



Staff Memo

To: South Huron Council
From: Julia Warwick, Director of Financial Services/Treasurer
Date: December 17, 2025
Re: Reaching Target Tax Rate

Recommendation:

That South Huron council receives Staff Memo FIN-MEMO-05-2025 – Reaching Target Tax Rate for information.

Purpose:

To provide Council with budget scenarios that meet the target tax rate of 2.5%.

Background and Analysis:

At the Budget Meeting on December 8, 2025, Council passed the following resolution:
508-2025 - That Staff bring a report back to the December 17th Budget meeting with scenarios with a tax rate increase of 2.5%.

Staff have developed a series of recommendations, as outlined below, which would cumulatively amend the budget to meet the target tax rate of 2.5%.

The guiding principles behind the development of the recommendations included in this memo were as follows:

- Funding recurring annual expenditures via the tax levy
- Maintaining healthy reserve balances for future investment
- Investing in municipal assets

Recommendation #1: Remove the offsetting draw from the OPP stabilization reserve.

Impact on the tax levy: Increase by \$53,023



Justification: The OPP contract is an annual operating expense. If the impact of an annual increase is not captured in the levy in the year it is introduced, for example by funding the increase through a reserve instead, the impact on the levy will just be deferred by one year. This could lead to a potential snowball effect of multiple annual increases hitting the levy in one year. Based on the OPP 2026 Annual Billing Statement, the 2026 billing was capped at \$2,140,181 and otherwise would have been \$2,377,183 (an additional \$237,001). It is unlikely that OPP expenses will decrease in the coming years. South Huron's OPP stabilization reserve balance is currently approximately \$303,000. The reserve should be preserved for future use, if possible, given the significant anticipated increases in the years to come.

Recommendation #2: Reduce the offsetting draw from the working fund reserve for the rightsizing of volunteer firefighter wages in budget.

Impact on the tax levy: Increase by \$50,000

Justification: Volunteer firefighter wages are an annual operating expense. As noted above, it is preferable to capture annual expense increases in the levy in the year the increase occurs. The working fund reserve had a balance of \$6,963,123 as of December 31, 2024. Since this reserve can easily accommodate a \$50,000 draw, it is recommended to smooth the impact of the rightsizing of the volunteer wages on the levy by pulling half of the increase (\$50,000) from the working fund reserve and funding the other \$50,000 via the general tax levy.

Recommendation #3: Increase the insurance budget appropriately across departments to reflect the approximate 7.4% insurance expense increase for 2026 per Marsh (insurance broker).

Impact on the tax levy: Total increase by \$23,500 (Cemetery \$500, Protection \$7,000, Recreation \$5,000, Transportation \$6,500, Environmental \$4,500)

Justification: Per insurance projections received from Marsh after the publication of the Proposed Budget, insurance expenses will increase by approximately 7.4% in 2026. This was verbally noted at the December 8th Budget Meeting. Insurance is an annual expense. It is preferable to capture annual expense increases in the levy in the year the increases occur.

Recommendation #4: Revert funding source for portion of capital project 2026-TH-01 back to the levy.

Impact on the tax levy: Increase by \$22,935



Justification: The original draft of the staff budget showed the funding sources of capital project 2026-TH-01 Town Hall Roof Replacement – Engineering as follows: \$22,935 from the tax levy, \$11,892 from the General Admin Capital Replacement Reserve. To alleviate tax levy pressure, resolution #427-2025 was passed recommending the project be fully funded from the Gen. Admin Capital Replacement Reserve. This recommendation was incorporated into the Mayor’s Proposed Budget. Since then, higher than anticipated growth has further alleviated pressure on the tax levy. Given this development, staff recommend preservation of the General Administration Capital Replacement reserve for future use by funding \$22,935 from the tax levy for this capital project.

Recommendation #5: Reduce the draw from the Transportation Capital Replacement Reserve for capital project 2026-TS-10 by \$85,000.

Impact on the tax levy: Increase by \$85,000

Justification: The Mayor’s Proposed Budget included addition #MA-01-2026 which pulled an additional \$125,000 from the Transportation Capital Replacement Reserve to fund capital project 2026-TS-10 Replacement of the 2006 Volvo G740B Grader #93. The reason for the addition was to smooth the tax levy and utilize the healthy reserve balance. Given the target tax rate, the original \$125,000 is no longer required to smooth the tax levy, therefore staff recommend reducing the pull from reserve by \$85,000.

Recommendation #6: Increase the dedicated Asset Management Levy by an additional 0.25%.

Impact on the tax levy: Increase by \$28,543.

Justification: As part of an ongoing strategy to increase funding for appropriate asset management within the Municipality, council has increased the dedicated Asset Management Levy annually by 0.25% of the general levy for the last three years. The 2025 Asset Management Plan recommended increasing tax revenues by 1.9% each year for the next 15 years. To start bridging this gap, staff recommend increasing the Asset Management Levy by 0.5% this year instead of the originally proposed 0.25%. Note that the Asset Management Levy is currently allocated towards the Transportation Services capital budget, however it can be reallocated to a different department upon direction from Council.

Based on the Proposed Budget as published on November 18, 2025, and amended on December 8, 2025 (Resolution #504-2025 regarding carryforwards and #507-2025 regarding the dog park), if all of the above recommendations are incorporated into the



2026 Budget the tax rate increases over 2025 and the 2026 tax rates would be as follows:

2026 Tax Impact	Increase \$ (Decrease) \$	Increase \$ (Decrease) \$
<i>Based on a \$536,318 Levy increase</i>	Rural (Ward 1&3)	Urban (Ward 2)
Tax Rate Increase	1.42%	2.49%
2026 Projected Municipal Residential Tax Rate	0.00655134	0.00754194