 | 2,733,259 |
| Development Cost Charges | 12,893,355 | - | 2,669,000 | 10,224,355 |
| Development Stabilization Reserve | 19,958,001 | - | 1,491,000 | 18,467,001 |
| Downtown Core Area Public Realm Improvements | 230,324 | - | - | 230,324 |
| Local Amenities Reserve | 686,933 | - | 350,000 | 336,933 |
| Multipurpose Equipment and Infrastructure | 1,073,205 | 205,580 | 1,119,000 | 159,785 |
| Parking Services Equipment and Infrastructure | 9,462,768 | 2,850,000 | 1,843,000 | 10,469,768 |
| Parks and Greenways Acquisition Fund | 299,424 | - | - | 299,424 |
| Parks Furnishing Dedication Program | 193,394 | 195,000 | 156,000 | 232,394 |
| Police Emergency Response Team | 894,675 | 11,220 | - | 905,895 |
| Police Vehicles, Equipment & Infrastructure | 1,629,212 | 1,346,400 | 1,500,000 | 1,475,612 |
| Recreation Facilities Equipment and Infrastructure | 1,610,473 | 42,300 | - | 1,652,773 |
| Tax Sale Lands Fund | 628,944 | - | - | 628,944 |
| Tree Conservation | 1,861,240 | - | 404,020 | 1,457,220 |
| Victoria Housing Reserve | 2,237,250 | - | - | 2,237,250 |
| | 58,669,656 | 4,808,000 | 10,450,330 | 53,027,326 |
| Financial Stability Reserves | | | | |
| City | 5,238,841 | 100,000 | 922,810 | 4,416,031 |
| Insurance Claims | 4,755,060 | - | - | 4,755,060 |
| Police | 894,727 | - | 880,000 | 14,727 |
| Sewer Utility | 967,157 | - | - | 967,157 |
| Stormwater Utility | 957,360 | - | - | 957,360 |
| Water Utility | 1,062,028 | - | - | 1,062,028 |
| | 13,875,171 | 100,000 | 1,802,810 | 12,172,361 |
| Total Reserves | 169,097,136 | 19,466,640 | 27,015,140 | 161,548,636 |

DEBT

The Financial Sustainability Policy aims to keep debt servicing charges at a maximum of 7% of the prior year's property tax levy to minimize property tax increases. In addition, the *Community Charter* limits debt servicing to 25% of prior year total revenue and if debt servicing is below 10% of prior year total revenue, no elector assent is required.

The City currently has approximately \$63.55 million in outstanding debt and the current debt servicing (principal and interest) is approximately 4.42% of the prior year tax levy. Adding in the authorized debt, the principal and interest payments would increase to 12.30%.

The following table outlines the current external debt issues, year of retirement and the annual debt servicing costs:

| Final Year | Issue | MFA Issue - Purpose | Principal & Interest |
|-------------------|--------------|--|---------------------------------|
| 2031 | 115 | Johnson Street Bridge Replacement (CMHC) | 743,242 |
| 2033 | 79 | Multipurpose Arena | 540,514 |
| 2033 | 80 | Multipurpose Arena | 649,303 |
| 2034 | 81 | Multipurpose Arena | 649,303 |
| 2034 | 130 | Johnson Street Bridge Replacement | 1,767,118 |
| 2036 | 139 | Johnson Street Bridge Replacement | 320,186 |
| 2037 | 142 | Johnson Street Bridge Replacement | 659,671 |
| 2045 | 166 | Transportation Improvements | 512,415 |
| 2045 | 166 | Public Washroom Improvements | 229,439 |
| 2045 | 166 | Parks Redevelopment | 382,399 |
| 2045 | 167 | Transportation Improvements | 362,399 |
| Total | | | \$6,815,988 |

In addition to the external debt is internal borrowing from the City's Debt Reduction Reserve which funded the replacement of Fire Department Headquarters and the \$35.9 million loan is required to be repaid to that reserve over time; the repayment amount for 2026 is \$2 million.

GRANTS

As directed by Council, grants have been grouped into several categories: direct-award grants, Festival Investment Grants, Growing in the City Grants, My Great Neighbourhood grants, Cultural Infrastructure Grants, Victoria Music Strategy Grants, IDPAD Youth Grants, and Major Community Initiatives and Events Grants. Over the last number of years, Council has directed a few grants to be allocated outside of the established programs and these have been grouped under "other grants". Per Council direction, the majority of grants have been increased by inflation.

The draft direct-award grants and one-time grants are outlined in Appendix H.

PUBLIC CONSULTATION

The City's Budget engagement followed last year's approach, combining a survey of 700 Victoria residents with a series of focused, budget conversations co-hosted with six equity-seeking organizations and 68 members of the community they serve. A separate report was presented to

Council on November 3, 2025.

The next step proposed is to provide a dedicated budget engagement project on the City’s Have Your Say online platform, inviting the public to read the draft financial plan and summary highlights, and submit input and ask questions of staff. All input collected will be shared with Council.

TIMELINE

The following table outlines the estimated timeline for this year’s process.

| Dates | Purpose |
|--|---|
| November 7, 2025 Special COTW | Draft Financial Plan introduced |
| November 21 and 24, 2025 Special COTW | Budget discussions and direction |
| November 21, 2025 Special COTW | Direction to bring forward utility rate bylaws |
| November 27, 2025 Daytime Council | Introductory readings of utility rate bylaws |
| December or January COTW - tentative | When deliberations have concluded, final budget approval and direction to bring forward Financial Plan Bylaw in April 2026 |
| December 4, 2025 Daytime Council | Adoption of utility rate bylaws |
| April 2026 Committee of the Whole | Report on tax rates options |
| April 2026 Council | Final report on Financial Plan including incorporated changes and BCA non-market change data. Introductory readings of Financial Plan Bylaw; Introductory readings of Tax Bylaw |
| April 2026 Council | Adoption of Financial Plan Bylaw and Tax Bylaw |

OPTIONS & IMPACTS

To achieve a 4% City property tax increase for each year of the 2026-2030 Financial Plan, reductions of approximately \$38.5 million are required.

The main contributors to budget increases – employee compensation, debt repayment and infrastructure funding - are also significant levers for cost containment. In identifying options, and with those levers in mind, staff strived to minimize impacts on services and considered the City’s obligations and service dependencies.

While service changes may have impacts, the City does not profile specific users of the City’s individual services which means we cannot identify specific groups impacted. However, tools such as the Equity Community Profile and Complete Communities datasets support distributional equity outcomes and highlight the diverse needs of the community. Based on Census 2021 and further analysis, these data show that a significant majority of residents are part of equity-seeking groups: 23.2% are seniors, 5.0% are Indigenous, 16.9% are racialized, 20.0% are immigrants, 5.9% are low-income, 2.2% are transgender or non-binary, 44.3% experience accessibility limitations, and 60.5% of households are renters. Accounting for overlaps, at least two-thirds of the population belong to one or more of these priority groups. In addition to those who live in the City, many users of our services are from other CRD municipalities or tourists visiting.

The following summarizes the reduction options identified by staff, grouped by order of magnitude savings.

Operational Reassessment and Duplication of Services \$18.25 million or 47% of reductions required

By initiating services reviews, staff examined and reassessed operations identifying opportunities for savings including where vacant positions exist, where there is duplication of service with other organizations, and where contracted services can be adjusted with manageable impact on service delivery.

| | | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|--|------------------|------------------|------------------|------------------|------------------|
| 1 | Contracted services duplication | 600,000 | 1,000,000 | | | |
| 2 | Reduce planned overtime | 300,000 | | | | |
| 3 | Service reviews/ operational reassessments | 1,576,370 | 4,235,000 | 3,150,000 | 3,240,000 | 4,150,000 |
| | Total | 2,476,370 | 5,235,000 | 3,150,000 | 3,240,000 | 4,150,000 |

Defer/Cancel Debt Funded Projects to Reduce Debt Repayments \$14.04 million or 36% of reductions required for 2026-2030

Planned additional debt is a significant lever available to contain property tax increases. The Draft 2026-2030 includes additional debt repayments of over \$14 million, representing 36% of the overall reduction amount needed to achieve tax increases of 4% for the City’s portion.

Current external principal and interest repayments total approximately \$8.6 million. Authorized projects would add \$15.4 million in annual principal and interest payments phased in from 2026 to 2031 to be repaid over 20 years. In addition to avoiding additional debt repayments, operating and maintenance costs can be avoided if new assets are not created, or existing ones not expanded. Furthermore, two planned debt funded projects, Dallas Road Waterfront and Peter Pollen Park, only have approved debt funding for the initial planning phase and not the construction. It is anticipated that the construction cost for each would be between \$6-8 million.

The new debt is scheduled to be phased in over the next 6 years; the table below shows the incremental property tax impacts for each year as well as the total, which is the annual amount that will be paid in each year for 20 years. The following projects could be considered for deferment or cancellation to achieve the 4% maximum tax increase:

| | | Loan amount | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | Total annual payment |
|----|---------------------------------------|---|------------------|------------------|------------------|------------------|------------------|------------------|----------------------|
| 4 | Government Street Refresh | \$4.7 million in 2026 | | 376,000 | | | | | 376,000 |
| 5 | Multi-modal Corridors | \$11.35 million: \$8.55 million in 2026 \$2.04 million in 2027 \$760,000 in 2028 | | 684,000 | 163,200 | 61,360 | | | 908,560 |
| 6 | Centennial Square | \$6.119 million in 2026 | | 489,520 | | | | | 489,520 |
| 7 | Topaz Park Phase 3 | \$3.92 million in 2028 | | | | 313,600 | | | 313,600 |
| 8 | Dallas Road Waterfront planning | \$520,000 + construction TBD in 2027 | | | 41,600 | | | | 41,600 |
| 9 | Peter Pollen Waterfront Park planning | \$679,000 + construction TBD in 2027 | | | | 54,320 | | | 54,320 |
| 10 | Crystal Pool Replacement | \$162.2 million | 1,230,000 | 1,240,000 | 2,890,000 | 3,260,000 | 3,237,000 | 1,324,000 | 13,181,000 |
| | Total | | 1,230,000 | 2,789,520 | 3,094,800 | 3,689,280 | 3,237,000 | 1,324,000 | 15,364,600 |

Service and Program Adjustments \$4.92 million or 13% of reductions required

Several service and program adjustments could be considered in alignment with the statistically valid budget survey, including some arts and culture budgets. In addition, the City provides over \$5 million annually in grant funding to various organizations (Appendix I) and as reported previously, the City is very generous compared to other BC municipalities (Appendix J) and reviewing the level of funding provided can contribute to reduced property tax increases.

Furthermore, the new CRD Transportation Service intends to provide grants to municipalities and the City's Free Youth Bus Pass Program and the Bike Valet could potentially be funded through that regional program. Recent point in time surveys confirm that while about half of Bike Valet users reside in Victoria, the remainder are from elsewhere in the Capital Regional District, making the CRD an

appropriate funding source. Also, regarding the Youth Bus Pass Program, staff believe that other municipalities, that have to-date not implemented such a program due to concerns over property tax increases, will be interested in doing so if the funding was provided through the CRD.

Also, general cost reductions through streamlining or changes to contracts can achieve savings. For example, implementing an Alternative Official Notice Bylaw will reduce advertising budgets by \$115,000, and scaling back on in-person conferences and training will allow those budgets to be reduced by \$500,000.

| | | 2026 | 2027 | 2028 | 2029 | 2030 |
|----|--|------------------|----------------|----------|---------------|---------------|
| 11 | Eliminate Major Community Initiatives and Events grant program | 200,350 | | | | |
| 12 | Reduce grant budgets by 20% | 961,316 | | | | |
| 13 | Eliminate funding for Canada Day | 217,800 | | | | |
| 14 | Eliminate funding for programming for Cameron Bandshell (\$71,500), Centennial Square Event (\$30,000), Ship Point (\$34,500), Fort Commons (\$5,000), and other (\$5,500) * | 146,500 | | | | |
| 15 | Eliminate funding for Special Events | 329,710 | | | | |
| 16 | Eliminate funding for Create Victoria Initiatives | 50,000 | | | | |
| 17 | Eliminate funding for Neighbour Space | 11,460 | | | | |
| 18 | Align budgets with actual need for CALUC funding for public meetings | 2,500 | | | | |
| 19 | Eliminate OUR DWTN funding | 945,200 | | | | |
| 20 | Bike Valet - request funding through CRD transportation service | 448,000 | | | | |
| 21 | Youth Bus Pass Program - CRD Transportation Service grant incorporated into draft budget. Would need to be added back or cancelled if funding cannot be secured. | - | | | | |
| 22 | Alternative Official Notice Bylaw | 115,000 | | | | |
| 23 | Reduce conference and training budgets | 500,000 | | | | |
| 24 | Various other operational cost reduction initiatives | 648,930 | 290,000 | | 25,000 | |
| 25 | Eliminate protocol program | | | | | 30,000 |
| | Total | 4,576,766 | 290,000 | - | 25,000 | 30,000 |

*Note: Approximate attendance: Cameron Bandshell 20,200 people, Centennial Square 5,400 people, Ship Point 8,000 people

Alternative or Increased Revenues \$2.353 million or 6% of reductions required

Staff have identified several opportunities for additional or increased revenue options ranging from parks, recreation, transportation, conference centre, emergency preparedness and parking.

In addition, to ensure cost recovery of staffing costs related to development and permit applications, a review has identified additional positions that should be covered. Staff plan to review the associated fees in 2026, but in the meantime propose using the existing Development Stabilization Reserve which currently has a balance of approximately \$20 million. As regulatory fees are set to recover costs associated with the regulatory scheme, a surplus in any one year must be transferred to this reserve for future use during times of economic downturns and deficits within the service area. The last comprehensive review was completed in 2017.

| | | 2026 | 2027 | 2028 | 2029 | 2030 |
|----|---|------------------|----------------|----------------|---------------|----------|
| 26 | Cost recovery for development regulatory schemes | 914,490 | | | | |
| 27 | Fees for emergency preparedness workshops, business continuity planning, and fire extinguisher training | 37,000 | | | | |
| 28 | Expand street occupancy permit fee for frontage works | | 200,000 | | | |
| 29 | Boulevard Tax increase | 52,000 | | | | |
| 30 | VCC increased revenue potential | 100,000 | | | | |
| 31 | Introduce fee for grass field rentals | | 100,000 | | | |
| 32 | Paid parking at parks with regional draw | | 500,000 | | | |
| 33 | Tree Protection Bylaw fee increases | | 50,000 | | | |
| 34 | Sponsorships | | 50,000 | | | |
| 35 | Increased revenues through parks and recreation services | | | 200,000 | 50,000 | |
| 36 | Crystal Garden increased revenues | | | 100,000 | | |
| | Total | 1,103,490 | 900,000 | 300,000 | 50,000 | - |

Accessibility Impact Statement

Initiatives and projects within the Financial Plan support accessibility improvements.

2023 – 2026 Strategic Plan

The Financial Plan includes resources to advance the Strategic Plan.

Impacts to Financial Plan

Once finalized, the 2026-2030 Financial Plan will replace the current plan.

Official Community Plan Consistency Statement

Initiatives included within the Financial Plan are consistent with policies within the Official Community Plan including support for infrastructure asset management objectives.

Community Safety and Wellbeing Impact

The Financial Plan includes funding for the implementation of the Community Safety and Wellbeing Plan.

CONCLUSIONS

The financial planning process is about balancing needs and wants to achieve desired levels of service within acceptable funding increases, as determined by Council. Trade-offs are required and this report provides a range of options, both immediate and for the future, for Council's consideration. The cost containment opportunities presented in this report strive to contain budget increases while minimizing the impact on services.

Respectfully submitted,

Susanne Thompson
Deputy City Manager and
Chief Financial Officer

Report accepted and recommended by the City Manager

List of Attachments

Appendix A – 2026 Reductions Incorporated into the Draft Financial Plan – from December 14 2024 report

Appendix B – New Options for Reductions

Appendix C – Financial Sustainability Policy; Reserve Fund Policy; and Revenue and Tax Policy

Appendix D – Summary of 2025 and 2026 Reductions – December 12, 2024

Appendix E – Community Safety and Wellbeing Plan Budget Implications

Appendix F – Corporate Asset Management Summary

Appendix G – Summary of Reserve Fund Restrictions and Target Balance Methodologies

Appendix H – Draft Direct-award Grants and One-time Grants
Appendix I – Listing of All Grant Budgets
Appendix J – Grants and Permissive Tax Exemptions Comparison 2024