RESERVES AND DEBT MANAGEMENT

As adopted November 28, 2024

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 2025 to 2026 to phase in the incremental operating cost for the new financial system, sidewalk inspection and maintenance, windrow pilot program and Aurora Town Square.

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 that follows shows the balance of these reserves over the next 10 years and the annual balance change at the bottom.

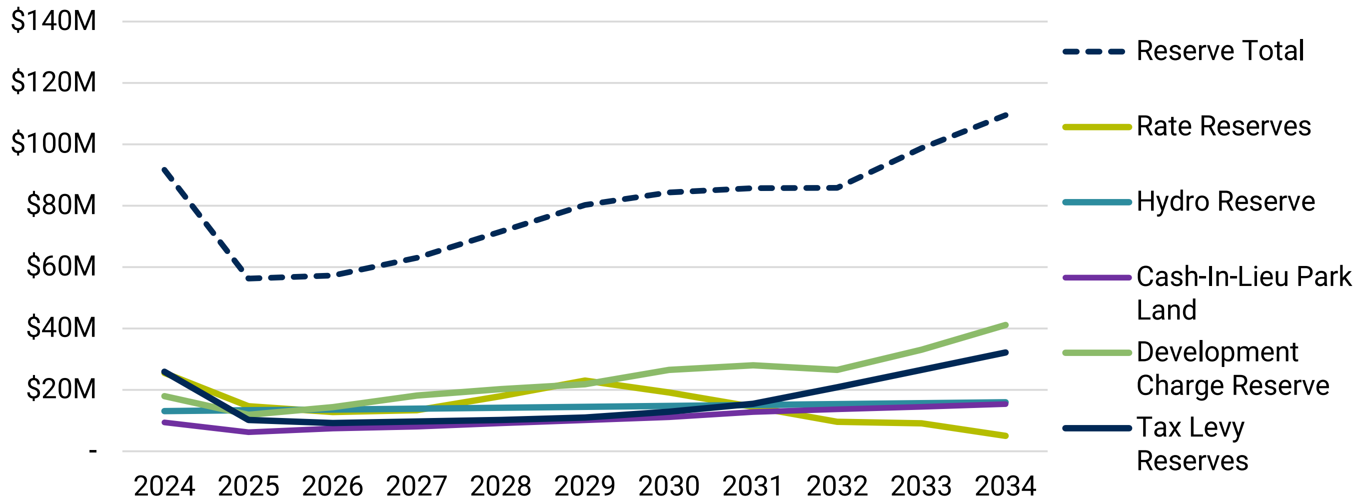
Forecasted reserve balances

($M)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Tax Levy Funded											
Asset Management											
Roads	6.7	2.6	5.4	6.8	7.6	8.4	9.1	9.4	10.3	10.6	7.9
Facilities	7.8	1.4	0.1	0.8	0.6	1.0	1.2	1.6	2.7	3.9	5.5
Information Technology	1.4	0.2	(0.1)	0.0	0.2	0.3	0.7	1.3	1.8	2.1	3.0
Fleet	2.9	3.2	2.2	1.2	1.3	1.3	0.7	0.8	(0.0)	(0.1)	1.2
Parks & Recreation	2.3	0.5	0.2	0.4	0.4	(1.0)	(0.7)	(0.3)	2.1	4.8	7.7
	21.1	7.9	7.8	9.3	10.1	10.0	11.1	12.8	16.9	21.3	25.3
Growth & New	3.9	1.8	1.3	0.2	(0.3)	0.2	0.9	1.6	2.4	3.3	4.3
Studies & Other	1.0	0.5	0.0	(0.0)	0.2	0.7	0.9	1.0	1.5	1.9	2.7
Total Tax Levy Funded	**25.9**	**10.3**	**9.2**	**9.5**	**10.0**	**10.9**	**12.8**	**15.4**	**20.8**	**26.6**	**32.3**
Annual Balance Change		(15.7)	(1.1)	0.4	0.5	0.8	1.9	2.6	5.4	5.7	5.8
Rate Funded											
Water	10.8	8.2	9.6	10.4	13.2	15.8	14.3	10.1	3.7	3.0	0.6
Wastewater	6.5	5.4	2.5	1.9	1.3	1.1	1.7	1.2	2.1	2.0	0.3
Stormwater	8.2	1.2	0.8	1.3	3.6	6.3	3.4	3.5	4.0	4.3	4.3
Total Rate Funded	**25.5**	**14.8**	**12.9**	**13.5**	**18.2**	**23.2**	**19.4**	**14.7**	**9.8**	**9.3**	**5.2**
Annual Balance Change		(10.7)	(1.9)	0.6	4.6	5.0	(3.8)	(4.7)	(4.9)	(0.5)	(4.1)
Development Charges											
Fire Services	(2.0)	(1.7)	(3.0)	(2.7)	(4.2)	(3.9)	(3.6)	(3.3)	(3.8)	(3.5)	(3.2)
Roads & Related	14.4	11.1	12.4	12.7	14.5	16.6	15.7	16.9	19.4	21.8	24.4
Parks & Recreation	1.8	(1.2)	1.0	3.0	3.7	1.7	5.6	4.2	(0.8)	1.3	4.8
Library Services	0.1	0.6	1.1	1.8	2.7	3.5	4.3	5.1	6.0	6.8	7.7
Water Supply & Distribution	1.1	1.0	0.9	0.9	0.9	1.0	1.2	1.4	1.7	2.0	2.3
Sewer	2.0	2.2	2.5	2.8	3.1	3.5	3.9	4.3	4.8	5.2	5.7
General Government	0.1	(0.5)	(0.8)	(0.6)	(0.7)	(0.9)	(0.9)	(1.0)	(1.0)	(0.9)	(0.7)
Municipal Parking Spots	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Development Charges	**17.9**	**11.9**	**14.3**	**18.1**	**20.2**	**21.8**	**26.5**	**28.0**	**26.5**	**33.1**	**41.1**
Annual Balance Change		(6.0)	2.4	3.8	2.1	1.5	4.7	1.5	(1.5)	6.5	8.0
Cash-In-Lieu Park Land											
Cash-In-Lieu Park Land	9.3	6.2	7.4	8.0	9.1	10.1	11.1	12.8	13.6	14.5	15.3
Annual Balance Change		(3.1)	1.2	0.6	1.1	1.0	1.0	1.8	0.8	0.8	0.9
Hydro Reserve											
Hydro Reserve	13.1	13.3	13.6	13.9	14.1	14.4	14.7	15.0	15.3	15.6	15.9
Annual Balance Change		0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Reserve Balance	**91.7**	**56.5**	**57.4**	**63.1**	**71.7**	**80.4**	**84.5**	**85.9**	**86.1**	**99.0**	**109.9**
Annual Balance Change		(35.2)	0.8	5.7	8.6	8.7	4.1	1.5	0.2	12.9	10.8

Note: The year ending balances are shown in the chart, these balances reflect the opening balances for the next year.

While some reserves do go into a negative balance, the overall capital reserves balance stays positive in all years. This budget includes the conversion of the Aurora Town Square tax-funded debt carrying costs in 2025, the carrying costs for the completion of the LED debt and $895,000 savings from the move to producer responsibility for recycling waste starting 2026 will be contributed to the tax-funded asset management reserves.

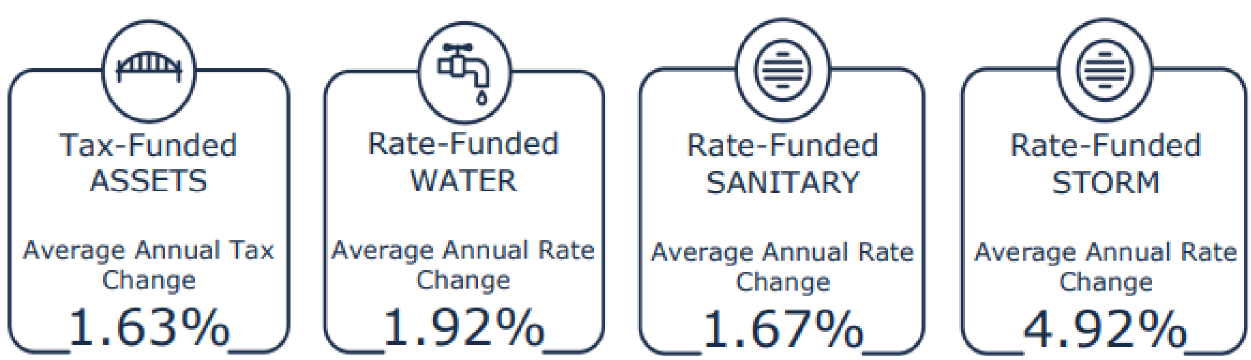
10-year capital reserves balances grouped by funding source



The 2024 Asset Management Plan highlighted the need for higher reserve contributions to achieve the recommended capital asset levels of service

In the recently approved Asset Management Plan (AMP), the defined level of service for the majority of tax funded and user rate funded asset classes did not change, reflecting the present levels of service for each class. To support these levels of service, the AMP recommended an annual tax increase over 15 years, meaning that an increase from the existing dedicated asset management annual tax increase of 0.84 to 1.63 percent be adopted.

Asset Management Plan recommended reserve increases by funding source



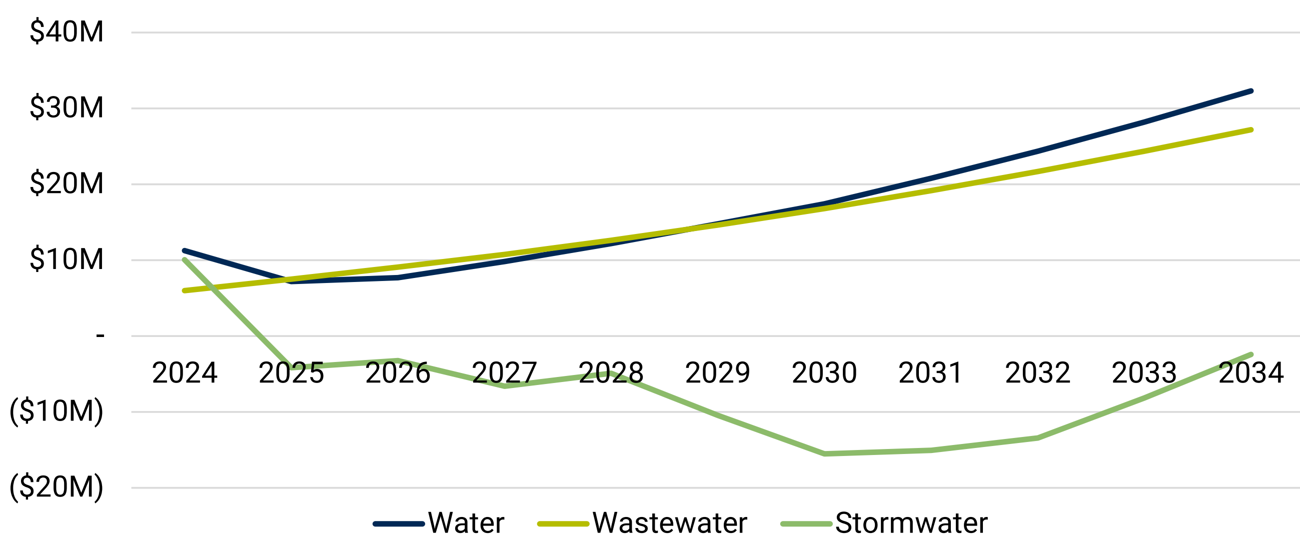
Similarly for the user rate funded assets, the AMP recommends the Town adopt phase-in periods of 15 years for water, 10 years for wastewater and 20 years for stormwater networks resulting in dedicated annual rate increases of 2.89, 1.67 and 4.92 percent for water, wastewater and stormwater, respectively. These recommended increases try to find a balance between the annual burden placed on each service's user rate, while minimizing the time needed to reach a state of infrastructure affordability.

This Budget includes previous Asset Management Plan recommendations for filling the funding gap for user rate reserves in 2025 and 2026

The 2024 to 2026 Budget includes contributions to user rate funded services as recommended in phase 1 of Asset Management Plan. These contributions in 2025 and 2026 remain the same as presented in the previous budget. Then in 2027, increase of 2.25 percent to water, 1.50 percent to wastewater and 6.00 percent to stormwater rates will be applied. This approach results in lower contributions than recommended for water and wastewater over a phase in period of 10 years, but a slightly higher contribution for stormwater services. These annual rates strive to close the current infrastructure gap within 10 years.

These annual rate increases, that would be planned to begin in 2027, will result in an increase of $0.11/m^3$ for water and wastewater combined and $1.10/month for stormwater. The impact on the average quarterly residential bill with $54m^3$ of water consumption would be $9.24 to support asset management.

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.

The current practice of increasing the capital reserve contributions by one percent of the annual tax levy is not enough to fund the recommendations of the Asset Management Plan. Of the one percent annual increase, approximately 0.16 percent is contributed toward the growth & new and studies & other reserve. The remaining 0.84 percent annual increase goes directly to asset management reserves.

The tax funded asset management needs, for 2025 and 2026, can be met without impacting the previously presented tax levy increase. This is done by allocating the debt serving cost of Arora Town Square in 2025, the completion of the LED debt, and $895,000 savings from the move to producer responsibility for recycling waste starting 2026 to the tax levy reserves.

The increase to the levy for asset management will spread over 15 years, during this time the backlog of asset management projects will continue to grow. Because of this, there is $53.5 million of core infrastructure (roads, water, wastewater and stormwater) projects which are included in the Asset Management Plan, but were not able to fit in the 10-year capital plan as sufficient funding is not yet available.

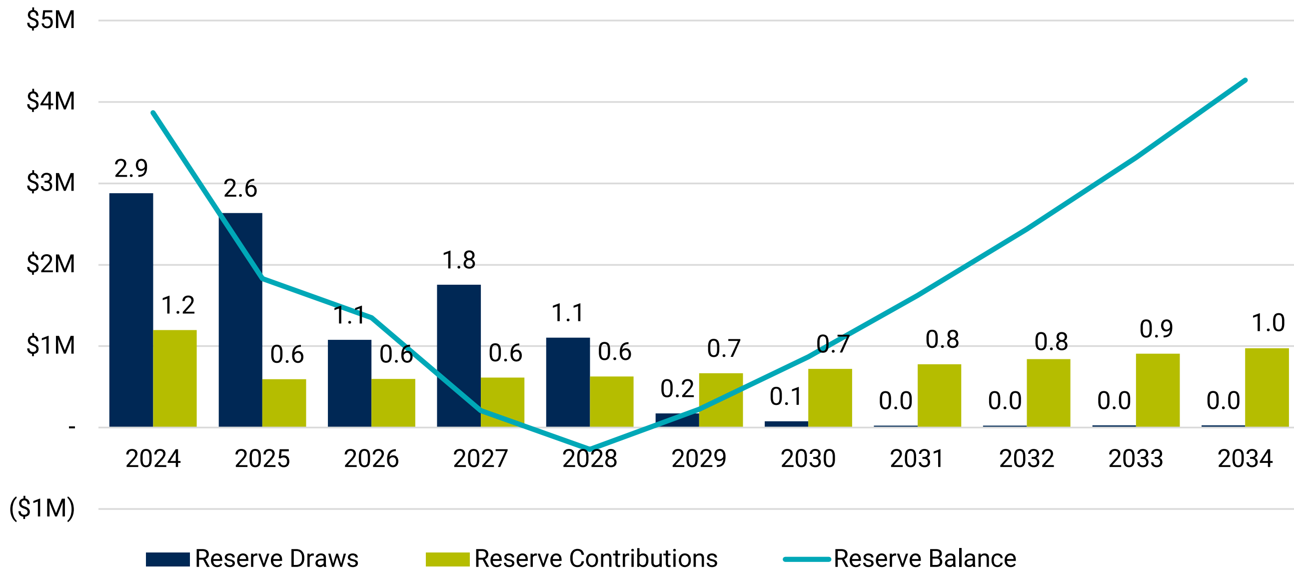
This budget assumes additional annual contributions to the asset management reserves starting in 2027. The increase is a step forward to meet the recommendation outlined in the Asset Management Plan.

Staff will develop a plan to ensure that the gap for the existing backlogged projects which are not included in the 2025 –10 year plan is also addressed over the long term, this plan will be presented to Council prior to the 2027 Budget. However, until this gap is eliminated, service levels will decline in the interim.

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

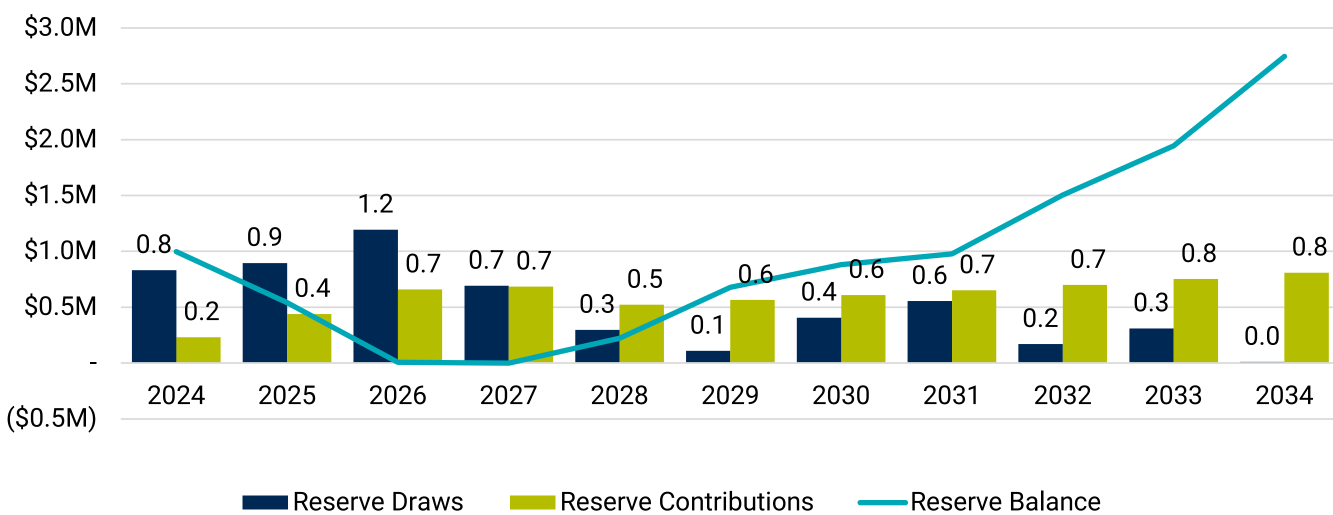
The growth and new reserve is used to pay for the portion of projects not funded through Development Charges and Community Benefit Charges, whereas the studies and other reserve supports strategic studies for both future capital and operating budget initiatives. The growth and new reserve maintain a positive balance in 9 years of the 10-year capital plan. The reserve shows a healthier balance at the end of 10-year due to the removal of unfunded Growth and New projects which are partially funded by funding source other than development charges, community benefit charge or grants. Currently, the funds required to pay for those unfunded projects were higher than what is available in the outer years of Growth and New reserve.

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 neutral or positive balance throughout the 10-year capital plan.

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.

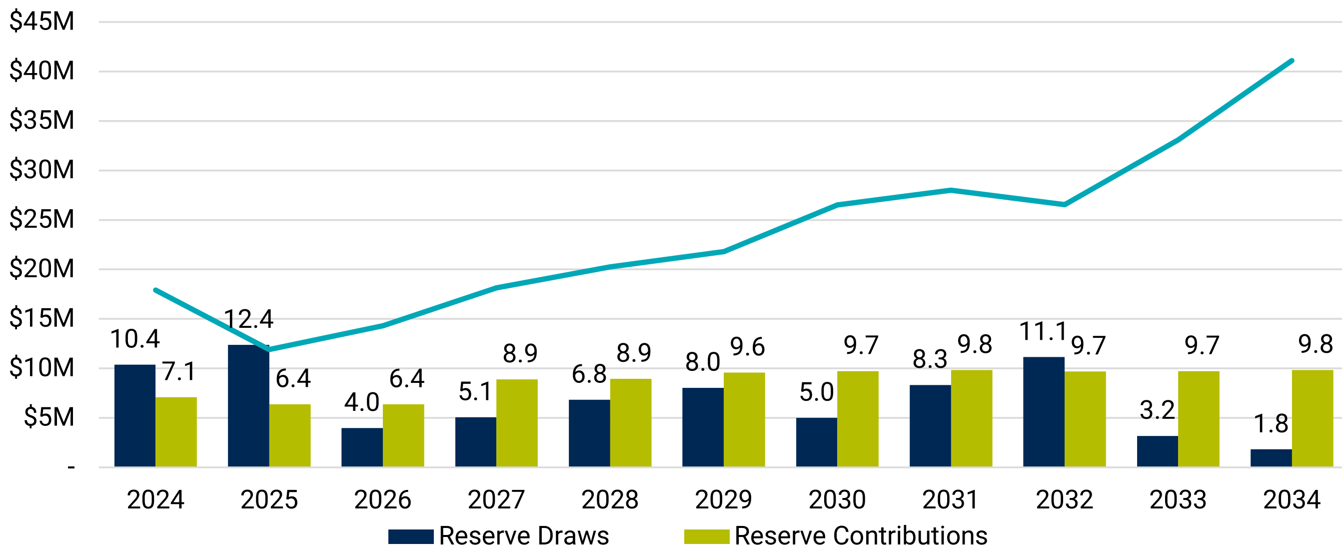
Development revenues are used to pay for growth

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

In March 2024, a new development charge study and by-law was approved and then amended twice in 2024 to reflect the latest changes to the Development Charge Act. The 2024 study forecasted that Aurora would receive $15.7 million on average in revenues over the 10-year period from March 2024 to March 2034, after considering the impact of revenue loss from affordable housing. The forecasted revenue is further discounted at 60 percent based on the actual Development Charge collections of prior years. The reserve forecast below shows that the contributions are expected to continue to be lower than what was included in the study. The primary reason for the reserve balance to grow in the outer years is the exclusion of unfunded Growth and New projects in the outer year as the funding of the non-development charge funded projects is not secured yet.

Development charge 10-year reserve forecast



2024 Development Charge Study reflects the impact of recent legislative changes

The new Development Charge study includes the impact of the Bill 185 (Cutting Red Tape to Build More Homes Act, 2024). The legislative amendments have a significant impact on the way municipalities plan, process, and fund development.

For the 2025 Budget, the Town's development charge revenue losses have been minimal. The Town did not experience any losses resulting from the mandatory rate phase-in. There are multiple reasons for this; firstly, the timing of the Town's new Development Charge Study and by-law approval and the Bill 185 (Cutting Red Tape to Build More Homes Act, 2024) receipt of royal assent, minimized the period for the potential loss of revenue from the mandatory rate phase-in and the cost recovery of growth studies. Also, delays in provincial direction relating to the affordable development clauses has deferred any potential losses.

Development charge losses to date, have been further mitigated as most recent development charge collections were based upon frozen development charge rates relating to the Town's previous by-law.

High interest rates have slowed new residential development growth over the past several months within the Town, resulting in a reduced number of requested building permits to date. Development charges become payable at both the subdivision agreement execution and building permit request stages of a development application. The reduction in new development activity is contributing to an overall decline in development charge revenues compared to initial projections. The total initial projected development charge revenue for 2024 was $8.1 million, only $2.9 million was collected by the end of August. Most of this revenue has come from non-residential development. It is difficult to predict what further revenues may be collected for the remainder of the year.

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.

In 2025 10-year capital plan, six Growth and New projects, which are recommended by the Active Transportation Master Plan and trails, are moved to the unfunded category due to the new Development Charge Study recognizing a higher benefit to existing residents, which has increased the share of these projects that must be funded from tax-funded reserves or grants. At this time there is not enough funding available in the growth and new reserve to proceed, the Town will seek our grant opportunities to ensure that the development charge revenues for these projects can be allocated as the Town can only proceed with these projects if grant funding is received.

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 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 2025 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. No new debt is acquired in the next 10- year as the focus is to pay off the existing debt and avoid any negative DC reserve balance.

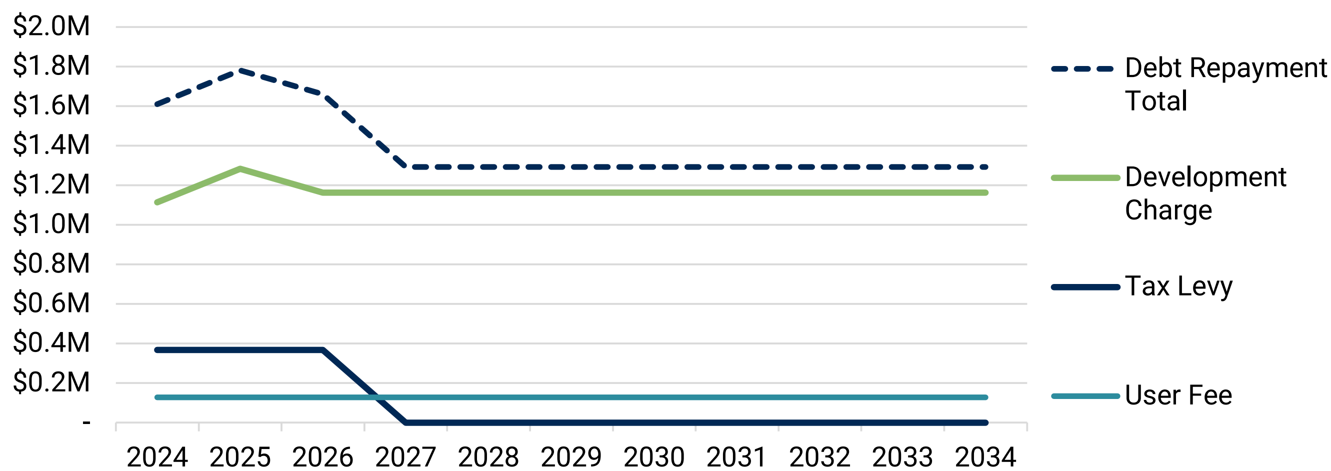
Existing debt is repaid through multiple sources

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.

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 is currently using a construction line of credit which will be converted to the long-term debenture in January 2025. Long-term debenture of $4 million will be secured for the DC portion of the debt and the tax-levy funded portion of line of credit will be paid through the hydro reserve. Therefore, previously approved tax funded debt servicing cost of $510,000 for the Town Square will be contributed to asset management reserves starting 2025.

Annual debt repayment costs by funding source



There will be no tax-funded debt outstanding for the Town in 2027 as when the debt repayment is completed for the LED streetlight tax-funded project in 2026, these funds used to repay debt will be converted to asset management reserve contributions as per the Fiscal Strategy.

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.