AURORA

2021 FISCAL STRATEGY

Approved on
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Prepared by
Town of Aurora
Finance Department

Table of Contents

Fiscal strategy overview

During the 2021 budget process, the fiscal strategy was introduced as an important initiative for setting the financial policy framework the town can use to ensure it stays on a financially sustainable path. This report provides an overview of the fiscal strategy and outlines its importance for the Town of Aurora to begin taking a longer-term view on financial health. This includes defining the fiscal strategy pillars, strategic objectives and the actions to be taken to maintain financial health in the long run.

The main objective of the fiscal strategy is to achieve long-term financial sustainability. Financial sustainability for a municipality can be defined as:

> "...a government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation."
>
> Source: Local Government Association of Australia

Following the fiscal strategy and the policy objectives included within will set the path to financial sustainability. In practice the fiscal strategy will:

- Provide a long-term view to financial stewardship and financial management
- Ensure the town maintains desired service levels and adapts to growth
- Manage and moderate the fiscal impacts from year-to-year
- Enable the town to effectively maintain and replace assets
- Prepare the town to adapt to changing economic circumstances
- Assess financial impacts between current and future tax and rate payers to reduce fiscal shocks and share financial burden fairly across multiple generations

How the town will get there is by following the strategic objectives and implementing the strategic actions included in this report.

The fiscal strategy framework

The fiscal strategy framework includes four main pieces: fiscal strategy pillars, strategic elements, strategic objectives and strategic actions. They are defined as:

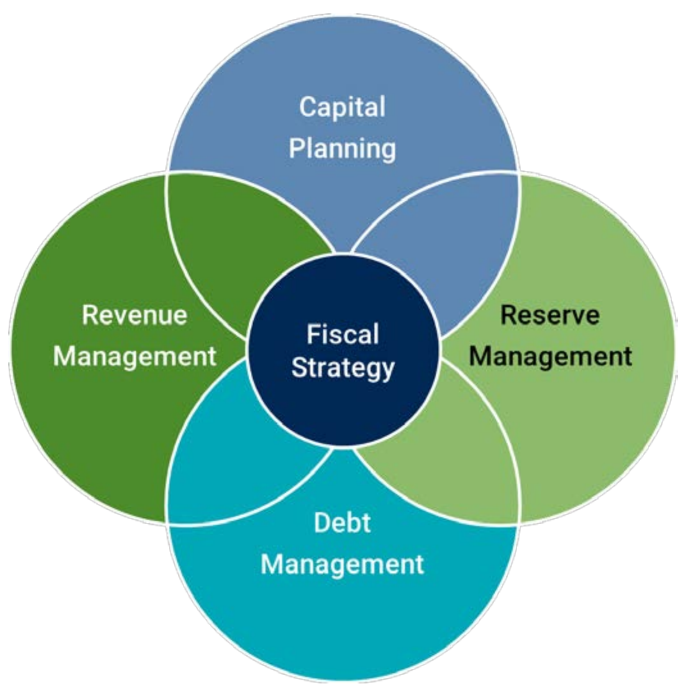
- **Fiscal strategy pillars:** The four fiscal areas are capital planning, reserve management, debt management and revenue management and they must work together over the long-term to achieve financial sustainability
- **Strategic elements:** The five primary lenses through which each strategic pillar is viewed are: asset management, growth management, master/strategic plans and studies, multi-year budget and intergenerational equity
- **Strategic objectives:** High-level strategic goals and objectives that are defined for each strategic element and fiscal strategy pillar
- **Strategic actions:** The recommended actions (or initiatives) that support the strategic objectives

These four pieces work together to define the financially sustainable path for the town to follow.

Fiscal strategy pillars

The fiscal strategy includes four pillars that must work together over the long-term to achieve financial sustainability. The four pillars are: capital planning, reserve management, debt management and revenue management. The fiscal strategy balances the objectives of all four pillars and lays in the centre where the four pillars meet.

Each of these four pillars are critical to having an effective fiscal strategy. In developing a long-term plan if one pillar is not considered then it could mean the plan is not financially sustainable.



The four fiscal strategy pillars are defined as:

- **Capital planning:** A long-term capital plan ensures the town's current and future capital asset goals and objectives are met
- **Reserve management:** Maintains reserves to meet the needs of the long-term capital plan and manage the risk for unexpected economic impacts
- **Debt management:** Ensures debt financing is used to manage the long-term financial flexibility of the town
- **Revenue management:** Optimizes revenues from all available sources to ensure reserves are adequately funded

A change to one pillar can affect the other three

A successful fiscal strategy balances the four pillars over the long-term as an adjustment to one pillar can affect one or more of the other pillars. The next few examples explain the impact each pillar can have on the others.

Capital planning:	Increasing the capital plan to include more growth capital projects will mean that additional reserve funding, debt financing and development charge revenues could be needed. If the additional growth represents an increase to the service levels currently provided, there could also be an impact on tax and/or ratepayers.
Reserve management:	In the situation where contributions to tax funded reserves are reduced for a few years, the capital plan would also almost certainly need to be reduced. To be able to allow original capital plans to proceed, further unplanned debt financing or increasing revenue through grants could be considered. However, any additional debt financing would need to be repaid. This action would just defer the reduction to capital planning, or the increase to capital contributions, into the future effectively shifting the burden to future tax or ratepayers.
Debt management:	If the town decided to proceed with issuing significant debt to build one or more large capital projects over a short period of time it could impact the town's ability to issue debt in the future. Reserves must be used to pay back debt first which reduces the funding available for the capital plan until it is

	repaid. If other projects come along, further revenues must be raised to fund them including grants, taxes and user rates.
Revenue management:	The town improves its investment income returns on its portfolio. This would result in the reserves that are invested earning more investment income providing the opportunity to either increase the capital plan or reduce the town's reliance on tax and user rate funding.

These examples demonstrate why it is important that the fiscal strategy balances these pillars over the long-term. These fiscal pillars are discussed in detail in the sections that follow.

Strategic elements

Each of the four fiscal strategy pillars are viewed under five different lenses which are called strategic elements. These fiscal elements ensure that the fiscal strategy manages the larger financial obligations in its long-term capital plan and balances the responsibility for funding them fairly over time. The strategic elements are defined as:

- **Asset Management** is based on a long-term financial and operational plan that ensures all capital asset management life-cycle requirements are met.
- **Managing Growth** through planning for the long-term impact of growth and its impact on current and future service-levels.
- **Master/Strategic Plans & Studies** inform long-term capital and reserve planning subject to the affordability of the plan.
- **Multi-Year Budget** and 10-year capital plan that is informed and guided by the fiscal strategy objectives and can adapt to short-term economic impacts.
- **Intergenerational Equity** fairly shares the financial impact between current and future tax and rate payers.

Asset management requires a long-term view

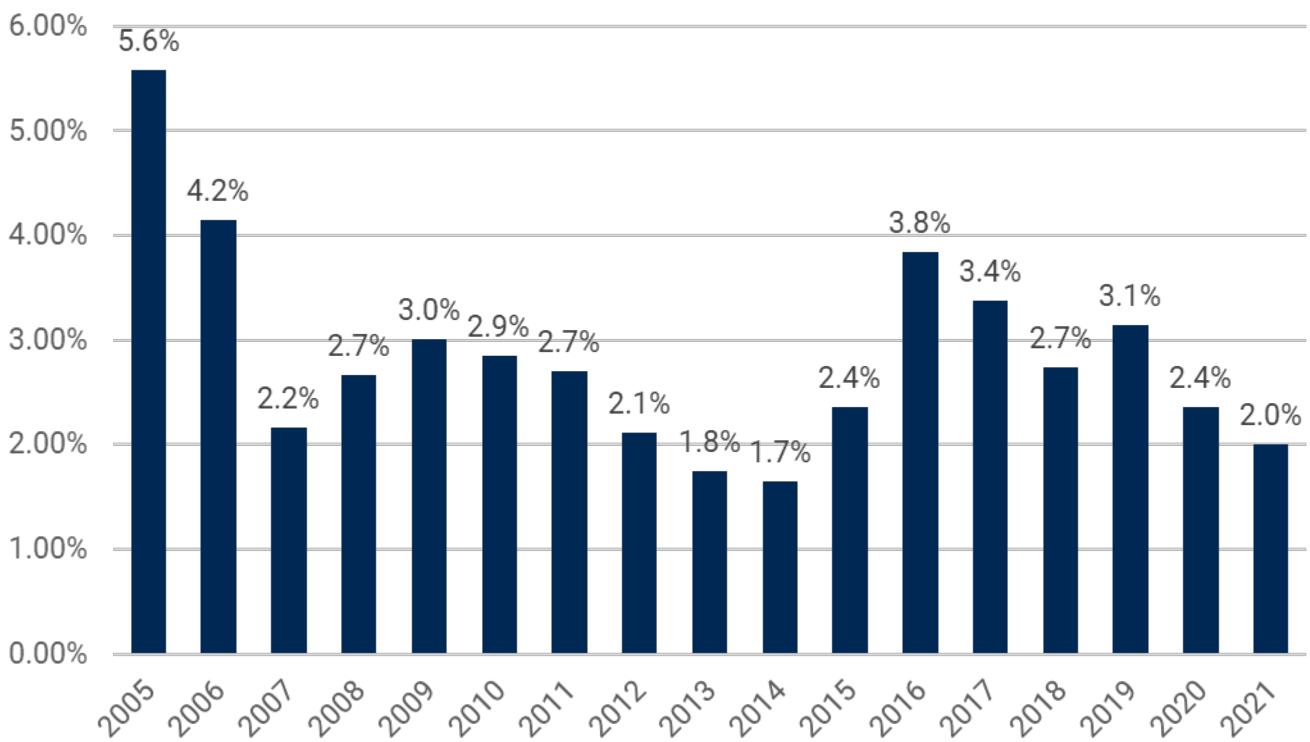
The town currently owns $709 million with a replacement value of $1,311 million. These assets have a life cycle spanning anywhere from two to 80 years. When viewing each pillar for asset management, we need to consider a time period long enough to include all major repairs to assets and their future replacement, otherwise the fiscal strategy may miss significant future obligations.

Improvements to the town's asset management plan, that are required under provincial legislation, will operationalize the plan meaning it will become a living plan driven by the asset service-level needs defined by the town.

Managing growth effectively maintains the town's service levels

By managing growth effectively, the town will strive to ensure that service-levels remain consistent over time. The challenge is that growth can be impacted by external factors, such as the economy and provincial legislation, resulting in growth being slower or faster than anticipated. The graph that follows shows the varying levels of assessment growth that Aurora has experienced from 2005 through 2021. The percentage growth in assessment includes the new residential and commercial developments added to the tax roll, along with other adjustments to existing property values. The graph shows assessment growth as high as 5.6 percent in 2005 and as low as 1.7 percent in 2014. To adapt to these changing levels of growth, the fiscal strategy needs to remain flexible.

Aurora's assessment growth from 2005 to 2021



For municipalities, growth is intended to pay for growth. The additional taxes collected through assessment growth and the development charge revenues collected on new developments are to be used to maintain Aurora's existing service levels today for a growing community and are not intended to be used to enhance an existing service level.

Master, strategic plans and studies provide insight into the future

Master plans, strategic plans and other studies guide long-term capital planning. These documents look ahead to plan for future growth, shape the community, define service levels and plan for how the town can provide these services in the future. The challenge is that these plans may not be affordable or may only be affordable if the financial impact is planned for in advance.

Aurora has a number of master, strategic plans and studies including:

- Accessibility Plan
- Active Transportation Plan
- Asset Management Plan
- Aurora Promenade Plan
- Community Energy Plan
- Community Improvement Plan
- Corporate Environmental Action Plan
- Cultural Master Plan
- Customer Service Strategy and Implementation Plan
- Development Charge Study
- Economic Development Strategic Plan
- Energy Conservation and Demand Management Plan
- Fleet Study
- Green Fleet Action Plan
- Information Technology Strategic Plan
- Museum Plan
- Official Plan
- Parkland Dedication Bylaw
- Parks & Recreation Master Plan
- Sports Field Development Strategy
- Sport Plan
- Storm Water Management Master Plan
- Strategic Plan (Vision 2031)
- Stream Management Master Plan & Tannery Creek Flood Relief Study
- Trail Master Plan
- Transportation Master Plan
- Urban Forest Management Policy

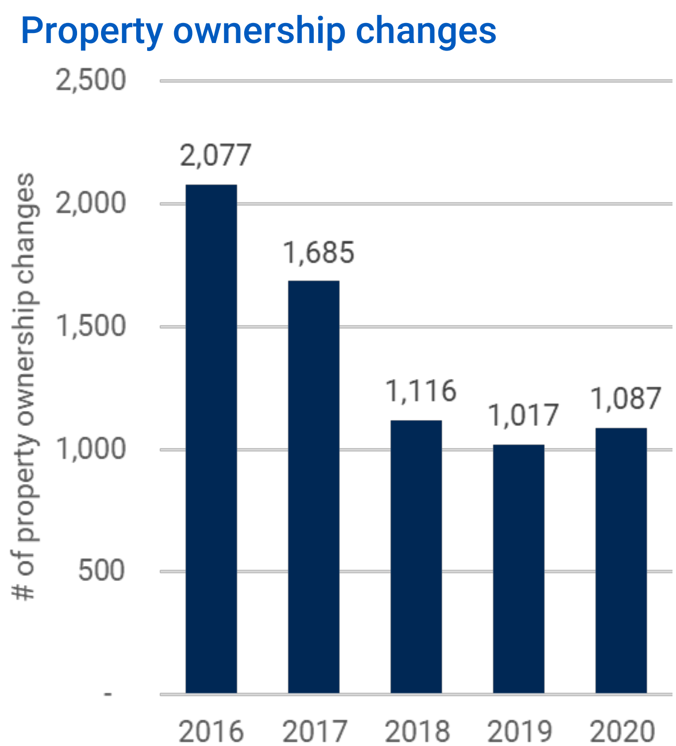
Multi-year budget manages the short-term impact

The fiscal strategy must be flexible to adapt to Council priorities, economic impacts and unexpected events. The multi-year operating budget and 10-year capital plan represent the first few years of the long-term planning resulting from the fiscal strategy. The fiscal strategy framework ensures the budget fits within the long-term plan too.

The annual budget process is also the ideal opportunity to review the progress of the fiscal strategy to determine if any course corrections are needed to ensure the town remains on a financially sustainable path.

Intergenerational equity ensures fairness over time

Intergenerational equity in the fiscal strategy is about ensuring each generation, today and in the future, are treated fairly and equally. Looking at recent history, the graph below shows 6,982 property ownership changes over a five-year period from 2016 to 2020. So, the question becomes: to ensure fairness between residents today and in the future, under what circumstances does the town contribute to reserve to pay for future capital needs and when does the town use debt financing to pay later?



The fiscal strategy follows this principle: for existing infrastructure the town should plan to use reserves to pay for the asset management needs, except under special circumstances, and the use of reserves and debt financing for growth should be aligned with the development charge study, defined services levels, and the pace of growth. Following this practice will ensure that asset management financial commitments are balanced over time especially in years where the financial obligations could be significantly higher.

Strategic objectives

The fiscal strategy defines 20 strategic objectives, one for each combination of the four pillars and the five strategic elements. These strategic objectives will need to be considered together as the fiscal strategy is put into practice. An overview of the 20 strategic objectives by pillar and strategic element is shown on the two pages that follow. They are then discussed in more detail in the capital planning, reserve management, debt management and revenue management sections of this report.

Fiscal strategy strategic objectives

Capital Planning	Reserve Management	Debt Management	Revenue Management
Asset management			
Asset Replacement based on the Town's Asset Management Plan with the defined levels of service over a long-term planning horizon	Planning asset management reserve requirements over the long-term to ensure full life-cycle asset funding requirements can be met	Debt should not be used, except when there is an incremental revenue source, or savings, resulting from the capital investment which will fully fund the debt repayment	Actively seek out and maximize grant, investment, user fees and other alternative funding opportunities to minimize the burden on tax and rate payers
Growth management			
Growth management will maintain the Town's existing service levels for a growing and urbanizing community aligned with the Development Charge study and informed by master plans and other studies	Growth capital tax and rate funded reserves are adequately funded to meet the timing of growth in the community over the long-term	Debt could be considered when the asset is built in advance of growth	Optimize the Development Charge Study to ensure that growth pays for all planned eligible growth projects

Capital Planning	Reserve Management	Debt Management	Revenue Management
Master/strategic plans and studies			
Studies and master plans support and provide background for future affordable operating and capital service levels	Studies and master plans include the impact on future reserve and operating budgets	Debt financing should not be used for studies or plans	Studies and master plans consider opportunities to optimize non-tax revenue sources where applicable and identify future tax levy and user rate impacts
Multi-year budget			
The budget is informed by studies and plans to manage year-to-year fiscal impacts with the goal of achieving long-term financial sustainability	Maintain healthy reserves by ensuring reserve definitions and contributions align with long-term capital planning needs	The capital plan may consider debt financing for growth projects where funding sources are known and the operating budget will include the repayment of the debt obligations	Ensure operating budget revenues are predictable, stable and sustainable
Intergenerational equity			
Match the timing of the capital investment with the timing of when the growth will occur	Funding reserves for long-term plans should not overly burden one generation over another and should avoid fiscal shocks	Manage the timing difference between when the capital projects are being built and the future growth that they will benefit	Leverage investment income, user fees and other revenue sources to ensure reserves grow over time to offset the cost of inflation

Strategic actions

Strategic actions are the high-level actions that support the strategic objectives for each pillar. The actions recommend:

- Guiding philosophies to follow for the development of future budgets and financial plans
- The development of new long-term analytical plans and forecasts
- The development of new, or changes to, existing policies, guidelines and process flows
- Broader actions that may need to be broken down into smaller projects
- A combination of one-time or on-going actions

Upon approval of the fiscal strategy an action plan will be developed. This action plan will identify and plan out the strategic actions to support the fiscal strategy, including more detail on the specific actions and the timing of the work to support them. The action plan will be a living document that will change over time as these actions represent only the ones identified today to initiate the fiscal strategy. The action plan can then be used as a method to report back on the progress of the fiscal strategy and ensure it adapts to the needs of the town over time.

Bringing together the pillars, elements, objectives and actions

The next four sections of this report each focus on one pillar of the fiscal strategy. The pillars are explored in more detail and graphs are provided to show context including comparative analysis to other GTA municipalities from the BMA Consulting Inc. 2020 Municipal Study which includes 2019 results from participating municipalities.

These sections also explore the strategic lenses as they apply to each pillar and provide context for the strategic objective recommended. They are then followed by the overview of each strategic action.

The capital planning pillar

A long-term capital plan ensures the Town's current and future capital asset goals and objectives are met

Capital planning overview

Capital planning strategic objectives

Asset Management

- Asset Replacement based on the Town's Asset Management Plan with the defined levels of service over a long-term planning horizon

Managing Growth

- Growth will maintain the Town's existing service levels for a growing and urbanizing community aligned with the Development Charge study and informed by master plans and other studies

Master/Strategic Plans & Studies

- Studies and master plans support and provide background for future affordable operating and capital service levels

Multi-Year Budget

- The budget is informed by studies and plans to manage year-to-year fiscal impacts with the goal of achieving long-term financial sustainability

Intergenerational Equity

- Match the timing of the capital investment with the timing of when growth revenues will be received

Recent improvements to the capital budget provide a strong foundation for long-term capital planning

The 2021 to 2022 Budget and 10-Year Capital Plan included a number of improvements to capital planning that will set a strong foundation to build upon including better forecasting of planned capital spending, prioritization of projects based on resources available and the introduction of capital programs for repair and replacement projects.

The recent budget also tied capital planning closer to reserve and debt management by ensuring the plan was affordable for the first five years. Capital planning expands upon this work to ensure the capital plan is affordable over the long-term.

Capital planning has a long-term view

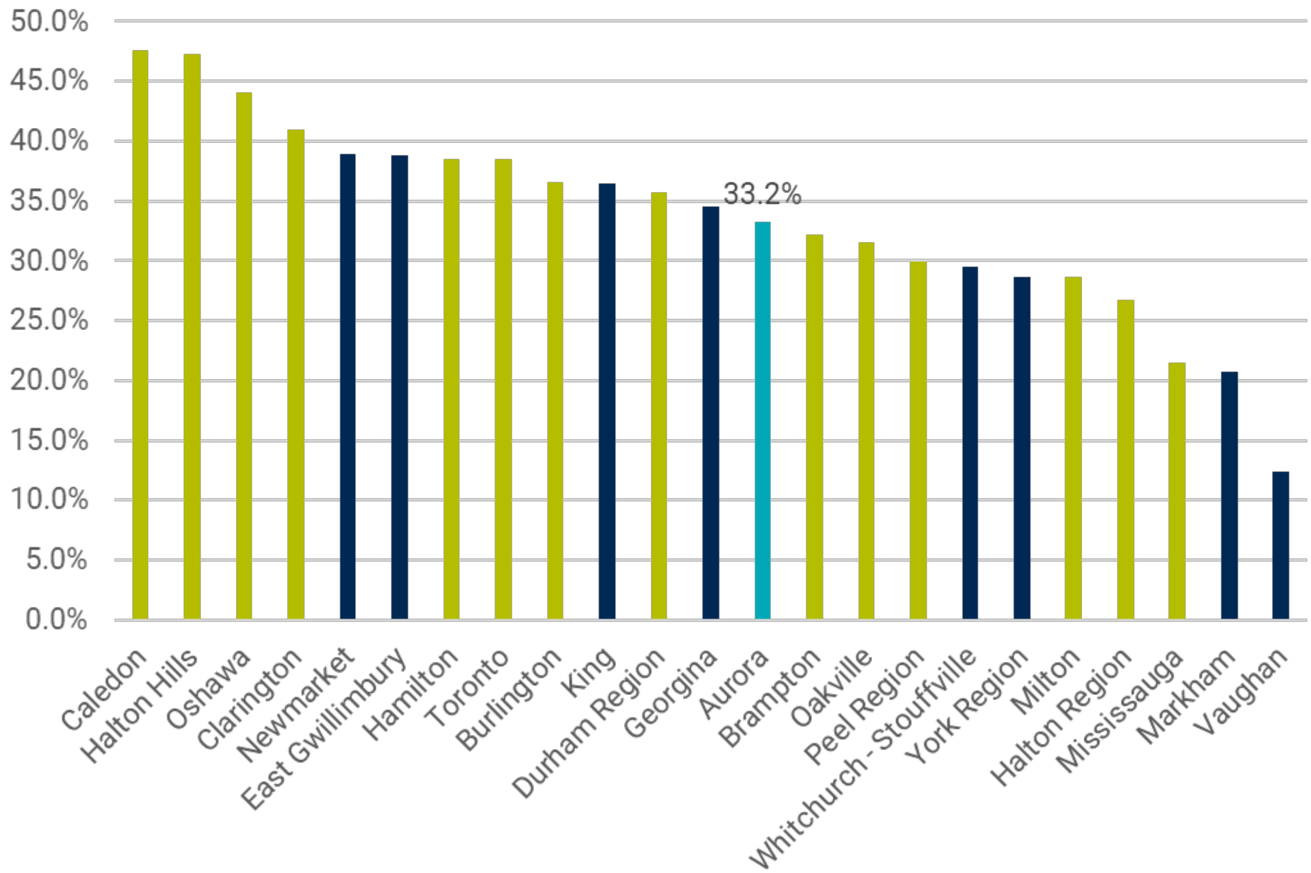
The first 10-years of the long-term capital plan will be aligned with the budget. In the outer years of the plan it will be informed by the master plans, strategic plans and studies to develop a long-term forecast of capital requirements. To ensure larger growth projects and all asset management requirements are captured, the length of the planning horizon needs to be at least 80 years.

The main reason the plan needs to be at least 80 years is because that represents the longest asset life span for any of the town's assets, specifically water, wastewater and storm water underground infrastructure which is very costly to replace. Using this longer-term view, the town can take action today to ensure the plan is affordable in the future.

Aurora's assets are relatively young, providing time to plan for the future

Asset consumption is a financial measure that shows the percentage of assets amortized (used up) to date. Based on this measure Aurora's assets are relatively young. This provides time to plan for future asset management needs, including replacement or rehabilitation. At the end of 2019, Aurora's asset consumption for all assets was 33.2 percent, as shown in the graph that follows comparing Aurora to other municipalities in the GTA that participated in the BMA Consulting Inc. 2020 Municipal Study. Overall the graph shows that many of York Region's municipalities have relatively young assets, which stems from a recent period of significant growth resulting in the addition of new assets to their total asset base.

2019 asset consumption ratio

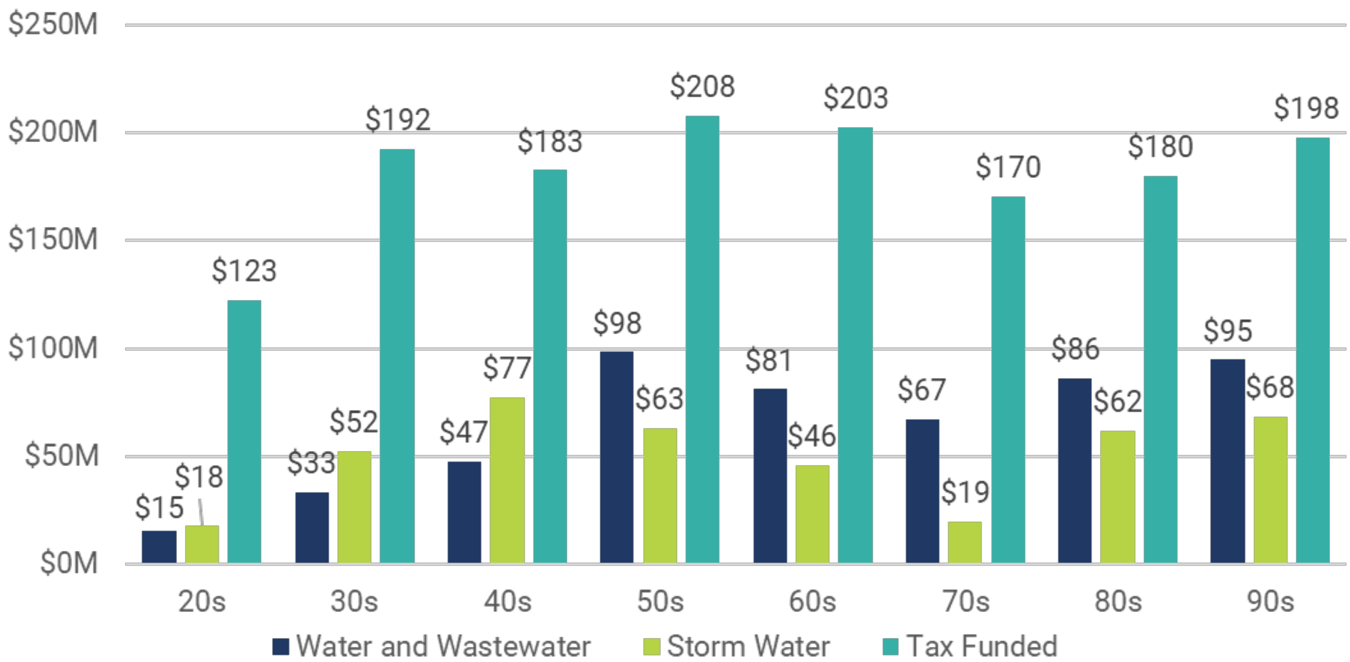


Source: BMA Management Consulting Inc. 2020 Municipal Study

Aurora's asset consumption ratio did not vary significantly for assets funded from tax, water and wastewater based on the study. It was 33.7 percent for tax-funded assets, 34.7 percent for water-funded assets and wastewater funded assets a little lower at 27.6 percent. This means on average Aurora has roughly two-thirds of the assets useful life remaining to plan for major replacements and rehabilitation. However, this is a financial measure and other factors can extend or shorten the actual useful life, including the amount of wear on an asset, the minimum service-level and the maintenance over the life of the asset.

The following graph looks at the long-term asset management needs for the town's current assets, excluding any new assets and those currently under construction. The asset replacement cost includes planned major repairs and replacements by decade and indexed for inflation. These amounts are an estimate based solely on each asset's estimated useful life and do not consider any established asset and will change over time as service levels and do not consider new asset additions. However, these estimates provide good insight into the significant replacement costs that are on Aurora's medium to long term horizon.

Asset replacement costs by decade



Source: Town of Aurora CityWide Asset Managment System

The asset management needs for tax funded assets increase significantly in the 2030's which covers the next 10-year period after the latest capital plan presented in the budget. In the 2030's the asset management needs reach a more steady state but they do not include asset management requirements for any growth capital planned in the future.

The asset management needs for water and wastewater funded assets reach their peak in the 2050's providing more time to plan and save. However, the storm water asset management needs increase significantly over the next couple of decades peaking in the 2050's.

The second-generation asset management plan, currently under development, will include significant enhancements that will help to refine Aurora's asset management needs now and into the future. These enhancements will include the development and implementation of clearly defined level of service measures for each key asset category.

Plans and studies help inform growth planning

The long-term plan also needs to consider growth in addition to asset management requirements for current assets. Master plans, strategic plans and studies provide insight into how Aurora's community will develop in the future. In developing the long-term capital plan, assumptions must be made on the future growth trends included in these studies and plans and the future asset management needs that follow.

Capital planning strategic objectives

The strategic objectives for capital planning outline how to balance the fiscal strategy through this strategic pillar and discuss in more detail the actions and philosophies to follow to achieve the strategic objective for each element.

Asset management

Strategic objective:	Asset Replacement based on the town's Asset Management Plan with the defined level of service over a long-term planning horizon

Asset management capital planning is based on the town's asset management plan. The town is developing a second-generation plan which will also include defined service levels for linear assets (i.e. roads, sidewalks, streetlights, water, wastewater, storm water infrastructure) which will guide all plans for repairs and replacement capital work for years to come. Level of service measures will be added to the asset management plan for all remaining asset categories by 2023. This will enable Aurora to develop a long-term, 80+ years, forecast that supports the replacement of all assets at least once, including underground infrastructure has a life span of up to 80 years. The plan will need to be updated regularly and adapt for new assets and updates to service levels. This long-term asset management plan will be key to developing the long-term reserve requirements.

Growth Management

Strategic objective:	Growth management will maintain the Town's existing service levels for a growing and urbanizing community aligned with the Development Charge study and informed by master plans and other studies

Aurora is a growing community but growth will change over time as the amount of greenspace available for development decreases. Capital planning for growth should ensure that the service levels the town provides today continue and are maintained in the future.

The development charge study, and possible community benefit charge study, should reflect the growth planned in the community over the near term and are updated at least every five years. These studies need to be aligned with capital planning and the long-term capital forecast to ensure planning growth capital is complete and service levels are maintained.

Master, strategic plans and studies

Strategic objective:	Studies and master plans support and provide background for future affordable operating and capital service levels

Master, strategic plans and studies are used to inform capital planning. These plans and studies can identify capital needs over a short or long term. However, how they are implemented is subject to budget constraints.

Multi-year budget

Strategic objective:	The budget is informed by studies and plans to manage year-to-year fiscal impacts with the goal of achieving long-term financial sustainability

The multi-year budget includes a 10-year capital plan. It is important to ensure the 10-year plan aligns with longer-term plans and studies, but is also affordable and complete.

The recent changes to the 10-year capital plan, including the introduction of capital programs and capital budget authority, provide for better planning and more certainty around the timing of capital projects. To ensure the plan is affordable, the town is now prioritizing repair and rehabilitation projects based on the asset management plan and all other capital projects as per the Integrated Business Planning Process presented to Council on February 22, 2021.

Intergenerational Equity

Strategic objective:	Match the timing of the capital investment with the timing of when the growth will occur

In capital planning intergenerational equity is achieved when growth projects are planned based on the timing of when the growth is expected to occur and asset management follows the asset management plan. This ensures that service levels for the use of town assets are maintained at a consistent level for the community over time. This timing is particularly important for growth capital because if growth capital is built too early then the community will become accustomed to a higher level of service and increasing service levels will impact the ability to fund the project from development charges.

Capital planning strategic actions

The following strategic actions for capital planning support the strategic objectives above.

Draft capital budget principles that reflect the recent changes to the budget framework

The 2021 to 2022 Budget included a number of changes to the framework of the 10-year capital plan. The capital budget principles should be developed to reflect these changes that include:

- Budget Spending Authority for capital projects which reflects the project budget cost to-date and future commitment along with the planned cash flow
- Capital planning to have a long-term focus
- The capital plan be affordable and complete in all 10-years
- The impact of the 10-year plan on reserves
- The 10-year plan aligns with the asset management plan, development charge study, master plans and other studies
- The method for prioritization of growth projects, studies and other non-asset management capital projects through the Integrated Business Planning Process
- The capital budget to identify the impact on the operating budget including the ongoing operating cost of the asset along with the repair and replacement asset management costs
- Guidelines for the management of capital programs

Further develop asset management planning

The asset management plan developed by the town should be further developed to meet the legislative requirements by the province and also provide a planning tool for the town to support reserve requirements analysis. The town should further develop asset management planning by:

- Developing a second generation asset management plan, including definitions of levels of service for linear assets (e.g. roads and sewers) and meeting legislative requirements (currently underway)
- Develop levels of service for the remaining asset categories ahead of the provincially prescribed timelines
- Operationalize the asset management plan to align it with the 10-year capital plan and develop longer-term capital funding requirements to ensure capital reserves are sustainable
- Review and update the asset management plan regularly in accordance with legislation and operational needs of the assets

Ensure the development charge study and the capital plan are aligned

To ensure the projects required for growth are properly planned and recovered from development charges the capital plan and the development charge study should be aligned. This would include:

- Matching the growth projects in the capital plan to the development charge study
- Fund capital projects based on what is planned in the development charge study

Improve longer-term growth forecasts to maintain existing levels of service

The 10-year capital plan and longer-term forecasts should include capital projects that support maintaining existing service levels for growth. While the 10-year capital plan may identify specific projects, a longer-term forecast may include placeholders based on the growth forecast and informed by master, strategic plans and studies. Also, in developing the longer-term growth forecast, the impact of service level changes will need to be managed carefully to ensure funding sources are available. This will aid in identifying future reserve requirements. These longer-term forecasts will:

- Clearly identify whether growth projects maintain or enhance service levels as this will impact funding sources
- Consider the timing of growth and affordability
- Prioritize growth that ensures the town's existing level of service is maintained

Review the affordability of strategic plans and studies to support long-term capital planning

Existing master, strategic plans and studies need to be reviewed from an impact on existing levels of service and affordability perspective as they are used to inform the long-term capital plan, while new studies and plans should consider long-term affordability while they are being developed. This will enable Council to understand the proposed impacts to existing levels of service and the affordability of the plan or study at the time they are being presented for consideration by Council. To do this master, strategic plans and studies must be complete including:

- Estimated capital costs and annual operating costs
- Identifying any proposed impacts to existing levels of service
- Future asset management requirements
- Identifying land acquisition needs for growth projects
- The understanding that master, strategic plans and studies with a future budget impact should be "endorsed" by Council and are subject to future budget constraints
- Include a method for reporting back on the progress of the plan

Develop a longer-term capital forecast

A longer-term capital forecast will bring together the asset management and future growth needs. The first 10-years of the forecast would reflect the capital plan and then the remaining years would reflect the asset management plan and growth forecast. The development of the second-generation asset management plan and the update to the town's Official Plan will form the foundation for this long-term plan. The plan will:

- Use master, strategic plans and studies to inform growth needs
- Include the requirements identified in the second-generation asset management plan
- Align with the 10-year capital plan and development charge study in the early part of the forecast
- Span at least 80 years to ensure all asset replacements are forecasted at least once to aid in long-term planning for reserves
- Be able to adapt to changes to economic conditions, service levels and the addition of new assets

The reserve management pillar

Reserve management maintains reserves to meet the needs of the long-term capital plan and manage the risk for unexpected economic impacts

Reserve management overview

Reserve management strategic objectives

Asset Management

- Planning asset management reserve requirements over the long-term to ensure full life-cycle asset funding requirements can be met

Managing Growth

- Growth capital tax and rate funded reserves are adequately funded to meet the timing of growth in the community over the long-term

Master/Strategic Plans & Studies

- Studies and master plans include the impact on future reserve and operating budgets

Multi-Year Budget

- Maintain healthy reserves by ensuring reserve definitions and contributions align with long-term capital planning needs

Intergenerational Equity

- Funding reserves for long-term plans should not overly burden one generation over another and should avoid fiscal shocks

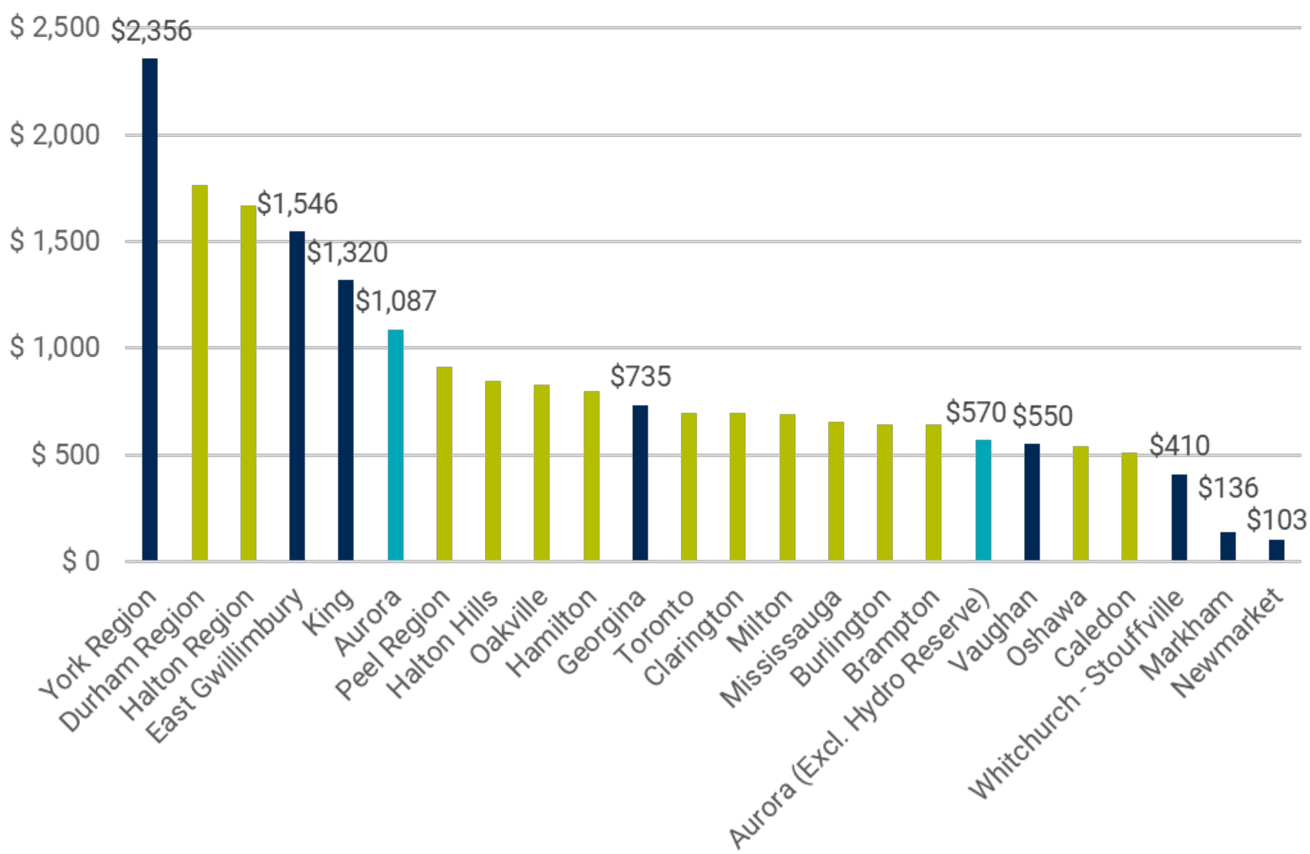
Reserve management is about planning for the contributions to and draws from reserve

Reserve management plays an important role in long-term fiscal planning and financial sustainability to support the town’s financial health. Through the management of reserves, the town can plan the future reserve draws and contributions needed to support the long-term capital plan. By taking a long-term view of reserves, the town can plan for future increases in asset management capital plan needs and more effectively fund them over time while minimizing the annual impact to tax and ratepayers, to ensure the funds are available when needed to support the plan.

The one percent fiscal strategy levy supports tax-funded reserves

Tax-funded reserves are used to pay for studies, growth projects (the part not funded through development charges) and asset management costs relating to the town's assets including recreation facilities, roads, parks, playgrounds, fleet vehicles and other town facilities. In 2011, Council began allocating an annual increase equal to one percent of the tax levy to support contributions to tax-funded capital reserves and weaning the town off non-sustainable revenues (supplementary taxes) in recognition of a growing infrastructure renewal funding gap. The tax-funded capital reserve contributions are distributed to the various tax-funded reserves based on historical trend information. These reserves are then drawn from as required to support the 10-year capital plan.

2019 tax-funded reserves per capita



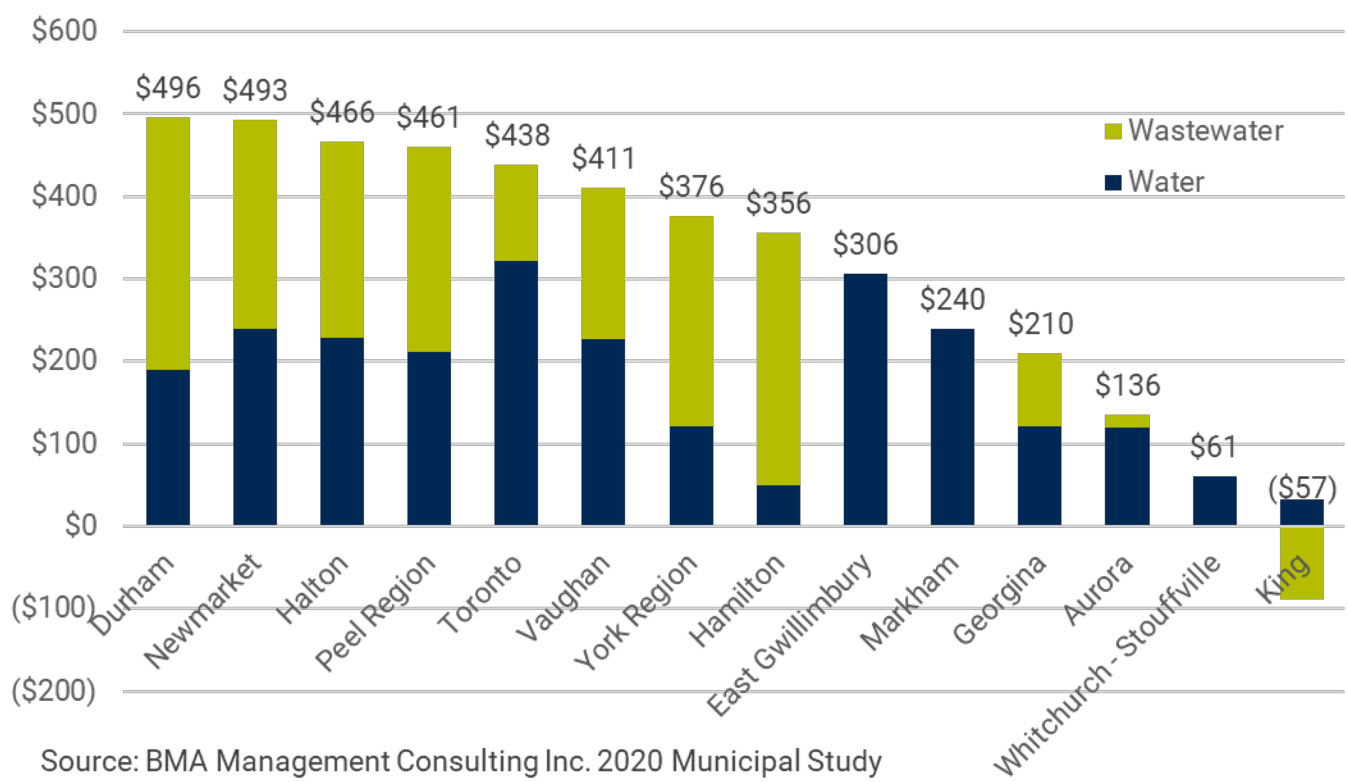
Source: BMA Management Consulting Inc. 2020 Municipal Study

The recent 2020 Municipal Study by BMA Management Consulting Inc. shows how Aurora compares to other municipalities for tax-funded reserves on a per capita basis. The study showed a quite favourable $1,087 per capita for Aurora but this number includes the town's hydro sale proceeds reserve, without the hydro sale proceeds reserve this amount becomes $570 per capita.

Reserves for water, wastewater and storm water are funded through user rates

Water, wastewater and storm water budgets are funded through the rates charged to customers through water billings. Since developers build most of the growth capital for water, wastewater and storm water services during the construction of a new development, Aurora does not need to plan for the capital cost to build the majority of these initial investments. However, Aurora must plan for the eventual replacement and rehabilitation of these assets. These asset management costs are funded through contributions to reserves included in the water, wastewater and storm water rates. These reserves are also used to balance the operating budget at yearend. Therefore, any deficit or surplus will impact the planned balances for these reserves making overall reserve management more difficult.

2019 water and wastewater reserves per capita



Source: BMA Management Consulting Inc. 2020 Municipal Study

In comparing Aurora's water and wastewater reserves per capita to others in the GTA, Aurora lags behind. The graph shows that at the end of 2019 Aurora had only $136 in water and wastewater reserves per capita. Understanding the reserve needs for long-term capital planning will help determine where this number needs to be.

Reserves manage future and current needs

Building reserves over time helps manage large increases for capital replacement needs in the future, essentially smoothing the peaks created by large asset replacements or the impact of many asset replacements arising from a time of significant rapid growth in the past. These situations can create a short-term pressure in the future that needs to be planned for.

Some assets are repaired or replaced on a more regular basis allowing for reserve contributions to be managed on a pay-as-you-go basis. For example, if the town resurfaces about the same amount of roads on an annual basis then this could be funded pay-as-you-go because the cost is predictable and doesn't vary much from year to year. However, periods of high or rapid growth in the past can create peaks in the asset management reserve needs in the future. Taking action early to build reserves can help manage and plan for these peaks.

A long-term reserve forecast will guide future reserve contributions

A long-term reserve requirements forecast needs to be developed to define the reserve funding needs to ensure they can be met. The sooner this forecast is developed, the more time the town will have to fund the reserves to ensure all asset management needs are planned for. The forecast will also consider the various options for funding asset management and growth capital needs that will affect the tax levy and user rates.

Since the forecast will identify future needs by each reserve type, it can then be used to inform decisions on how to distribute funding between similarly funded reserves.

Reserve balances are a clear indicator of financial health

Reserve balances are an indicator of financial health. Maintaining positive balances ensures long-term affordability if large reserve draws are needed in the future. Once these reserve balances are compared to a long-term forecast, more insight can be gained to understand if the town is on a long-term financially sustainable path.

Reserve management strategic objectives

The strategic objectives for reserve management outline how to balance the fiscal strategy through this strategic pillar and discuss in more detail the actions and philosophies to follow to achieve the strategic objective for each element.

Asset management

Strategic objective:	Planning asset management reserve requirements over the long-term to ensure full life-cycle asset funding requirements can be met

Asset management has a significant impact on reserve management. The goal is to have reserves sufficiently funded to be able to meet asset management needs over the long-term. The development of a long-term reserve forecast will help ensure these obligations can be met and identify how funds should be distributed between similarly funded reserves.

Growth Management

Strategic objective:	Growth capital tax and rate funded reserves are adequately funded to meet the timing of growth in the community over the long-term

Not all growth capital is funded wholly from development charges or other development driven revenues. For example, most growth capital projects that result in a service enhancement are ineligible for development driven revenues. In past budgets, having sufficient tax funded growth reserves was a challenge resulting in some planned projects needing to be delayed or internal borrowing from other reserves being necessary. A long-term reserve forecast will project future reserve requirements for tax and user rate-funded growth too.

Master, strategic plans and studies

Strategic objective:	Studies and master plans include the impact of future reserve and operating budgets

Reserve management will allow the town to determine the affordability of existing and new master, strategic plans and studies. The longer-term capital and reserve forecast will identify the funding needed to enact the recommendations of a master, strategic plan or study to determine if and when they are affordable.

Multi-year budget

Strategic objective:	Maintain healthy reserves by ensuring reserve definitions and contributions align with long-term capital planning needs

The budget's 10-year capital plan is updated annually to reflect any changes to priorities, economic impacts or other changes to reserves. The long-term reserve forecast will be a key part of informing the 10-year plan. The multi-year budget provides the best opportunity to report on the progress of reserve management.

Intergenerational Equity

Strategic objective:	Funding reserves for long-term plans should not overly burden one generation over another and should avoid fiscal shocks

Reserve requirements over a long period can change dramatically. Intergenerational equity provides an opportunity to smooth reserve funding requirements from tax and user ratepayers over the long-term. It supports the idea that those using the town's assets should contribute to paying for their replacement over time, thus sharing the burden between residents and businesses today and in the future.

Reserve management strategic actions

The strategic actions for reserve management that follow support the strategic objectives above.

Develop a reserve management policy

A reserve management policy will provide the framework around how reserves should be managed while maintaining overall long-term reserve health. The policy will:

- Establish minimum balances and target polices for reserves to keep them in a healthy position
- Outline the rules for access to reserves to fund capital projects and give funding priority to other revenue sources first such as grants
- Draw a clear link between reserve management and long-term capital planning requirements for asset management needs
- Define how contributions for tax and user rate funded reserves should be allocated

- Link the funding of growth projects to the development charge study and clearly outline how the benefit to existing (non-development charge eligible costs) should be funded
- Address how debt financing costs should be managed in the reserve
- Require a long-term approach to reserve management which balance intergenerational equity to ensure the capital plan does not overly burden one generation over another
- Identify when new reserves should be created or existing ones should be reviewed

Review reserve definitions and update capital reserve bylaws

Each reserve has a Council approved bylaw which outlines the definition and intended use of the reserve. These bylaws should be reviewed periodically to:

- Keep up to date with any legislation that governs the reserve and reference the legislation definition for its intended use (if applicable)
- Review all reserves to see which ones should be closed, combined or separated based future capital needs
- Ensure the reserve funding sources are consistent and their use aligns with the financial reporting requirements in the Public Sector Accounting Standards

Develop a long-term reserve forecast

A long-term reserve forecast should be developed to accompany the long-term capital plan. This reserve forecast will ensure that reserves remain healthy based on the requirements from the reserve management policy. This reserve forecast will:

- Show the reserve draws needed to support the capital plan and operating budget
- Identify the required contributions to reserve to maintain all reserve health targets
- Manage the impact of capital project debt financing through the reserves
- Identify the target reserve balances by year to ensure future needs are met

Develop options for tax and user rate reserves to reach full-cost recovery for asset management needs

This analysis leverages the long-term reserve forecast to smooth the impact of reserve contributions for tax and user rate funded reserves, particularly for years where reserve contributions peak in response to large planned capital requirements. It is intended to support intergenerational equity by providing options to smooth contributions to reserves and leverage investment income on reserves to ensure the impact to tax and rate payers is carefully managed and balanced over time. This analysis will:

- Redefine the annual reserve contribution requirements in the operating budget, including revisiting the current one percent fiscal strategy on the tax levy
- Provide the analysis which will determine the allocation of tax levy contributions to tax-funded reserves
- Recommend contributions to reserve which are smoothed over time, while still ensuring reserve health is maintained
- Identify the "steady-state" reserve contributions after reserves are able to meet long-term obligations
- Consider the addition of future assets and how to manage the replacement cost contributions to reserve when they are built

Regularly update internal guidelines for the use and funding of reserves to support the budget process

The 2021 to 2022 Budget included a number of significant improvements to the 10-year capital plan. Internal guidelines need to be updated regularly and posted internally to support capital project managers as they plan their project budgets. These guidelines will:

- Outline the framework for allocating contributions to reserves based on the long-term reserve forecast
- Include a process map on how to fund capital projects for the annual 10-year capital plan
- Align the funding of growth projects to the development charge study
- Align funding with accounting revenue recognition requirements by funding as the project work is completed (cash flow timing)
- Indicate how to manage available annual reserve funding in the 10-year capital plan for prioritizing capital projects

Monitor and manage reserve health through the annual budget process

The annual budget process is the best time to review and update reserve health analysis as the longer-term plans and forecasts are established. The budget should continue to include an analysis on reserves, which will include:

- New key performance indicators for long-term reserve health based on long-term future requirements

- The impact of recent changes to the capital plan and the reserve contributions needed to support it
- Analysis of the progress towards meeting full-cost recovery for capital asset management needs
- A 10-year schedule of reserve balances including the assumptions for future reserve contributions

The debt management pillar

Debt management ensures debt financing is used to manage the long-term financial flexibility of the Town

Debt management overview

Debt management strategic objectives

Asset Management

- Debt should not be used, except when there is an incremental revenue source, or savings, resulting from the capital investment which will fully fund the debt repayment

Managing Growth

- Debt could be considered when the asset is built in advance of growth

Master/Strategic Plans & Studies

- Debt financing should not be used to fund studies or plans

Multi-Year Budget

- The capital plan may consider debt financing for growth projects where funding sources are known and the operating budget will include the repayment of the debt obligations

Intergenerational Equity

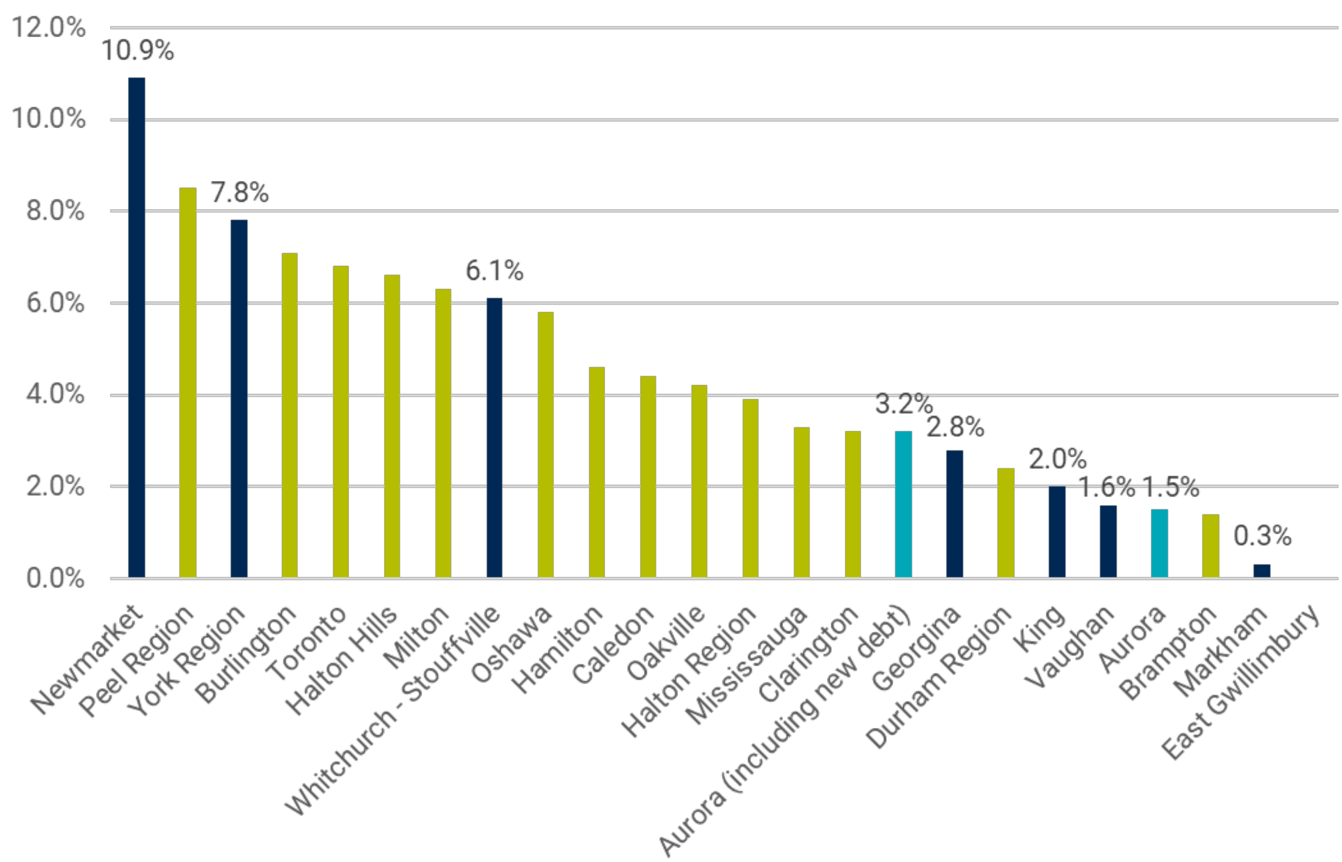
- Manage the timing difference between when the capital projects are being built and the future growth that will benefit

Debt can be a useful financing tool when well managed

Debt is a financing tool that municipalities use to manage the timing difference between when a capital project is built and when the funding for the project is received. This funding can come from a variety of sources including development charges, tax levy, user rates for water, wastewater and storm water and user fees. The town must plan for the repayment of all debt in the operating budget and future reserve forecasts at the time that it is issued. When debt financing is considered a clear funding source for the repayment must be known and planned for.

Issuing debt provides the flexibility to proceed with planned capital projects sooner than waiting to collect the funding source for the project in a reserve. Also many growth projects depend on development charge revenues which are often collected over multiple years. When considering issuing debt the impact should be viewed as part of the long-term capital planning and reserve management. This will ensure the town can continue to manage debt well and stay within the provincial regulations for how much debt a municipality can issue now and in the future.

2019 total debt repayment costs as a percentage of own-source revenue



Source: BMA Management Consulting Inc. 2020 Municipal Study

The province regulates the use of debt by municipalities

The province regulates how much debt municipalities can issue through the Annual Repayment Limit (ARL) prescribed by Ontario Regulation 403/02 under the Municipal Act. The ARL limits the total annual repayment cost of the debt, principal and interest, to 25 percent of the municipality's own-source revenues. Own-source revenues include most of the town's revenues such as tax levy, user rates and user fees but not development charge revenues. The town's ARL is re-calculated at the end of each year to reflect its most recent year's own-source revenues. To exceed this limit, permission from the Ontario Municipal Board is required.

To be fiscally sustainable the town should not seek authority to exceed this limit or plan to use the full 25 percent as doing so would limit the town's ability to issue debt in the future. In the 2020 Municipal Study by BMA Consulting Inc. Aurora's annual debt repayment costs were 1.5 percent of own-source revenues. When adding in the recent approvals for debt, this increases to 3.2 percent. In comparison to other municipalities in the GTA Aurora's debt is on the lower end of the scale and still well within the 25 percent limit. This means that the town has the flexibility to use further debt to finance projects within the ARL limit and is well positioned to establish a comprehensive debt policy to ensure debt continues to be used wisely over the long-term.

The town should continue to use debt wisely

While debt financing is a useful tool, careful consideration should be given to when debt could be used and when it should not. For example, debt could be used for the building of a new recreation facility. New facilities are large capital investments for the town and the development charges that often fund this type of project are collected over time and often after the facility is built. In this case issuing development charge funded debt would be reasonable.

However, the town regularly resurfaces and reconstructs roads on an annual basis with a fairly stable amount being spent year-over-year. Issuing debt is not recommended in this case because the work continues at a regular pace on an annual basis with a different set of roads. In this situation, the ideal strategy is to balance the work from year-to-year in the capital plan and fund the road resurfacing or replacement from reserves.

Debt management strategic objectives

The strategic objectives for debt management outline how to balance the fiscal strategy through this strategic pillar and discuss in more detail the actions and philosophies to follow to achieve the strategic objective for each element.

Asset management

Strategic objective:	Debt should not be used, except when there is an incremental revenue source, or savings, resulting from the capital investment which will fully fund the debt repayment

Based on this objective, in most cases asset management should only be funded through reserves and grants. Only in situations where there is a clearly defined revenue stream, or savings to fully repay the debt over time, debt could be considered. An example was when the town converted the street lighting to LED bulbs. The electricity savings is being used to payback the capital investment through a 10-year debenture that will be paid off in 2026.

Growth Management

Strategic objective:	Debt could be considered when the asset is built in advance of growth

When making investments in municipal infrastructure there are often times when a significant investment is made in advance of the growth it is planned to serve. In the Development Charge Study this is referred to as a post period benefit.

Development charges are used to pay for many growth projects in the town including recreation facilities (indoor and outdoor), fire, library, water, wastewater and roads. However, the development charge revenues are collected over an extended period as the new developments are built. Issuing debt can be helpful in managing the timing difference between when the project is built and when the revenues are received.

Master, strategic plans and studies

Strategic objective:	Debt financing should not be used to fund studies and plans

Generally, plans and studies identify future capital and operating projects to support the community. While some of the projects that are recommended in the study or plan may need to consider debt financing, the plan or study itself should not be funded from debt.

Multi-year budget

Strategic objective:	The capital plan may consider debt financing for growth projects where funding sources are known and the operating budget will include the repayment of the debt obligations

The annual budget process is the opportunity to review and re-evaluate the debt recommendations for capital projects. Year-to-year changes, such as change in the pace of growth or emerging priority projects, can be managed through the budget process to adapt the capital plan for debt management and the operating budget will manage the impact of the debt repayment.

Intergenerational Equity

Strategic objective: Manage the timing difference between when the capital projects are being built and the future growth that they will benefit

The issuing of debt can support intergenerational equity by aligning the debt repayment with the timing of new growth coming into the community that will benefit from it. When building large growth capital projects the development charge revenues could be collected over many years and possibly from future development charge studies as a post period benefit. Debt financing for growth projects enables the Town to collect those revenues over time and use them to pay back the debt.

Debt management strategic actions

The following strategic actions for debt management support the strategic objectives above.

Develop a comprehensive debt management policy

A comprehensive debt management policy will set the framework for how debt is used and managed at the Town. The policy will address the following:

- Seeking approval for capital budget and debt authority at the same time
- Identify the types of capital projects for which debt financing could be considered and when it should not be considered such as for asset management capital projects except where exceptional or emergency circumstances exist
- Set policy for the use of debt for development charges to align with the post period benefit (benefiting future growth) identified in the Development Charge Study
- Outline how debt financing can be used to support capital planning and reserve management objectives
- Identify when the different types of debt could be considered including a construction line of credit, capital loan and/or long-term debenture

Develop process flows and guidelines for debt management

The process flows will outline the process from the approval of debt authority through to the retirement of debt, including:

- The process on issuing debt and managing debt transactions

- How to manage draws and repayment of the various types of debt including construction lines of credit, capital loans and long-term debentures
- Outline how the debt is managed in the budget

Develop a longer-term debt forecast

Currently, the debt forecast is aligns with the 10-year plan in the budget. As the town begins to do longer-term capital and reserve planning, a longer-term debt forecast will help in identifying when eligible projects could move forward and will ensure that overall debt obligations remain well managed within the annual repayment limit. The long-term debt forecast will also consider other long-term plans such as the Official Plan, master plans and other studies. The forecast will:

- Include only debt that is in alignment with the town's new debt management policy and where a clear funding source for the debt has been identified
- Align debt repayment for growth projects with the forecasted period of time over which its intended funding sources will be collected
- Consider the potential debt needs arising from existing and proposed strategic plans and studies to ensure they align with the longer-term debt planning and are financially feasible

The revenue management pillar

Revenue management optimizes revenues from all sources to ensure reserves are adequately funded

Revenue management overview

Revenue management strategic objectives

Asset Management

- Actively seek out and maximize grant, investment, user fees and other alternative funding opportunities to minimize the burden on tax and payers

Managing Growth

- Optimize the Development Charge Study to ensure that growth pays for all planned eligible growth projects

Master/Strategic Plans & Studies

- Studies and master plans consider opportunities to optimize non-tax revenue sources where applicable and identify future tax levy and user rate impacts

Budget

- Ensure operating budget revenues are predictable, stable and sustainable

Intergenerational Equity

- Leverage investment income, user fees and other revenue sources to ensure reserves grow over time to offset the cost of inflation

Capital reserves are funded mostly from tax and user rates

Most of the funding for capital reserves comes from the tax levy or the user rates for water, wastewater and storm water services as contributions to reserve in the operating budget. Generating the revenue for these reserve contributions can result in increases to the tax levy and user rates.

The annual tax levy increase currently includes an annual one percent increase for fiscal strategy. Historically, these funds have been used to reduce the budget reliance on an unsustainable level of supplementary taxes and investment income and increase contributions to capital reserves. This strategy is providing the town with the vital revenues that are needed to fund the capital plan.

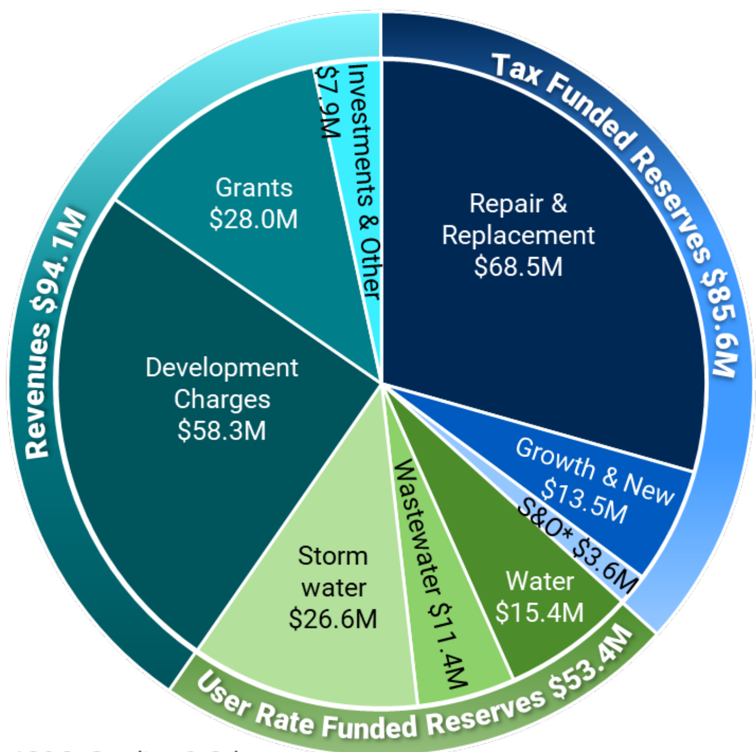
Similar actions are being taken on the user rate funded budgets too. The water, wastewater and storm water rates include contributions to capital reserves. The actual amounts contributed for water and wastewater can vary compared to what was budgeted. The budget includes an estimate for the volume of water to be billed during the year and any yearend surplus or deficit impacts the reserve balance for these services. Storm water revenues are not subject to the same variability as they are charged based on a flat fee per property.

Increasing revenues will reduce the reliance on tax and ratepayers

Over the next 10 years taxes and user rates account for 60 percent of the contributions to capital reserves. Then revenues, including development charges, grants and investment income make up the remaining 40 percent.

Development charges make up the largest share of revenues representing 25 percent of the contributions to capital over the next 10 years with a significant proportion of these revenues are being debt financed.

2021 to 2030 total contributions to capital reserves



*S&O: Studies & Other

Development charges are regulated by the province and are to be used for growth projects identified in the Aurora's development charge study. It is important that the study is as complete as possible to ensure all future growth projects are included. This will ensure that growth continues to pay for growth and reduces the pressure on the tax and ratepayers.

Aurora needs to focus on increasing revenues from grants and investment income to further reduce the reliance on taxes and user rates

Improve the ability to seek out more grant opportunities

Aurora regularly applies for and seeks out grant opportunities to pay for both operating programs and capital projects. However, there are many grant opportunities that the town may not be aware of or have the administrative capacity to seek out. Therefore the town should invest in the tools and/or services necessary to assist it in its grant management to greater leverage this valuable revenue source.

Improve investment income earning potential

Aurora currently invests its cash using the legal list of permitted investments as regulated by the province. These types of investments included under the legal list are low risk and provide modest returns. The intent of the legal list is to safeguard municipal reserves as most small to medium size municipalities are not large enough to have the appropriate level of investment expertise in-house.

The province has provided an opportunity to expand the investment opportunities available to municipalities for longer-term cash holdings through the prudent investor regime. The prudent investor regime allows for the potential for higher investment income, but it does come along with some higher risk. That is why it focuses on the longer-term investments because time mitigates the risk.

Revenue management strategic objectives

The strategic objectives for revenue management outline how to balance the fiscal strategy through this strategic pillar and discuss in more detail the actions and philosophies to follow to achieve the strategic objective for each element.

Asset management

Strategic objective:	Develop revenue strategies that encompass all asset types and identify opportunities to relieve pressures to tax and rate payers

Asset management is mostly funded through contributions to reserve from the tax levy and user rates for water, wastewater and storm water. Contributions to these reserves should be planned over the long term to minimize the annual impacts on tax and user ratepayers. Long term planning can identify how to fund these reserves over time reducing the risk of significant one-time increases. Earning investment income on longer-term reserve balances can help offset the impact of inflation and reduce the reliance on taxes and user rates.

Some asset management projects are also funded through grants with the two most significant being Federal Gas Tax and the Ontario Community Infrastructure Fund. These two grants are expected to contribute $28 million to Aurora's capital asset management projects over the next 10 years. These grants along with seeking out additional grants will reduce the reliance on the tax and ratepayer for funding asset management projects.

Growth Management

Strategic objective:	Optimize the Development Charge Study to ensure that growth pays for all planned eligible growth projects

Development charge revenues are collected on new development growth in Aurora. These revenues are used to pay for capital projects to support growth including new recreation facilities, fleet vehicles, playgrounds and more. These revenues are collected based on the rates defined in the development charge study, sections of the Planning Act and potentially a community benefit charge study. A complete list of fully costed growth projects needs to be included in the studies to ensure the maximum possible is recovered through these revenue sources. The full growth cost may include the cost of the environmental assessment, design, construction and land. Projects not included in the development charge study are not eligible to be funded as the use of development revenues to fund unplanned capital requirements will consume funds that are intended for another planned project. That is why a complete capital plan aligned with the development charge study is important.

The development charge study includes an estimate of the revenue that will be collected but is based on assumptions for when growth will occur. However, growth may occur faster or slower than expected which has a direct impact on revenues. The projected development charge study revenues should be monitored closely and a forecast should be developed, as changes to the estimates will affect capital planning, reserve management and debt management.

Master, strategic plans and studies

Strategic objective:	Studies and master plans consider opportunities to optimize non-tax revenue sources where applicable and identify future tax levy and user rate impacts

Aurora develops master plans, strategic plans and studies as part of its capital budget and longer-term planning processes. Often these plans and studies lead to capital investments or changes to operating programs. These studies should include, where possible, the potential for new revenues and a longer-term revenue forecast along with any incremental operating costs. For example, a new baseball diamond will add additional permit revenues where a new playground would not generate additional revenue.

Identifying these potential revenues will help in the development of a comprehensive revenue model. Ensuring revenue projections in all master plans and strategic studies align with long-term revenue forecast planning can help Aurora plan for longer term tax impacts and reduce the reliance on tax payers if planned early.

Multi-year budget

Strategic objective:	Ensure operating budget revenues are predictable, stable and sustainable

The multi-year budget sets the annual tax levy and user rates for water, wastewater and storm water. Aurora implemented multi-year budgeting in 2019. The three-year operating budget presented a plan to Council for the balance of their term with a strategic approach to budgeting as the year-over-year impacts were considered.

Aurora’s Council approved budget principles for tax increases keeps the increase in line with inflation plus one percent for fiscal strategy, which supports contributions to capital for asset management. However, inflation for a municipality does not always align with the Consumer Price Index. The Town purchases a very different basket of goods, meaning the town spends money on different items to the average consumer. A municipal price index, which looks at the specific basket of goods and services that are relevant to Aurora, would provide better insight into inflationary pressures.

In addition, after the longer-term reserve management plans are developed Aurora will have a better understanding of the true long-term reserve needs. At this time, the existing one percent fiscal strategy element in the tax levy should be revisited and be based on forward looking plans.

Intergenerational Equity

Strategic objective:	Leverage investment income, user fees and other revenue sources to ensure reserves grow over time to offset the cost of inflation

Longer-term planning ensures that Aurora is being fair to todays and future tax and ratepayers. In managing revenue, the town should ensure investment income is used to grow reserves over time especially for asset management reserves that are mostly funded through tax and user rates. Contributions to reserve are set aside for longer-term assets such as water and wastewater assets. These reserve balances need to maximize the investment income that they earn to offset the impact of inflation over time. Moving forward as a prudent investor will enable Aurora to invest these funds with the potential of higher returns to reduce the funding needs from taxes and user rates.

Revenue management strategic actions

The following strategic actions for revenue management support the strategic objectives above.

Develop a strategy to explore opportunities to increase grant revenue

Developing a strategy to improve grant revenue will have a direct impact on reducing the reliance on the tax and ratepayer. The strategy should include the following:

- Guidelines for developing a prioritized list of projects that are “ready-to-go” as grant timing can be short
- Investment in a grant management tool and/or services for the identification of grant opportunities, as well as for the management of grant applications and reporting requirements to maximize grant opportunities and improve process efficiency
- A review of Aurora’s existing grant management capacity

Improve investment income on reserves by becoming a prudent investor

Funds set aside in reserve need to earn investment income to offset inflation. Over time this will reduce the amounts needed to be contributed to reserve from the tax levy and user rates. To move forward as a prudent investor the Town should:

- Continue the process to move forward with joining the ONE JIB (joint investment board)
- Review and update the investment policy to align investments with the future reserve requirements
- Develop a policy for the management of the Aurora’s short-term investments
- Review and update the investment income allocation policy

Align future development charge studies with projected growth and a funding strategy

Firstly, Aurora should immediately update the development charge study and bylaw for the recent changes to legislation and evaluate the need for a community benefit charge. Going forward Aurora should ensure that these studies, master plans and the budget are all in alignment. To do this:

- The studies should ensure they include a comprehensive list of all eligible growth projects and the project costs are complete including land requirements
- Process maps and guidelines should be developed for the collection and use of development charge and community benefit charge revenues, if required

Develop revenue forecasts for less controllable revenues

Unlike the tax levy, other revenues collected by Aurora can be less predictable and subject to economic conditions and growth. Aurora should develop forecasts for these revenues to help with short-term and long-term planning. In the short-term, these will help with capital planning, reserve management and debt management. Revenue forecasts should be developed for:

- Development charges and community benefit charges, if applicable based on actual growth trends and planned development in the short-term
- Assessment growth revenue to assist in multi-year budgeting

Develop a revenue management policy

Aurora needs to develop a clear policy that addresses how revenues are to be managed. This would identify the revenues that support the operating budget and/or the capital reserves. This policy will provide a clear framework for managing the 10-year capital plan and beyond, and the multi-year operating budget. The policy should consider:

- Reducing the reliance of operating budget on less reliable revenues such as tax penalties and supplementary taxes by contributing them to asset management reserves
- The operating budget to only include investment income earned on working-capital (short term investments) and investment income earned on reserves to be directly dedicated to that reserve
- Ensure that the makeup of the fee and charges are clear and supports the activity it is charged for based on the relevant study if applicable

Develop a longer-term planning approach to user rates for water, wastewater and storm water

User rate budgets are based on full-cost recovery for the service they pay for. A long-term approach will ensure that all operating and capital needs are considered and factored into the rates over time. This will ensure that the full cost recovery includes the following:

- Long-term asset management requirements
- Impact of climate change on infrastructure
- Ensuring master, strategic plans and studies are addressed
- The impact of growth, water conservation and weather in managing rates

Review and update operating budget principles

Review and update the operating budget principles at the beginning of each Council term with the Finance Advisory Committee or more frequently if required. The budget principles should be updated to also include:

- A municipal price index to capture the true inflationary pressures for the town
- A review of the one percent fiscal strategy annual increase to the budget to ensure alignment with fiscal strategy objectives
- Ensuring that the budget principles accurately reflect the current multi-year budget process and identify any improvements

Conclusion and next steps

The fiscal strategy will be responsive to changes within the community while remaining flexible and keeping a long-term focus. The fiscal strategy provides the financial policy framework to ensure Aurora can set and stay on a financially sustainable path. This is done through the balancing of all four pillars: capital planning, reserve management, debt management and revenue management and following the 20 strategic objectives.

Develop a strategic action plan

Putting the fiscal strategy into action will require the development of a detailed strategic action plan. The development of this plan will begin after the approval of the fiscal strategy.

The strategic action plan will be a living document that will explore each strategic action in more detail and plan out the work required to implement them. As the action plan evolves, it will support long-term financial sustainability and ensure the milestones and achievements remain aligned with the fiscal strategy.

Some of the strategic actions that will be included in this plan are already underway or complete, including:

- Recent improvements to the capital budget process
- Updating the development charge study and bylaw for recent changes to legislation
- Evaluating the feasibility of implementing a community benefit charge
- The development of the second generation asset management plan including service levels
- The exploration of alternative revenue sources in support of reserve requirements

Reporting and monitoring the progress

Once developed, the strategic action plan will be monitored and reported on regularly as the policies and analytical work is completed and rolled out. The strategic action plan includes analytical work and policies that will establish financial targets for asset management planning, reserve management and the use of debt. These targets will be used to develop key performance indicators to be used for monitoring of the fiscal strategy's progress and the overall financial health of Aurora.

An update on the progress of the fiscal strategy will be included as part of the annual budget process. The fiscal strategy will be integrated within the budget documents, as it is a key element in budget development particularly for the 10-year capital plan and the planned reserve contributions.

Reporting on the fiscal strategy will expand as the work to be included in the strategic action plan is completed and new items are added to the plan.