RESERVES AND DEBT MANAGEMENT

As adopted on December 12, 2023

Reserves and Debt Management

The Fiscal Strategy includes four pillars to ensure long-term financial sustainability. The previous two sections of the budget addressed Revenue Management and Capital Planning, while this section focuses on the Reserve Management and Debt Management pillars. Balancing the use of reserves and debt must be carefully managed in the 10-Year Capital Plan. Reserve contributions and draws (both capital project funding and debt repayment) must be considered when developing the plan. This section explores that balance further.

Reserve Management

Reserves are used to fund capital projects and manage fiscal shocks to the operating budget. Reserves are funded through a number of sources including:

- Planned operating budget contributions to reserves funded through the tax levy or user rates
- Grants received from the provincial or federal governments
- Development charges and other development revenues collected for growth
- Operating budget surpluses which are allocated based on the Council approved surplus management strategy

Operating budget fiscal shocks are managed with stabilization reserves

In the operating budget, reserves are used to manage fiscal shocks to the budget which could result in large swings to the tax levy or user rates. This is done by smoothing the contributions to capital reserves and through the tax rate stabilization reserve or user rate reserves.

A standard practice is to keep the tax stabilization reserve at a target balance of about 10 percent of annual tax revenue to pay for any unforeseen pressures. The tax stabilization reserve will be used over the period of 2024 to 2026 to phase in the incremental operating cost required for the new financial system, Aurora Town Square and for the grand opening events for the Aurora Town Square in 2024.

Forecasted reserve balances

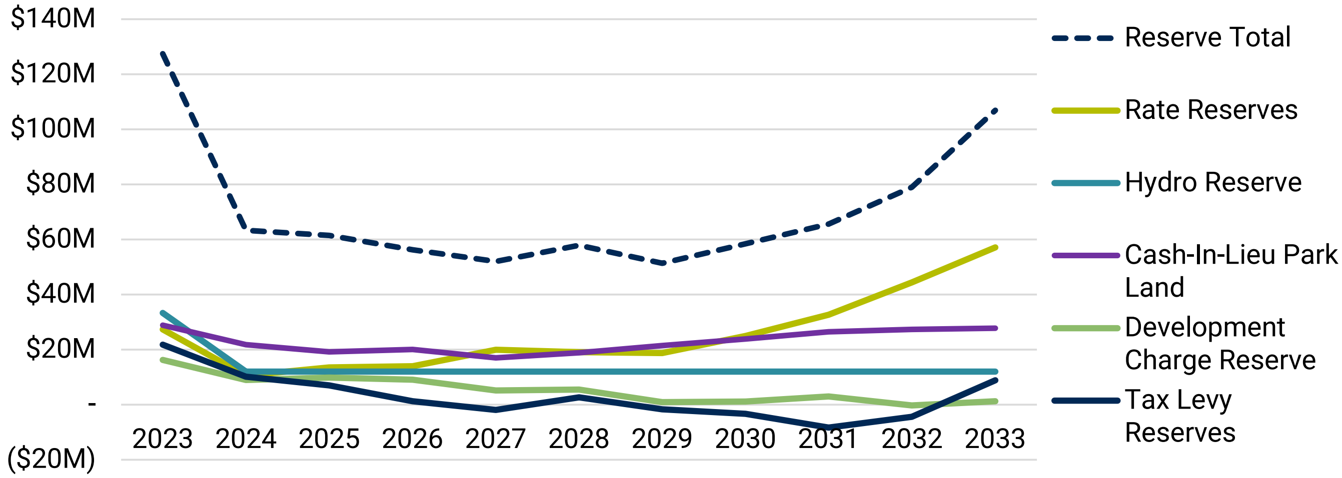
($M)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Tax Levy Funded											
Rehab & Replacement											
Roads	4.7	(1.8)	(2.8)	(5.3)	(8.9)	(5.6)	(10.2)	(14.8)	(18.1)	(14.7)	(5.0)
Facilities	5.7	4.3	3.4	1.9	3.0	3.1	3.5	4.1	4.4	5.3	8.5
Information Technology	0.9	0.0	0.1	3.6	3.3	3.8	4.3	4.4	5.0	4.7	4.6
Fleet	3.1	3.4	3.6	0.6	(0.8)	(1.7)	(2.0)	(1.6)	(2.4)	(1.4)	(0.2)
Parks & Recreation	3.2	2.7	1.3	0.5	1.1	1.7	2.3	3.0	3.7	4.5	5.6
	17.6	8.6	5.6	1.4	(2.3)	1.3	(2.1)	(4.9)	(7.4)	(1.5)	13.5
Growth & New	3.6	1.6	1.6	0.0	0.4	1.4	0.2	1.7	1.3	1.2	1.2
Studies & Other	0.6	0.0	(0.0)	0.0	0.3	0.2	0.6	0.3	0.2	0.6	1.0
	21.8	10.2	7.2	1.4	(1.7)	2.9	(1.4)	(2.9)	(5.9)	0.2	15.6
Rate Funded											
Water	11.3	7.2	7.7	9.8	12.2	14.8	17.4	20.8	24.4	28.2	32.3
Wastewater	6.0	7.5	9.1	10.8	12.6	14.6	16.8	19.2	21.7	24.4	27.2
Stormwater	10.1	(4.2)	(3.2)	(6.6)	(4.9)	(10.4)	(15.5)	(15.1)	(13.4)	(8.2)	(2.4)
	27.3	10.5	13.5	14.0	19.9	19.0	18.7	24.9	32.6	44.4	57.1
Development Charges											
Fire Services	(2.2)	(2.0)	(1.9)	(3.2)	(3.0)	(4.7)	(4.6)	(4.4)	(4.3)	(5.0)	(4.8)
Roads & Related	13.4	13.2	13.4	12.8	6.5	6.3	2.9	2.5	1.6	(3.6)	(4.9)
Parks & Recreation	2.0	(5.4)	(5.8)	(5.3)	(3.7)	(2.4)	(4.4)	(4.7)	(3.0)	(1.2)	0.6
Library Services	(0.4)	(0.2)	0.0	0.2	0.4	0.7	1.0	1.3	1.6	1.9	2.2
Water Supply & Distribution	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1
Sewer	1.7	1.9	2.1	2.3	2.5	2.8	3.0	3.2	3.4	3.7	3.9
General Government	0.1	(0.2)	(0.0)	0.1	0.3	0.5	0.7	0.9	1.0	1.2	1.4
Municipal Parking Spots	0.4	0.4	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
	16.2	9.0	9.8	9.0	5.1	5.4	0.9	1.1	3.0	(0.3)	1.2
Cash-In-Lieu Park Land											
Cash-In-Lieu Park Land	28.8	21.8	19.2	20.1	16.9	18.8	21.5	23.9	26.5	27.4	27.8
Hydro Reserve											
Hydro Reserve	33.3	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Total	**127.4**	**63.4**	**61.6**	**56.4**	**52.2**	**58.1**	**51.7**	**58.8**	**68.1**	**83.6**	**113.7**

Reserves are used to fund capital projects

Projects in the 10-Year Capital Plan are funded from reserves. There are a number of reserves that are used to fund capital projects and the funds are applied to the project based on the purpose for which each reserve can be used. The table above shows the balance of these reserves over the next 10 years.

While some reserves do go into a negative balance, the overall capital reserves balance stays positive in all years. This budget assumes that the LED debt carrying cost and $895,000 savings from the producer's responsibility for recycling waste starting 2026 will be contributed to the tax levy reserves.

10-year capital reserves balances grouped by funding source

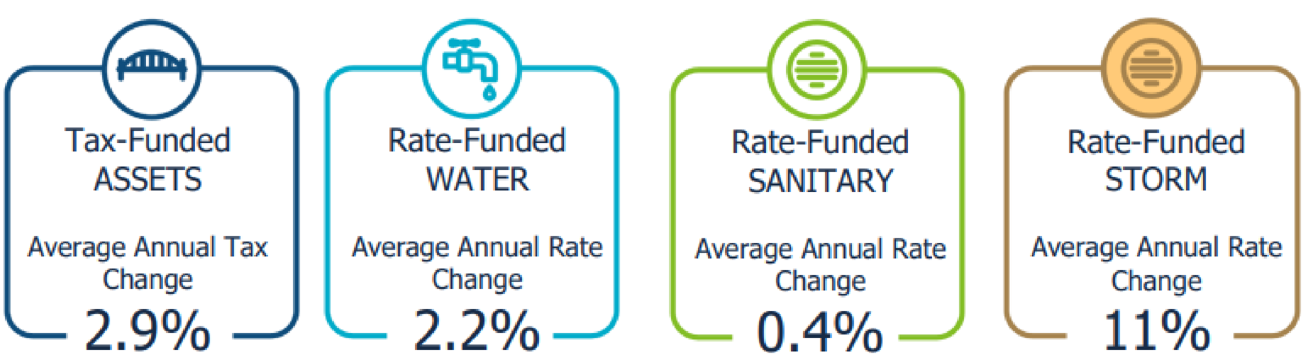


The second-generation asset management plan highlighted the need for higher reserve contributions.

The second-generation asset management plan identified the need to further increase reserve contributions on an annual basis for the next 20 years to address a long-term infrastructure asset management funding gap. The funding gap was based on each asset's accounting estimated useful life.

The next phases of the asset management plan will base asset replacement needs on Council approved service levels which need to be established by July 1, 2025. This additional work will refine just how big the funding gap is and while it could reduce this gap, it will not eliminate it. The following shows annual tax and rate change recommended in the asset management plan to eliminate the infrastructure deficit for core assets based on a 20-year plan for tax funded assets, 10-year plan for water and wastewater assets and a 15-year plan for stormwater assets.

Asset management plan recommended reserve increases by funding source



This Budget makes progress on filling the funding gap for user rate reserves

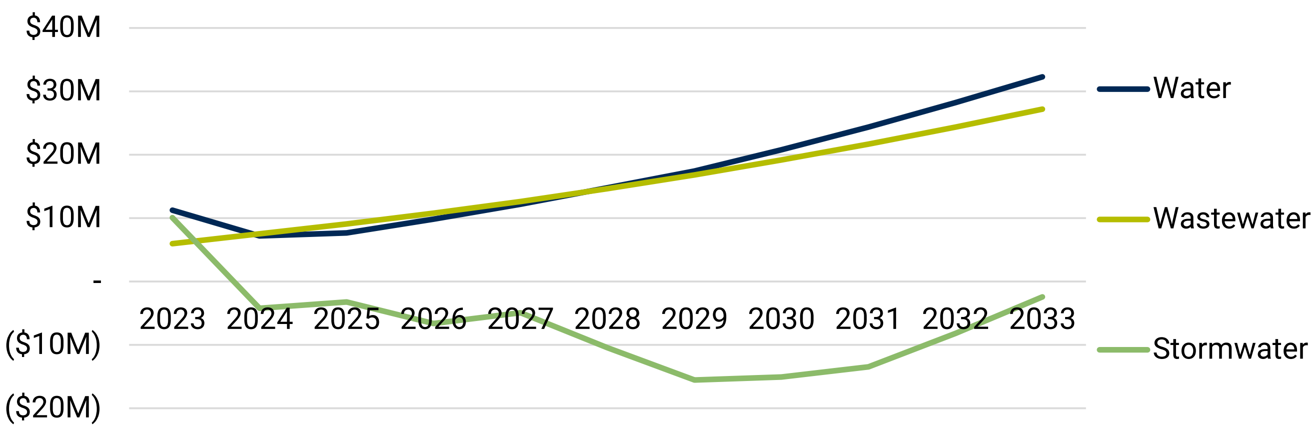
The user rate reserves are funded from the water, wastewater and stormwater rates. The reserve balances for water and wastewater are growing over this 10-year period. Most of

Aurora’s water and wastewater assets are relatively young as many have a lifespan of up to 80 years. The asset management needs for water and wastewater peak in the 2050s, providing time to save for the future, which is why growth in these reserve balances continues to be important.

However, the stormwater reserve does not have enough funding to support the existing short-term capital plan based upon current service level standards and before considering the longer-term asset management needs. This budget includes a capital project for a stormwater rate study which will advise on the rates to be charged in the future to support the capital needs. The recommended annual incremental contributions to the rate-based reserves as outlined in the asset management plan are included in the user rates.

In 2023, a request for proposal was issued for a water rate study project to develop a new water and wastewater rate model structure. The study will focus on fairness and certainty for reserve contributions and vacant homes paying their share, ensuring all customers pay regardless of consumption.

User rate funded reserve balances



Tax levy reserves are mostly used to support asset management

The operating budget includes capital reserve contributions which is part of the overall tax levy. This reserve contribution increases on an annual basis through the one percent tax levy increase to support the Fiscal Strategy. Most of these funds go to support asset management reserves, while the balance supports contributions to the growth and new and studies and other reserves.

Increases to asset management reserves over 10 years should be aligned with the asset management plan recommendations.

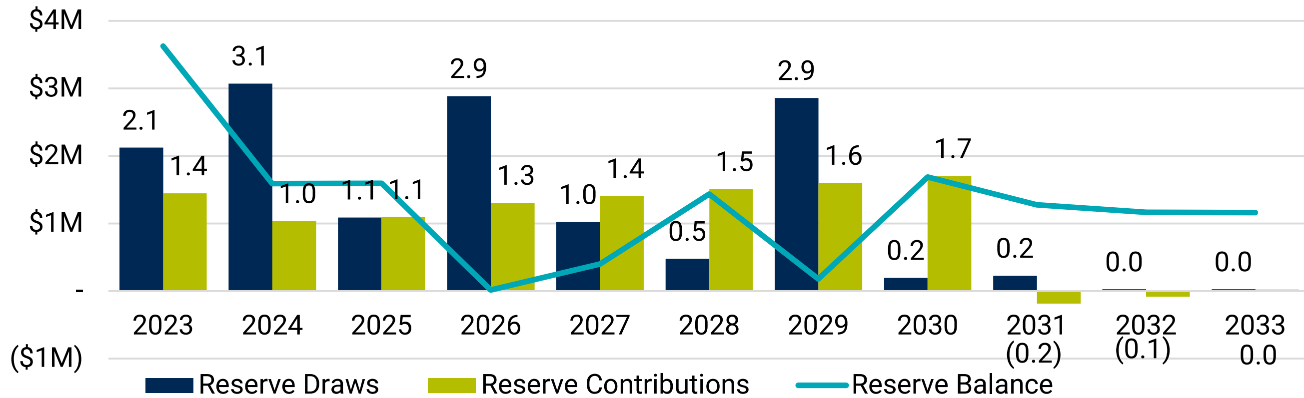
As the work on the asset management plan progresses, it is expected that the current practice of contributing one percent levy increase will not be enough. Council will be presented with more information in 2025 to consider the impact of future asset management reserve contributions.

The 10-year plan and the existing asset management plan show there is pressure to increase reserve contributions. However, the true impact will be reflected in the 2025 budget once the revised asset management plan based on service levels will be approved.

The tax levy also supports other capital reserves for growth and studies projects

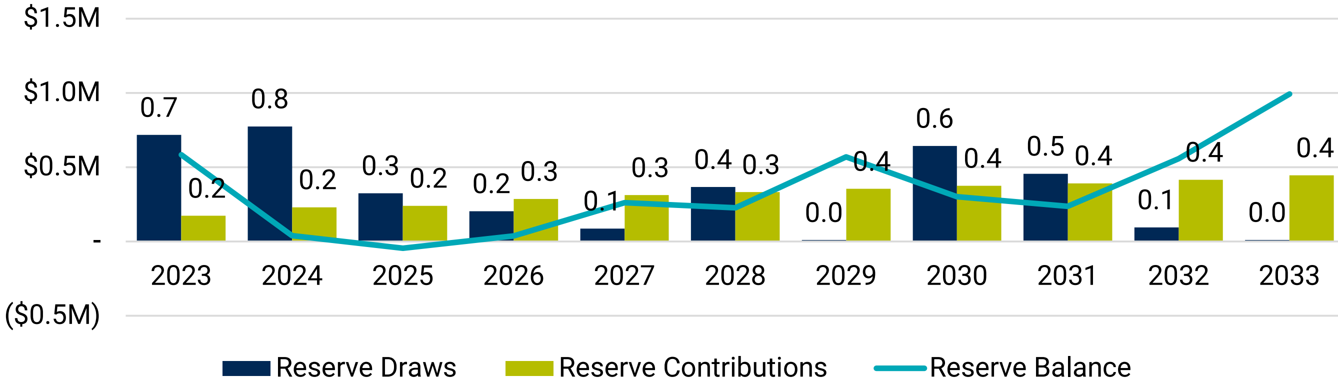
The growth and new reserve is used to pay for the Non-Development and Community Benefit Charge funded portion of growth projects whereas the studies and other reserve supports strategic studies for both future capital and operating budget initiatives. The reserve has a few years where the balance dips negative but returns to a positive balance by the end of the 10-year capital plan.

Growth and new 10-year reserve balances



The studies and other reserve is relatively small as it represents the smallest portion of the capital plan. The reserve remains in a positive balance throughout the 10-year capital plan. Studies and master plans beyond 2024 which are no longer covered by the development charges as per the More Homes Built Faster Act are funded by studies and other reserve in this budget.

Studies and other 10-year reserve balances



Building Faster Fund revenues will be used to pay for growth projects

To reward municipalities that build homes, the province is launching the Building Faster Fund, a new three-year, $1.2 billion program that provides new funding based on performance against provincial housing targets.

The Town of Aurora's housing target of 8,000 represents 0.53 percent (8,000/1,500,000) of the overall provincial target therefore, Aurora could be eligible for up to $2,133,333 if the annual housing target is met, bonuses are also available if the target is exceeded. The projected net gain after considering the loss of development revenue for the Town could be $1.01 million if 80 percent of the housing target is met.

Funding from the Building Faster Fund can be directed toward housing-enabling infrastructure and other related costs that support community growth. The Building Faster Fund revenues are not considered in the 10-year reserve balance, however, will be used to accelerate growth capital projects once the funds are received.

Development revenues are used to pay for growth

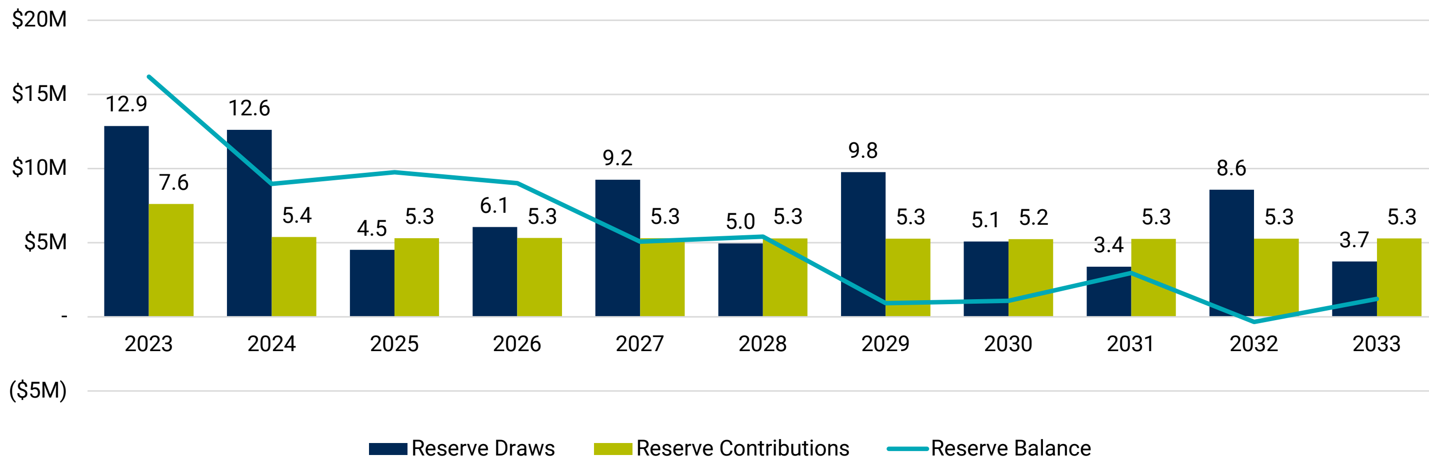
Development charges are collected on residential and non-residential developments and the new community benefit charges are collected on specific types of residential developments for the capital projects that are included in the studies and bylaws. These funds are used to pay for the growth-related costs of capital projects needed to maintain consistent level of service to a growing community. The calculation of these development revenues considers a number of factors:

- **Development charges** include any growth projects that have been identified in the study, the historical service levels for each category and any benefit to existing residents; these costs are then distributed over the projected growth period included in the study
- **Community benefits charges** include the growth projects in the study and an appraisal of land value. The future growth is estimated and a maximum of four percent of the land value can be collected so long as the value of the projects meets or exceeds this

amount. Note, the projects in this study cannot be included in the development charge study

Over the last few years, development charge revenues were lower than what was forecasted in the 2019 Development Charge Study. The 2019 study forecasted that Aurora would receive $15.1 million on average over the five-year period from March 2019 to March 2024. The reserve forecast below shows that the contributions (development charge collections) are expected to continue to be lower than what was included in the study.

Development charge 10-year reserve forecast



2024 Development Charge Study will reflect the impact of legislative changes

In November 2022, the province passed *Bill 23, More Homes Built Faster Act*. The legislative amendments have a significant impact on the way municipalities plan, process, and fund development.

For 2024 budget, funding source of various previously development charge eligible studies have been updated to tax levy or user fee reserves. The full impact of Bill 23 on the Town's development charge revenue will be analyzed during the 2024 development charge study and bylaw update and be reflected in the 2025 Budget and 10-year capital plan. However, this budget does consider the impact that of Bill 23 in the revenue forecast for development charges and the cash-in-lieu parkland.

A reduction in development charges or other growth funding tools such as parkland dedication and community benefit charges will hinder the Town's ability to finance growth-related infrastructure. Without additional funding from higher levels of government this could put a greater burden on tax and ratepayers to fill the funding gap or growth projects will have to be delayed.

Debt Management

Debt is a financing tool which enables Aurora to manage the timing difference between when a capital project is constructed and when the funds are collected to pay for the project. This timing difference is most common for growth projects. Aurora's 10-year reserve forecast includes the repayment of debt issued for projects funded from development charges, user fees and the tax levy.

A new debt management policy was approved by Council in January 2023. The policy outlines the guidelines and controls for the issuance of debt including:

- A minimum balance of one-year's principal and interest costs shall be maintained in development charge reserves
- Debt funding source should be known at the time of debt financing
- Aurora's defined annual repayment limit and framework of debt

The 2024 Budget does not include any new debt authority to be approved at this time.

Development charge debt considers affordability in the 10-year plan

Larger growth capital projects require significant funding from development charges. Development charges are collected over an extended period and often the project needs to be built in advance of growth.

New development charge funded debt should only be considered if the forecast can show that enough development charge revenues will be collected in the future to pay the debt principal and interest. The new debt policy also recommends that a minimum balance of one year's principal and interest payments be maintained in the combined total of the development charge reserves. The first five years of the plan applies this principle of the debt policy and maintains a healthy development charge reserve balance; However, the last five years does not and will need to be revisited closer to that time. Most of this pressure relates to a single project. In 2031, the 10-year capital plan assumes development charge funded debt will be issued to fund a pedestrian underpass construction on Cousins Drive. The need to take on a debt for the Cousins Drive project will be reevaluated in the future years as it puts a pressure on the development charge reserves.

Existing debt is repaid through multiple sources

When debt principal and interest is paid, it is funded from the source that would have been used to fund the project in the capital plan. The Town has debt which is currently funded from development charges, user fees and tax levy.

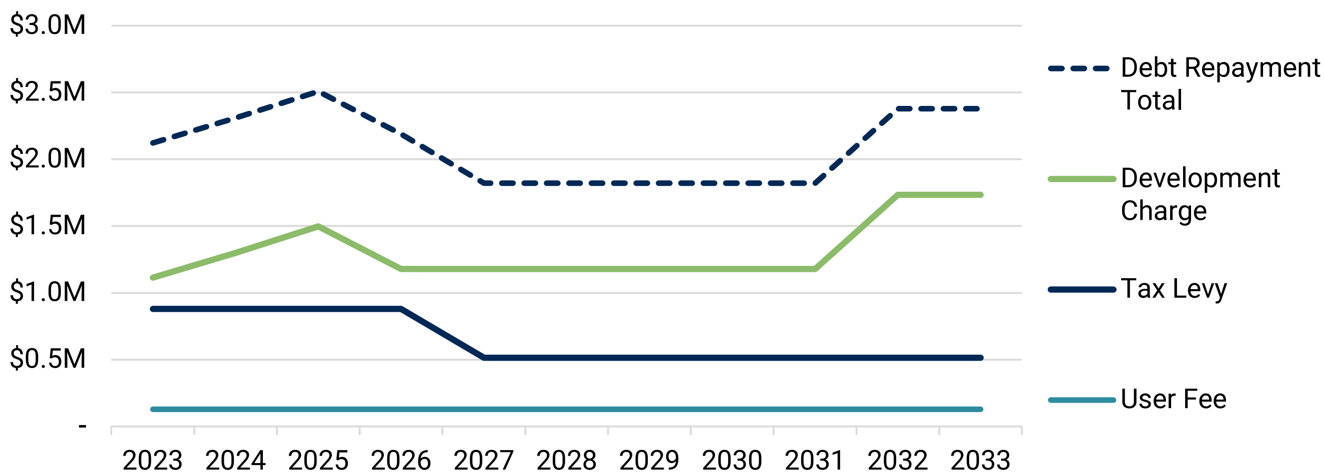
In 2023, the development charge funded Joint Operation Center remaining debt of $2.9 million was paid in full as the Town's reserve had sufficient funds to make the payment.

Aurora's current outstanding debt includes:

- Stronach Aurora Recreation Complex: 20-year debenture, to be paid off in 2025 (development charge funded debt)
- Hallmark Baseball Diamonds: 20-year debenture, to be paid off in 2041 (development charge funded)
- The new gym at the Stronach Aurora Recreation Complex which is currently using a construction line of credit and expected to be converted to a 20-year debenture in 2025 (development charge funded)
- Aurora Sports Dome: 15-year debenture to be paid off in 2036 (user fee funded)
- LED Streetlight Conversion project to be paid off in 2026 (tax funded)
- Aurora Town Square which is currently using a construction line of credit and will be converted to a capital loan in 2024 and long-term debt at a later date once interest rates decline (mix of development charge and tax funding)

When the debt repayment is completed for the two tax-funded projects, these funds used to repay debt will be converted to asset management reserve contributions as per the Fiscal Strategy.

Annual debt repayment costs by funding source



Fiscal Strategy and financial policy ensure long-term financial sustainability

The Fiscal Strategy provides a long-term view to financial stewardship and financial management of Town resources. It ensures that the Town maintains desired service levels and adapts to the growth while managing the fiscal impacts year-over-year. Reserves and debt management pillars of the Fiscal Strategy supports the capital planning pillar of the Fiscal Strategy by managing the timing difference between when a capital project is built and when the funding for the project is received. Maintaining a positive reserve balance and manageable debt levels for the Town are the key indicators of long-term financial health. Reserves and debt graphs in this chapter show how fiscally sustainable decisions made during the budget approvals can ensure future financial health.