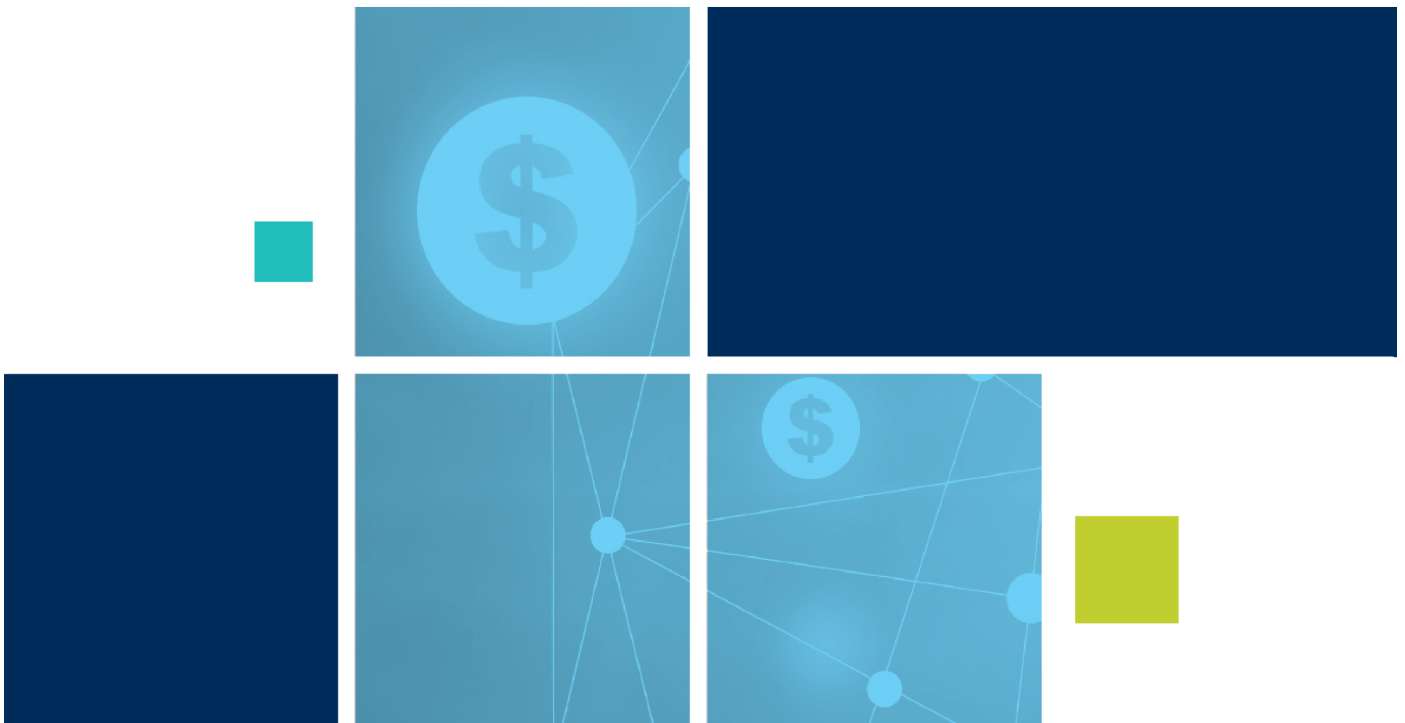


■ RESERVES

AS APPROVED ON DECEMBER 15, 2020



RESERVES ARE A KEY ELEMENT TO FINANCIAL SUSTAINABILITY

Reserves are an important part to long-term financial sustainability. Reserves are used by the Town 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 collected for growth in the Town
- Operating budget surpluses which are allocated based on the Council approved surplus management strategy.

The three key elements to achieving long-term financial sustainability include capital planning, reserve management and debt management. Capital planning was discussed in the previous section of this budget, this section focuses on reserve management and debt management.

Reserves protect the budget from fiscal shocks to the tax levy

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

In 2021 the tax rate stabilization reserve includes the portion of the Safe Restart Fund grant not used in 2020. These funds are being drawn from the reserve to manage the tax levy impact of lost revenues and higher costs related to COVID-19. This means the 2021 budget will not include an increase, or fiscal shock, to the tax levy to manage the impact of the pandemic.

Significant improvement to capital reserve management in this budget

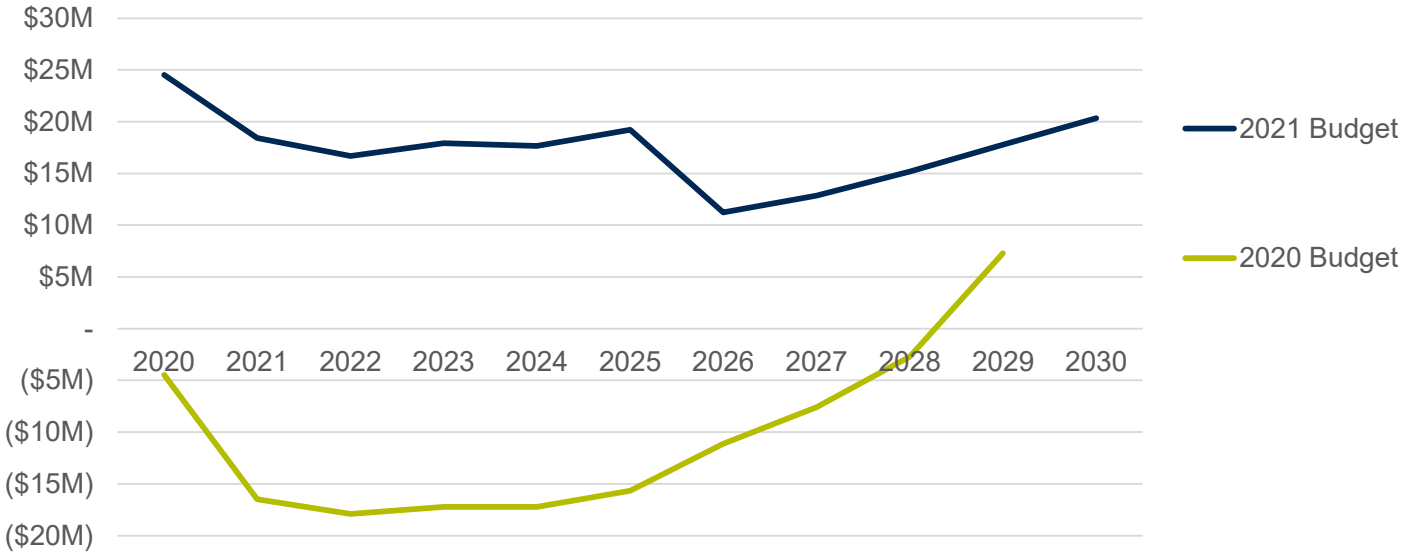
The changes to the capital budget framework also improves the Town's ability to manage the reserves used for the capital budget. The timing of the budget spending to when the actual work is expected to occur, or money to be spent, has had a significant impact on the reserve balances. In the past, projects were pre-funded and the reserve balances were essentially distributed across all the approved capital projects. Now in this budget, the reserves show the timing of when the funds are required to pay for approved capital work. This will enable the Town to better manage its portfolio of investments as the forecasted timing of the planned spending has been significantly improved.

Availability of reserve funds informed the capital plan development

This budget focused on improving the reserve management in the first five years. This included a clean up and closure of completed capital projects and planning the timing of the capital spending.

In the 2020 capital budget, the presentation to Council showed that the repair and replacement capital reserves forecasted a negative balance in most years of the 10-year plan. The new capital framework and the reserve management improvements in this budget show a much better forecast for repair and replacement capital reserves as shown in the graph that follows.

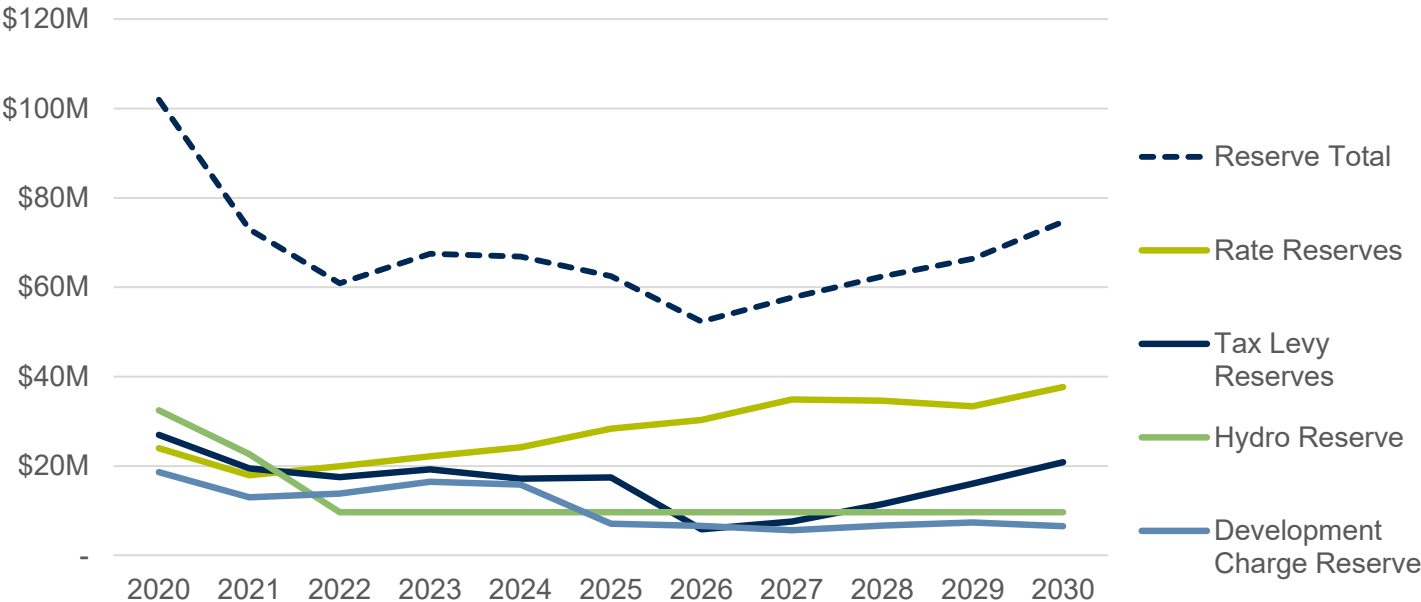
Repair and replacement reserve forecast has improved significantly



The Town funds some capital reserves through the tax levy and user rates

The Town funds capital reserves from the tax levy and the user rate. Most tax levy contributions go to support repair and replacement projects. The balance supports contributions to the growth & new and studies & other reserves. The growth & new reserve is used to pay for the non-Development Charge funded portion of growth projects whereas the studies & other reserve supports strategic studies for both future capital and operating budget initiatives. In this budget the growth & new reserve is forecasted to have a negative balance starting in 2024. The future contributions to this reserve and the management of large projects will need to be addressed as part of the fiscal strategy and policy planned for 2021.

Town funded forecasted reserve balances based on the 10-year plan



The user rate reserve balance is growing and will support future asset management requirements as long the budgeted contributions to capital reserves are approved. Currently most of the Town's water and wastewater assets are relatively young as many have a life-span of up to 80 years. In 20 to 30 years the asset repair and replacement needs are expected to grow significantly.

Forecasted capital reserve balances

(\$M)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Tax Levy Funded											
Repair & Replacement											
Roads	10.8	10.4	10.4	12.0	10.9	11.6	12.0	12.7	13.4	14.0	14.7
Facilities	6.4	4.6	4.2	4.0	4.2	4.9	2.1	3.2	4.3	5.6	7.5
Information Technology	1.1	0.5	(0.3)	(0.4)	(0.2)	0.0	0.2	0.4	0.7	1.0	1.3
Fleet	3.0	1.7	1.7	1.3	1.6	1.6	(1.6)	(2.2)	(2.0)	(2.3)	(3.3)
Parks & Recreation	3.2	1.2	0.7	0.9	1.1	1.2	(1.5)	(1.3)	(1.1)	(0.5)	0.2
Council Discretionary	-	-	-	-	-	-	-	-	-	-	-
	24.5	18.4	16.7	17.9	17.7	19.2	11.2	12.9	15.2	17.8	20.3
Growth & New	1.1	0.3	0.0	0.5	(1.5)	(3.1)	(5.8)	(5.7)	(4.4)	(2.8)	(1.1)
Studies & Other	1.3	0.8	0.8	0.8	1.0	1.2	0.3	0.4	0.7	1.1	1.6
	27.0	19.4	17.5	19.2	17.1	17.4	5.8	7.6	11.5	16.0	20.9
Rate Funded											
Water	11.0	10.0	10.5	11.6	12.2	13.4	14.5	15.9	17.0	18.5	20.1
Wastewater	3.6	4.1	5.5	6.5	7.7	8.9	9.9	11.1	12.4	13.6	14.9
Stormwater	9.4	3.8	3.9	4.0	4.3	6.1	5.8	7.8	5.2	1.3	2.6
	24.0	17.9	19.9	22.1	24.2	28.4	30.3	34.9	34.6	33.4	37.7
Development Charges											
Fire Services	(2.7)	(3.0)	(2.8)	(3.5)	(5.1)	(5.5)	(5.4)	(5.3)	(5.1)	(5.8)	(5.7)
Roads & Related	11.9	9.5	9.7	10.8	10.7	4.0	5.0	5.6	6.6	7.7	8.7
Outdoor Recreation	(8.5)	(11.9)	(12.4)	(12.0)	(11.2)	(11.8)	(12.8)	(12.4)	(12.3)	(11.9)	(13.7)
Indoor Recreation	13.0	13.5	14.5	16.2	16.1	15.1	14.4	13.7	13.0	12.3	11.5
Library Services	3.2	3.2	2.5	2.2	2.0	1.6	1.2	0.8	0.8	0.9	1.0
Water Supply & Distribution	0.8	0.9	1.0	1.1	1.3	1.2	1.3	0.1	0.2	0.3	0.3
Sewer	0.4	0.6	0.8	0.9	1.2	1.4	1.5	1.7	1.9	2.1	2.3
General Government*	0.0	(0.0)	0.1	0.2	0.5	0.7	0.9	1.1	1.2	1.4	1.6
Municipal Parking Spots*	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	18.6	13.0	13.8	16.5	15.9	7.1	6.6	5.6	6.7	7.3	6.5
Hydro Reserve											
Hydro Reserve	32.4	22.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Total	102.0	73.0	60.9	67.5	66.8	62.5	52.3	57.7	62.4	66.4	74.7

* To be converted to a Community Benefit Charge or reclassified within Development Charges

Development charges pay for growth

Development Charges are collected on residential and non-residential developments in the Town of Aurora. These funds are used to pay for the growth-related cost of capital projects. The calculation of the development charge considers a number of factors including any growth projects that have been identified in the development charge study, the Town's historical service levels for each category and any benefit to existing residents; these costs are then distributed over the projected growth for the DC Study period.

Provincial legislation is changing Development Charges

The provincial government has made a number of recent changes to Development Charges including the freezing of rates, the timing of when payments will be made, the removal of the 10 percent discount to all "soft" services (such as library services and indoor and outdoor recreation) and removing the General Government and Municipal Parking growth categories. However, the province introduced the Community Benefit Charge which is an alternative growth cost recovery tool that can be applied to eligible types of development. This new charge is to be used for the recovery of growth related costs such as cash in lieu Parkland, density bonousing, as well as any other growth costs not eligible for recovery through a development charge.

In 2021 the Town will engage a consultant to update the Development Charge Study and bylaw for these changes and to evaluate the financial feasibility of adopting a Community Benefit Charge.

Debt financing may be needed to manage Development Charge reserves

One of the challenges with Development Charges is the timing difference of when the growth actually happens to when the capital project needs to be built. This means the Town will need to choose whether to build the project when it can be fully funded from reserves or issue debt to manage this timing difference. This is mostly a challenge for the larger growth projects that require a significant amount of funding from the Development Charge reserve.

The Town currently has development charge funded debt issued for the following two capital projects:

- Stronach Aurora Recreation Complex: 20-year debenture which will be paid off in 2025
- Joint Operations Centre: 10-year debenture which will be paid off in 2028

The Town also presently holds a 10-year debenture for the LED Streetlight Conversion project which is funded through tax levy energy savings which will be paid off in 2026 and plans to issue development charge and tax levy funded debt for the Library Square project which is expected to be paid off by approximately 2042.

While debt financing is the tool that is used to manage this timing difference, it does not come without some risk. Development Charges are based on a number of factors including an assumption for future growth and the timing of when that growth may happen. Should the growth be delayed, it may take longer to pay off the debt or other growth projects may have to wait longer until they can be built. If debt is issued and the planned growth does not come, then the Town may need to find alternative funding sources to pay for these lost development charge revenues and/or right-size the capital plan.

The budget proposes Development Charge funded debt for three projects

This budget proposes issuing debt that will be repaid through future Development Charge revenues for the following projects:

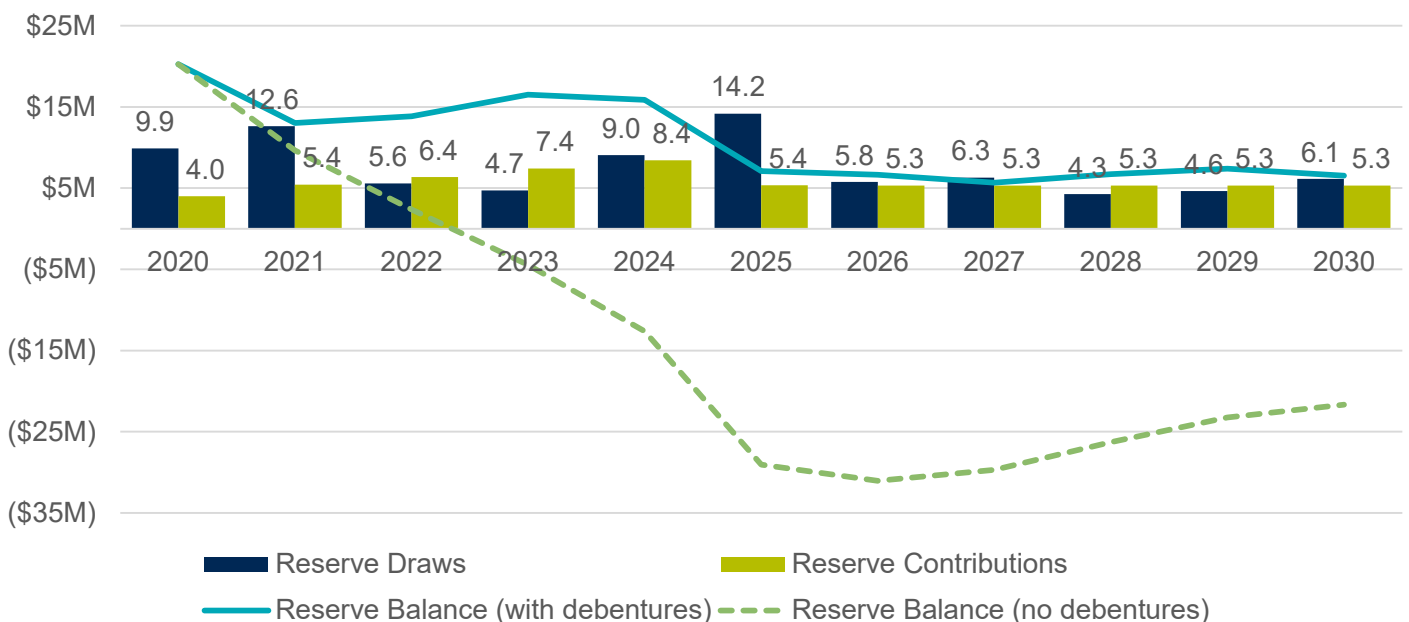
- Hallmark Ball Diamonds in 2021 (\$3.4 million)
- Gymnasium at the Stronach Aurora Recreation Complex in 2022 (\$8.2 million)
- The New Recreation Centre construction in 2022 (\$33.8 million)

Debt is recommended for the Hallmark Ball Diamonds as the Development Charge reserve balance for outdoor recreation is presently in a negative position. Also the current Development Charge Study includes part of the cost of a baseball diamond in this study time frame, the rest is considered a post period benefit. This means future development, beyond 2024, will benefit and pay for this project in their fees.

The construction of the gymnasium at the Stronach Aurora Recreation Complex and the new recreation facility will be a significant investment for the Town and benefit future residents by providing new facility space. Due to the size of these investments, the budget proposes that it be debt financed when the construction is expected to begin in 2022.

The proposed debt funding of these projects has a significant impact on the Development Charge reserve over the next 10 years. The graph below shows the consolidated reserve balance including the debt funding of these three projects as the solid line. The impact of not debt funding these projects, or the dotted line, is not affordable for the Town as it will drive the overall balance of the Development Charge reserves into a significant negative balance. That is why it is important to know and understand when these significant investments will happen over the capital planning horizon to ensure the reserves can be managed to handle the projects and that they get included in the Development Charge Study.

Development Charge reserve forecast



More work is needed to better manage the Development Charges

Development Charges have a significant impact on the Town's ability build the infrastructure needed to manage growth and maintain its current service levels. There are a few actions that need to be taken to better manage Development Charges over the next year:

- A Development Charge study and bylaw amendment to reflect the recent legislative changes including the removal of the 10% discount on all soft services
- A financial feasibility study on the new Community Benefits Charge
- A new Development Charge revenue model which compares current conditions to the growth recommended in the Development Charge Study
- Further management of growth capital to ensure the reserve balance stays positive, including a focus on whether a proposed project is maintaining or enhancing an existing level of service

The Town is working on further developing the fiscal strategy

The Town's current fiscal strategy focuses on reducing operating budget reliance on unsustainable development revenues such as supplementary taxes and contributing to tax funded reserves through an annual increase to the tax levy of up to one percent per year. This current strategy has set a strong foundation for the development of a more comprehensive fiscal strategy.

The three key elements to long-term financial sustainability include capital planning, reserve management and debt management. This budget has made significant improvements in capital planning which has also benefited the Town's reserves. The new fiscal strategy will provide recommendations for balancing all three of these elements while also considering the impact on intergenerational equity which balances the impact between today's tax payer and future generations. This is done by taking a long-term view into the asset management requirements for the Town.

Some of the areas this fiscal strategy will address include:

- Ensuring capital plans are complete and continue use the new format included in this budget
- Taking a long-term, up to 100 years, approach to asset management reserve funding which considers longer life underground assets that may last up to 80 years
- Set a policy on when debt could be considered and used for capital projects
- Determine the amounts required to be contributed to tax and rate funded stabilization reserves to avoid any "fiscal shocks" to the tax and rate payer
- Reducing the Town's operating budget reliance on investment income earned by reserves and reinvesting the monies back into the reserves that earned them
- Joining the ONE Joint Investment Board and moving forward as a prudent investor.

It is expected that implementing the fiscal strategy will take time. This strategy will include policies that will be developed and implemented immediately whereas some other items may take more time to develop or phase in.

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