RESERVES AND DEBT MANAGEMENT

AS APPROVED ON DECEMBER 14, 2021

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, this section focuses on reserve management and debt management. Balancing the use of reserves and debt must be carefully managed in the 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.

Reserves are an important part to long-term financial sustainability

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

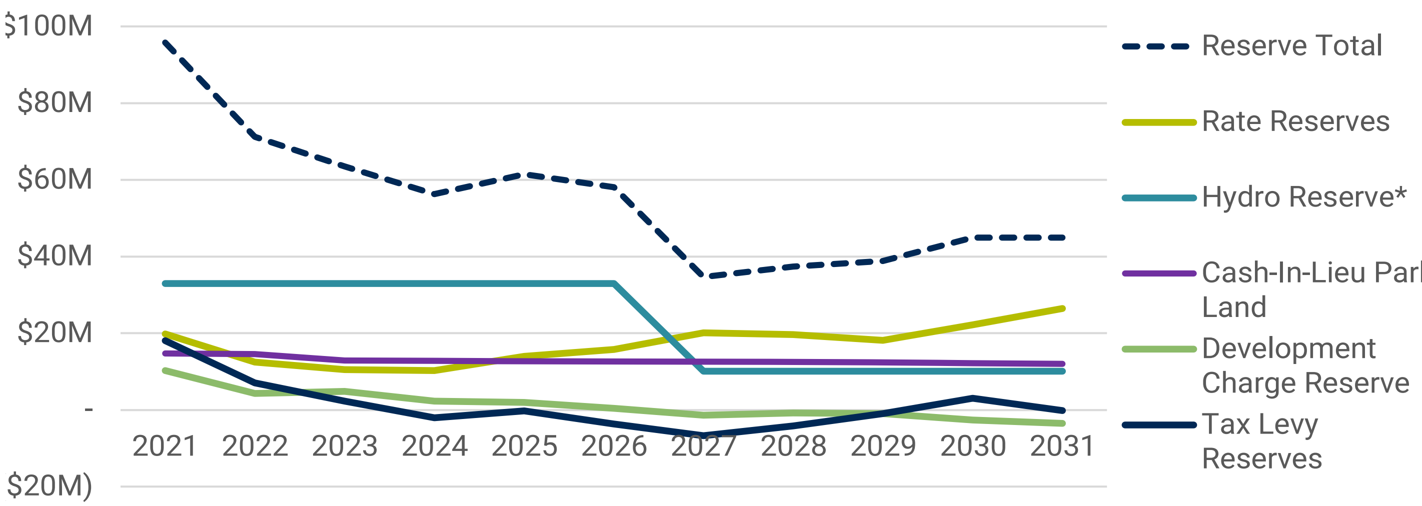
- Planned operating budget contributions to reserves funded through the tax levy or user rates
- Grants received from the provincial or federal governments
- Development charges and other development revenues collected for growth
- Operating budget surpluses which are allocated based on the Council approved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

The 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.

In 2021 Aurora received an additional $1,754,155 in Safe Recovery Funding from the provincial government. The unused funds were contributed to reserve to be used to support the recovery from COVID-19 in 2022. This action helped avoid one-time shocks to the tax rate.

Capital reserves forecasted balances for the 10-year plan



* The Hydro Sale Reserve shows the major draw from reserve at the time the capital loan for

Reserves are used to fund capital projects

Capital projects in the 10-year 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 graph that follows 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.

Forecasted capital reserve balances

($M)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Tax Levy Funded											
Rehab & Replacement											
Roads	5.3	1.4	0.9	(0.4)	(0.1)	0.0	0.3	(0.1)	0.2	0.4	0.7
Facilities	5.7	3.6	2.5	1.1	1.4	0.1	0.1	0.5	1.6	3.1	5.0
Information Technology	1.1	(0.4)	(1.0)	(1.1)	(1.1)	(1.0)	(0.8)	(0.6)	(0.4)	(0.1)	0.2
Fleet	0.4	0.4	0.2	0.5	0.5	(2.8)	(3.4)	(3.3)	(3.6)	(4.7)	(5.2)
Parks & Recreation	3.4	1.5	0.8	1.0	1.0	0.4	0.3	0.5	0.1	0.3	1.0
	16.0	6.4	3.4	1.0	1.6	(3.3)	(3.5)	(3.0)	(2.1)	(0.9)	1.6
Growth & New	1.3	0.4	(0.9)	(2.8)	(1.7)	0.0	(3.0)	(0.9)	1.1	3.6	(2.4)
Studies & Other	0.8	0.2	(0.2)	(0.2)	(0.1)	(0.4)	(0.2)	(0.2)	0.1	0.4	0.6
	18.1	7.0	2.3	(2.0)	(0.2)	(3.6)	(6.7)	(4.2)	(0.9)	3.1	(0.1)
Rate Funded											
Water	10.3	8.5	9.5	10.2	11.3	12.4	13.8	14.8	16.3	17.9	19.6
Wastewater	3.1	3.5	4.7	5.8	6.9	7.9	9.0	10.2	11.4	12.6	13.8
Stormwater	6.3	2.2	(3.6)	(5.7)	(4.2)	(4.5)	(2.7)	(5.4)	(9.5)	(8.3)	(6.9)
	19.8	14.2	10.5	10.3	14.0	15.8	20.2	19.7	18.2	22.2	26.5
Development Charges											
Fire Services	(2.9)	(3.1)	(3.8)	(5.4)	(5.7)	(5.6)	(5.5)	(5.3)	(6.0)	(5.9)	(5.8)
Roads & Related	7.7	7.8	7.9	7.4	6.7	7.3	7.5	8.2	8.8	9.5	10.2
Parks & Recreation	0.6	(5.9)	(4.6)	(5.2)	(4.7)	(7.1)	(7.9)	(8.6)	(9.4)	(12.4)	(14.6)
Library Services	3.5	3.8	3.4	3.1	2.9	2.5	2.1	2.2	2.3	2.4	2.5
Water Supply & Distribution	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5
Sewer	0.7	0.9	1.1	1.4	1.5	1.7	0.5	0.7	0.8	1.0	1.2
General Government*	(0.3)	(0.3)	(0.3)	(0.2)	0.0	0.2	0.4	0.5	0.7	0.9	1.1
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
	10.3	4.3	4.8	2.3	2.0	0.4	(1.4)	(0.8)	(1.0)	(2.7)	(3.5)
Cash-In-Lieu Park Land											
Cash-In-Lieu Park Land	14.7	14.6	12.9	12.8	12.8	12.6	12.6	12.5	12.5	12.2	12.0
Hydro Reserve											
Hydro Reserve	32.9	32.9	32.9	32.9	32.9	32.9	10.1	10.1	10.1	10.1	10.1
Total	**95.8**	**73.0**	**63.5**	**56.3**	**61.5**	**58.1**	**34.7**	**37.4**	**38.9**	**44.9**	**45.0**

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

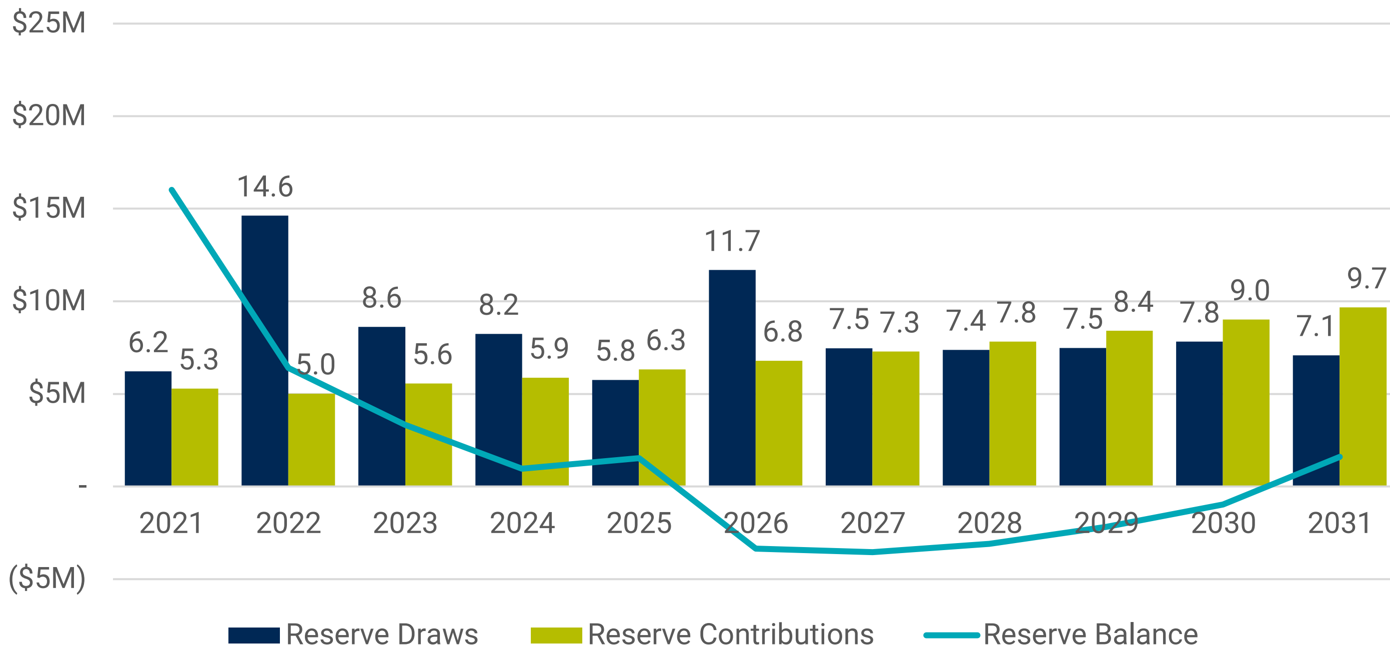
Most of the tax levy funded reserves support asset management

The operating budget includes a cash-to-capital contribution to reserves which is part of the overall tax levy. This reserve contribution is increasing 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, the balance supports contributions to the growth & new and studies & other reserves.

In this 10-year plan, additional asset management projects were added to the rehab and replacement budget. They included projects for parking lots, streetlights, roads and technology. This has put some pressure on the tax-funded rehab and replacement reserves resulting in its balance being negative from 2026 to 2030.

The recently developed second generation asset management plan identified the need to further increase these 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 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 it is expected to reduce this gap but will not eliminate it. Over the next few years the reserve requirements will need to be re-evaluated based on the completion of the final phases of the second generation asset management plan.

Rehab and replacement 10 year reserve balances



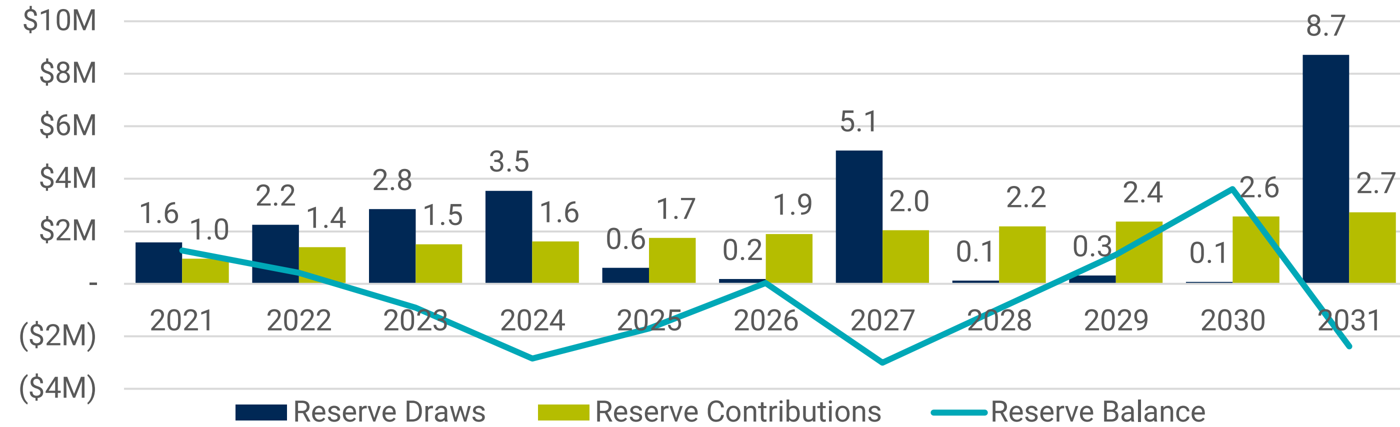
Other tax-funded reserves support studies and part of some growth projects

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 over the 10-year period. The major projects contributing to these negative balances are:

- Project 73201 Design and construction of two new artificial turfs funded in 2024 and 2025
- Project 72113 New Recreation Facility for the non-growth portion of the new recreation facility with funding to be drawn in 2027
- Project 31246 for the trail pedestrian underpass at Cousins Drive funded in 2031

Growth and new 10 year reserve balances



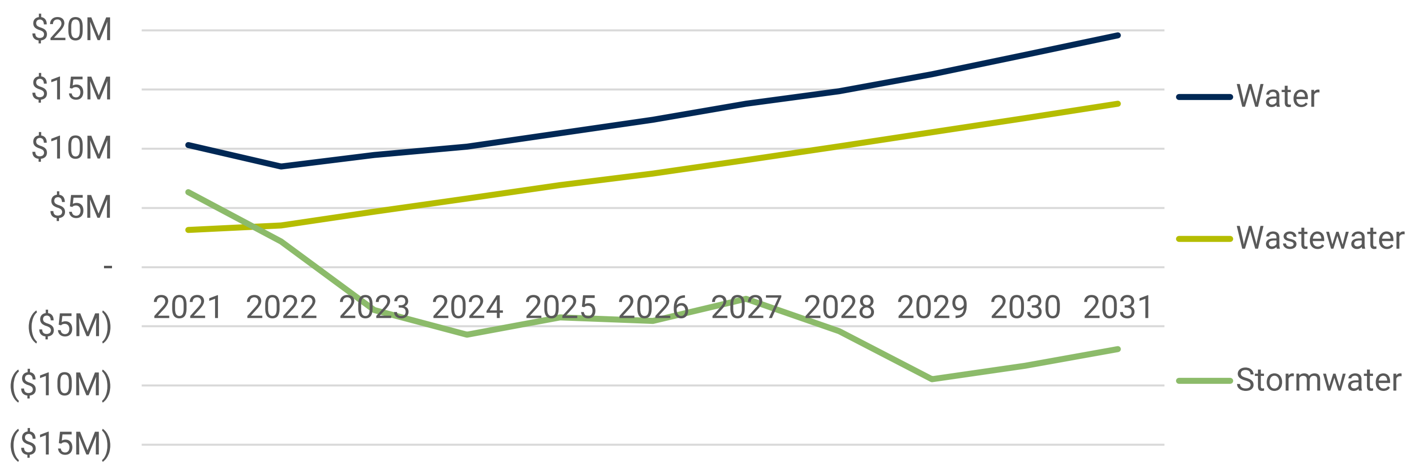
The future contributions to this reserve and the management of large projects will be addressed as part of the fiscal strategy strategic actions.

The studies and other reserve is relatively small as it represents the smallest portion of the capital plan. 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.

User rate reserves continue to grow over the next 10 years to support future needs

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 life-span of up to 80 years. The asset

User rate 10 year reserve balances (water, wastewater and stormwater)



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. The 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.

Development charges pay for growth

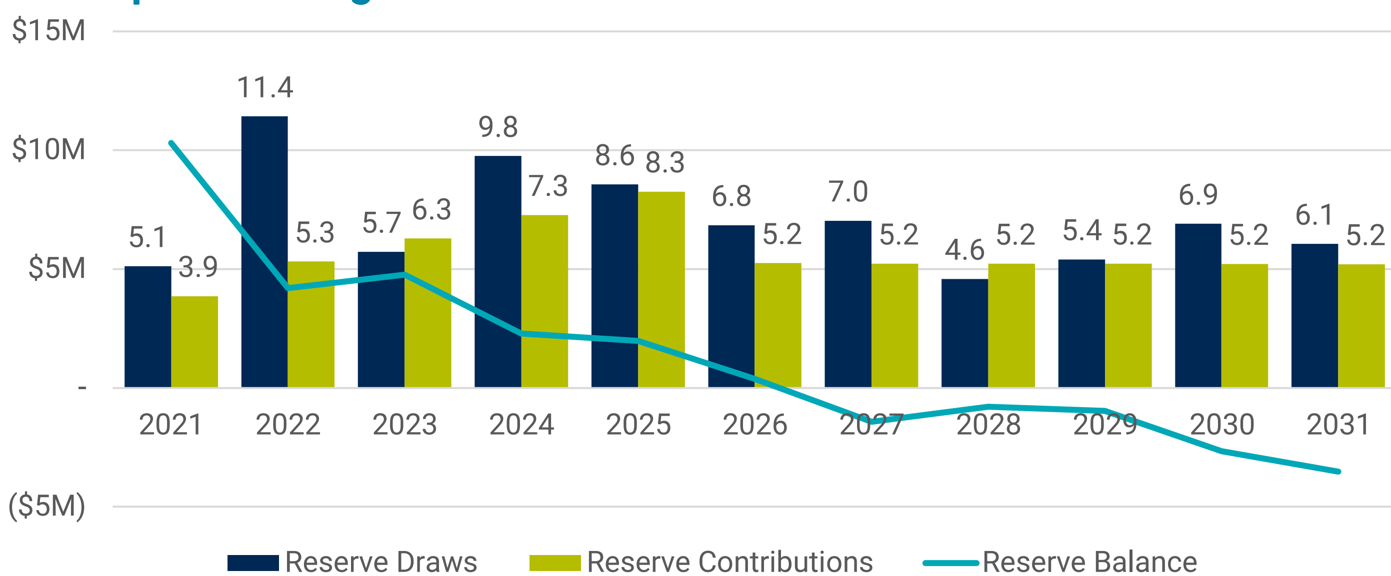
Development charges are collected on residential and non-residential developments for the capital projects that are included in the Development Charge Study and bylaw. These funds are used to pay for the growth-related costs of capital projects need to maintain consistent level of service to a growing community. 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 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.

In 2021, Aurora updated the Development Charge Study and bylaw for recent changes to the Development Charge Act. The next phase of this project is to evaluate the financial feasibility of adopting a Community Benefit Charge and enact the bylaw by September 19th, 2022.

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.

Collecting less in development charges will put some pressure on the growth capital portion of the budget. It will make it more challenging to make significant investments in larger growth projects. The development charge reserve forecast already assumes that the new recreation facility project will have the development charges debt financed. However this is not enough to return the overall development charge reserve balance to a positive balance during the 10-year

Development Charge reserve forecast



capital plan. Unless development charge collections significantly increase over the next few years, some growth projects will need to be deferred.

Debt management enables capital to be built sooner

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 plan includes the repayment of debt issued for projects funded from development charges, user fees and the tax levy.

Most of Aurora's debt is funded by development charges

Larger growth capital projects require significant funding from development charges. Development charges are collected over an extended period of time and often the project needs to be built in advance of growth. In this 10-year plan the development charge funded debt on two projects will be paid off:

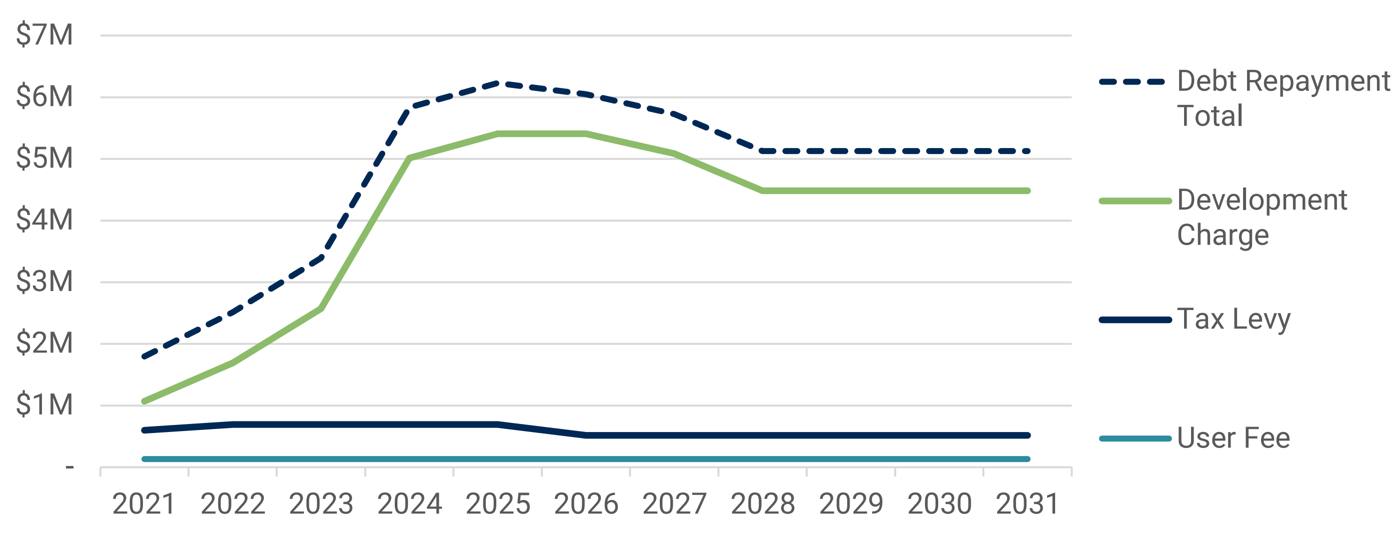
- Stronach Aurora Recreation Complex: 20-year debenture which will be paid off in 2025
- Joint Operations Centre: 10-year debenture which will be paid off in 2028

While these debentures are being paid off, development charge funded debt was recently issued for the Hallmark Baseball Diamonds and will be issued soon for the new gym to be constructed at the Stronach Aurora Recreation Complex.

The 2022 budget does not include any new debt authority to be approved at this time. However, the 10-year capital plan includes development charge funded debt be issued to fund the new recreation facility project in 2024 and for a sidewalk construction on Bathurst to Bloomington side road in 2026. This is why the debt repayment forecast for development charges peaks in 2024 to 2027 prior to leveling off in 2028 after the debt two projects mentioned above are fully paid off.

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. Prior to issuing new development charge funded debt, the development charge revenue

Annual debt repayment by funding source



forecast needs to be further developed. This forecast should consider the certainty of the development charges being collected which is why it needs to consider future servicing capacity available to build new developments. Without adequate servicing capacity funding may not be available to repay development charge funded debt in the future.

Debt financing is an option when user fees will pay back the investment

User fees are collected for permits on facilities, recreation programs and room rentals. In 2021, Aurora purchased and will shortly rejuvenate the Aurora Sports Dome. Rather than using tax funded reserves for this purchase and rehabilitation work, debt financing was issued with the plan to repay the debt through future user fees earned on the use of the facility.

Tax funded debt can increase the overall tax levy

The outstanding debt for Aurora includes tax funded debt for Aurora Town Square and the LED Streetlight Conversion project which will be paid off in 2026. The LED project was funded through the savings in utilities costs on the operating budget. Where the Aurora Town Square debt was funded through a phased in increase to the levy in 2020 and 2021.

When the debt repayment is completed for these two projects they will provide some relief on the tax levy. As part of the fiscal strategy, a reserve management policy will be brought forward recommending that the tax levy funds used to repay debt be converted to asset management reserve contributions once the debt is fully paid off.

The fiscal strategy will continue to shape future budgets

Currently the operating budget includes a one percent increase to the tax levy annually to reduce the reliance on supplementary taxes and contributions to tax funded reserves. The fiscal strategy, approved in 2021, sets out a number of strategic actions that will support setting the policy framework around how reserves and debt will be managed. In addition, further work will be done on the second generation asset management plan which will help Aurora define the amount of funding needed to support asset management through setting service levels for each asset class.