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Town of Aurora
Council Report
No. FIN20-027

Subject: 2021 Budget Introduction

Prepared by: Jason Gaertner, Manager, Financial Management

Department: Finance

Date: October 27, 2020

Recommendation

1. That Report No. FIN20-027 be received; and
2. That the proposed 2021 to 2022 budget be referred to Budget Committee for review at its scheduled meetings starting on November 9, 2020.

Executive Summary

As part of the 2020 budget process, Council approved the Town's first three-year multi-year operating budget. The proposed budget includes both the 2021 to 2022 operating and capital budgets, in addition to the Town's 2021 10-Year Capital Plan. As per provincial legislation, Council must reaffirm all future year operating budgets which include both the Town's tax levy and water, wastewater and storm water funded budgets.

- The operating budget proposes tax increases of 2.9 percent for both 2021 and 2022
- The user rate funded operating budget proposes combined water and wastewater increases which are lower than those approved in the 2020 to 2022 Budget
- The operating budget focuses on the changes to the approved multi-year budget for tax and rate funded operations
- The capital budget includes a number of improvements to its framework
- Total capital budget authority of \$189.7M is being requested in 2021 with \$85.7M in planned spending for 2021
- The 10-year capital plan includes \$296.4M of capital investments

- The Town's most recently closed capital projects are presented for Council's information
- The capital plan improves reserve management
- Budget Committee will review the budget and be provided with presentations to support the process

Background

On June 18, 2019, Council adopted the Town's updated budget principals and processes. One key change to these documents included the adoption of a multi-year budget framework for the Town of Aurora. The Town's multi-year budgeting framework aligns with each Council's term. Council approves the first year's budget of its term and receives an accompanying forecast of the next three budgets. In the second year of its term, Council will approve a three-year operating budget, including all related tax impacts. Year's three and four of this budget will be re-affirmed by Council prior to their commencement. A similar process is followed for its rate funded operations.

On December 10, 2019 Council approved its first three-year multi-year operating budget for 2020, 2021 and 2022. It has now reached the third year of its budget lifecycle being the reaffirmation of the previously approved 2021 and 2022 operating budgets as shown in Table 1.

Table 1
Multi-year Key Milestones

Year	Action	Status
One	Approve 2019 Receive 2020 to 2021	Complete
Two	Approve 2020 to 2022	Complete
Three	Re-affirm 2021 to 2022	In Progress
Four	Re-affirm 2022	

On April 28, 2020 Council approved a series of changes to the Town's budget process and format to be phased in over next two year's budget processes.

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Analysis

The operating budget proposes tax increases of 2.9 percent for both 2021 and 2022

This budget proposes tax increases of 2.9% in 2021 and 2022. This annual increase meets the direction set by Council to not exceed 3.0% per year including 1% for the Town's fiscal strategies of contributing to asset management reserves and reducing its reliance upon non-sustainable revenues such as supplementary taxes (in-year tax growth). Also the budget proposed for 2021 is 0.5% less than the 3.4% increase originally approved for 2021 in the 2020 to 2022 Budget and still includes the required 0.5% in 2021 to fund the repayment costs for the debt to be issued for the library square capital investment.

Total gross operating expenditures of \$102.6M and \$107.6M are proposed for 2021 and 2022, respectively. These planned expenditures are partially offset by non-tax revenues such as water, wastewater & storm rate revenue, investment income, user fees, grants, and fines & penalties. All rate funded service requirements are fully offset through rate revenues. The remaining requirement is raised through property taxes. Table 2 presents a summary of the Town's proposed net tax levy funded requirements for 2021 and 2022 versus previous years.

Table 2
Operating Budget Summary

\$000's	Net Actual Results		2020	2020	Proposed Budget	
	2018	2019	Net Fcst*	Budget	2021	2022
Departmental:						
Expenditures	94,118.9	98,107.4	79,879.6	85,432.9	86,721.5	91,366.1
Non-Tax Revenues	(64,283.2)	(65,876.7)	(45,528.4)	(50,951.8)	(49,971.0)	(52,202.7)
Net Departmental	29,835.7	32,230.8	34,351.1	34,481.1	36,750.5	39,163.4
Central York Fire Services	10,496.4	11,188.1	11,755.3	11,755.3	11,961.6	12,257.5
Library	3,843.1	3,843.1	3,868.1	3,868.1	3,896.1	3,934.1
Total Proposed Budget	44,175.2	47,262.0	49,974.5	50,104.5	52,608.2	55,355.0
Assessment Growth					1,000.8	1,165.1
Proposed Tax Increase					1,502.9	1,581.7

*Net forecast as of August 31, 2020

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The user rate funded operating budget proposes combined water and wastewater increases which are lower than those approved in the 2020 to 2022 Budget

Water, wastewater and stormwater operations are fully funded from user fees. The two key factors in the determination of these fees are the costs to deliver these services and the volumes to be billed.

Two of the most significant cost drivers for this budget are the Town's wholesale water and wastewater management fees, both of which are paid to York Region. The Region will confirm the rates they plan to charge for 2021 in the fall of 2020. This budget assumes that the increases for 2021 and 2022 will be in line with their original planned rate increase of 2.9% for 2021. This results in the metered rates proposed for 2021 and 2022 becoming less than what was included in the 2020 to 2022 Budget.

Also of note, in 2020 it was discovered that the calculation of the Town's stormwater rates assumed a higher number of billings than were actually being billed resulting in an understated rate. This budget proposes phasing in the adjustment to the rates to reflect the correct number of billings equally over the next two years, 2021 and 2022. This adjustment results in an increase of \$1.17 per month, or \$3.51 per quarterly bill for a residential customer in 2021. Table 3 presents a summary of each proposed rate versus its outlook which was approved in 2020.

Table 3
Water, Wastewater, Stormwater Rate Summary

	2020		2021		2022		
	Current	Outlook	Proposed	Change	Outlook	Proposed	Change
Water and Wastewater (\$/m³):							
Water Rate	\$ 2.18	\$ 2.45	\$ 2.34	(4.5%)	\$ 2.48	\$ 2.34	(5.6%)
Wastewater Rate	\$ 2.77	\$ 3.11	\$ 2.89	(7.1%)	\$ 3.15	\$ 2.90	(7.9%)
Combined Rate	\$ 4.95	\$ 5.56	\$ 5.23	(5.9%)	\$ 5.63	\$ 5.24	(6.9%)
Stormwater Rate (\$/month):							
Residential	\$ 7.09	\$ 8.01	\$ 9.18	14.6%	\$ 9.32	\$ 11.69	25.4%
Non-Residential	\$ 90.07	\$ 101.73	\$ 116.64	14.7%	\$ 118.31	\$ 148.51	25.5%

The operating budget focuses on the changes to the approved multi-year budget for tax and rate funded operations

As the previously approved 2021 and 2022 budgets are being reaffirmed, this budget's focus is on any proposed changes to these original approved outlook budgets. The proposed budget changes include any items that were not foreseen when the 2020 to 2022 Budget was approved. These changes are presented in detail within the 2021 budget binder that has recently been distributed to Council members. A few of the key broader and corporate-wide change drivers in the budget are:

- COVID-19 has a significant impact continuing into 2021
- A refinement of compensation adjustments and benefits
- Savings in water and wastewater wholesale costs from York Region
- Fire Services savings arising from a slow down in the phase-in of Fire Hall 6-6
- The assessment growth revenue is less than forecasted in the previous budget

These changes are discussed further in Tab 3 – Operating Budget in the 2021 to 2022 Budget binder.

The capital budget includes a number of improvements to its framework

The capital budget includes significant improvements to the format and content of the plan. These changes are intended to provide a clearer picture of the capital plan as a whole, the timing of capital investments, clarity on multi-year budget commitments and flexibility to manage repair and replacement projects more effectively.

These changes represent the first steps in developing fiscal policies to manage assets and capital investments in the long term. They focus on managing the capital plan and reserve management which are two of the key elements for achieving financial sustainability.

In the past the capital budget would focus solely on budget authority requests for new capital projects. This year the capital budget includes:

1. **New capital projects** which have traditionally been included in the capital plan.
2. **Active capital projects** showing the budget authority approved to date and any changes requested to this authority whether it be an increase or decrease.
3. **Conditionally approved capital projects** are reinserted into the plan and brought forward for reconsideration. These projects are clearly indicated in the project listings that can be found in Tabs 17, 18 and 19 of the budget binder.

4. A list of the Town's **recently closed capital projects** are included as a separate section (Tab 20) within the budget binder for the Budget Committee's information. Consequently, these closed projects no longer need to be included in the capital plan.

These four categories reflect all types of capital projects that the Town manages. This year's budget now provides a complete list of all capital projects including a detailed capital sheet for all capital projects which are seeking an increase to their previously approved budget authority, including any brand new budget authority requests. The format of these sheets has also been improved. The new format is less restrictive and enables more information to be included in the capital sheet.

Total capital budget authority of \$189.7M is being requested in 2021 with \$85.7M in planned spending for 2021

Capital budget authority is a new concept for the capital budget which represents the approved capital budget commitment for a project. It is made up of four components:

- Actuals spent to the end of the last fiscal year for the life of the project
- The current year's capital forecast
- The cash flow planned in the first budget year
- The cash flow, only as needed, for future budget years where contractual commitments are needed.

This means 2021 capital budget authority includes actuals to December 31, 2019 plus the 2020 forecast plus 2021 capital cash flow and capital from 2022 and beyond only as required. This budget proposes a total of \$189.7 million in capital budget authority which is made up of \$163.5 million in previously approved capital projects and \$26.2 million in net new budget authority requests. A summary of the proposed 2021 capital budget authority categorized by its traditional funding buckets of Rehabilitation & Replacement (R&R), Growth & New (G&N) and Studies & Other (S&O) is presented in Table 4.

To establish the capital budget authority this budget assumes the approved budgets for capital projects for active capital projects (approved through a previous budget or by an in-year report) becomes that project's capital budget authority. However projects that were conditionally approved are treated as new budget requests.

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Table 4
Capital Project 2021 Budget Authority Summary

(\$000s)	Previously Approved Budget	2021 Proposed Budget		Capital Budget Authority Cash Flow			
		Capital Budget Authority*	Budget Change	Actuals to Dec/19	2020 Forecast	2021	2022+
Repair & Replacement	59,814.8	72,701.8	12,887.0	22,347.8	20,521.5	25,440.6	4,391.9
Growth & New	100,295.6	113,057.5	12,761.9	15,654.8	16,072.5	58,872.6	22,457.7
Studies & Other	3,336.4	3,931.4	595.0	1,054.3	1,282.7	1,344.4	250.1
Proposed Budget	163,446.7	189,690.6	26,243.9	39,056.8	37,876.7	85,657.5	27,099.6

* Includes all active project budgets, adjustments to project budgets and new budget commitments

More information on the new framework for the capital budget is included in Tab 4 – Capital Budget of the 2021 to 2022 Budget binder. Additionally, a presentation and report to Budget Committee is planned prior to starting the review of capital projects. This presentation will provide an overview of the changes to the capital budget framework.

The 10-year capital plan includes \$296.4M of capital investments

The capital budget proposes a 10-year plan totalling \$296.4 million. This 10-year capital plan continues to focus its investments in asset management with repair and replacement projects representing 46% of the capital plan, growth and new 52% which includes the construction of Library Square and studies and other at 2%.

The presented 10-year capital plan now better reflects the timing of the planned spending on capital projects. By planning the cash flow in the 10-year capital plan, the Town is able to better manage its cash, timing of investments and reserve needs on an annual basis. The previous practice of approving the full project as a lump sum without consideration of actual planned cash outflows has made the estimation of future reserve needs and cash availability very difficult, as well as, has limited the Town's ability to determine the appropriate length of time available for the Town's long-term investments.

The repair & replacement plan has been built upon the Town's approved asset management plan foundation which will be subject to a significant update in 2021 as the Town strives to maintain its compliance with the province's municipal asset management regulation.

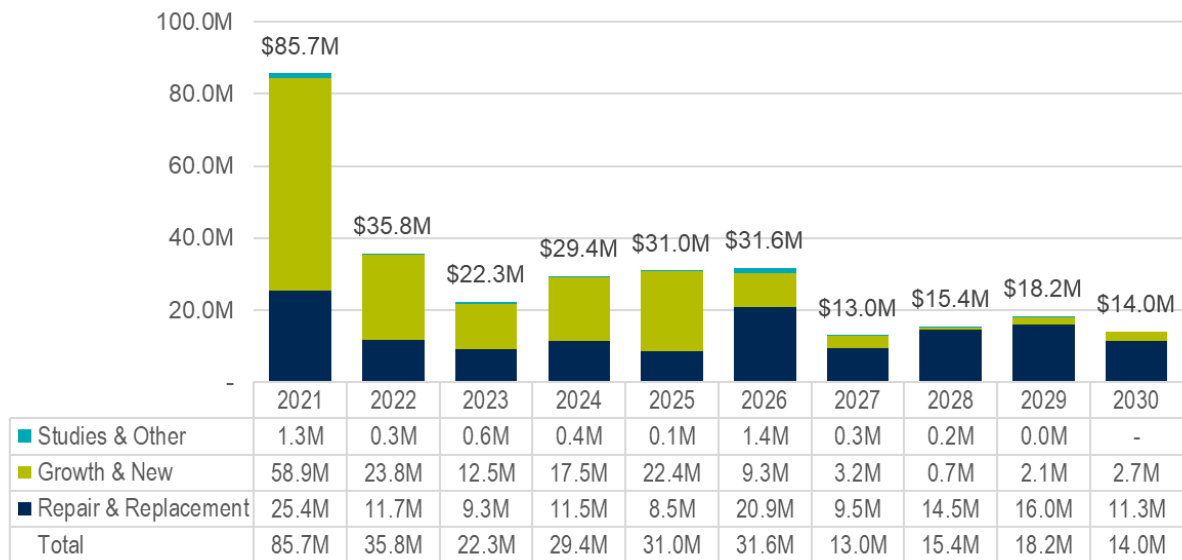
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A summary of the Town's current 10-year capital plan is presented under Table 5. Details of this plan can be found under chapters 17 to 19 of the budget binder.

Table 5
Ten Year Capital Project Requirement Summary



The Town's most recently closed capital projects are presented for Council's information

A list of the Town's most recently closed capital projects as of December 31, 2020 is included in the budget binder under tab 20 for Council's information. This list details a total of 42 projects that will be closed by the Town as of December 31, 2020. These project closures required a total of \$3.6M in fund returns and a total of \$0.2M in funding top-ups to/from original funding sources, representing a consolidated net funding increase to reserves of \$3.4M. Of this amount, \$1.7M will be consolidated under the Library Square Project as this original planned capital work will now be undertaken as part of the overall Library Square project scope of work. The Town's current semi-annual report on project closures to Council will now be replaced with an update in this regard as part of the Town's annual budget process.

The capital plan improves reserve management

The development of the Town's presented 10-year capital plan focused on ensuring that the first five years of the plan are affordable. Ensuring that the capital plan is affordable

was not the only consideration; the plan also considered the staffing resources required to complete the projects.

There were two approaches taken to ensure that this plan is achievable and affordable. The first used for repair & replacement capital projects involved prioritizing the projects based on the reserve forecast and the asset management plan, whereas the second used for growth & new and studies & other capital projects was a more involved process.

Projects in the growth & new and studies & other share the same reserves for their tax levy funding. The Town's corporate management team whose members come from across the organization came together to evaluate the Town's proposed projects and prioritize the timing for the delivery of these projects while staying within the available reserve funding and staffing resources for each year. This process worked well in balancing the competing funding needs for these projects. The team focussed its efforts on ensuring that the first five years of the Town's 10-year plan were affordable as the Town awaits further guidance to be offered through a new strategic fiscal policy which will be brought forward to Council in 2021.

Budget Committee will review the budget and be provided with presentations to support the process

The 2021 draft budget that has been tabled at this evening's meeting will be referred to the Town's Budget Committee for its review and recommendation to Council for approval. Four weekly Budget Committee meetings taking place on Monday evenings starting at 6pm and one Saturday meeting have been scheduled for this review. These meetings would run from Monday November 9th to Monday November 30th.

Over the course of these meetings, the Budget Committee will receive multiple presentations and be able to make any necessary inquiries in support of its review of the proposed 2021 budget. These presentations will include an overview of the changes to the multi-year operating budget, information on the new capital budget framework and presentations from the Fire Chief and our community partners (Aurora Cultural Centre, Aurora Historical Society, Aurora Sport Hall of Fame and the Aurora Public Library).

Upon conclusion of the Budget Committee's review, the 2021 budget will be considered for approval by Council on December 15th, 2020 as shown in Table 6 below.

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Table 6
Proposed budget meeting schedule

Meeting Description	Date
2021 Budget Public Session	Tuesday June 2 nd
Council – Budget Kickoff	Tuesday October 27 th
Budget Committee Reviews	Monday November 9 th Monday November 16 th Saturday November 21 st Monday November 23 rd Monday November 30 th
Council Approval	Tuesday December 15 th

Advisory Committee Review

Not applicable.

Legal Considerations

Section 291 of the Municipal Act provides that a municipality may prepare and adopt multi-year budgets. For the second and each subsequent year, Town Council will have the opportunity to re-review the budget, make any necessary changes and re-adopt the budget for the year to which the budget applies.

On October 22, 2019 Council approved By-law Number 6212-19 which updated and defined the Town of Aurora's delegation policies and procedures that were approved by Council in 2007. This By-law also consolidated and identified specific delegations into a single By-law. Under Schedule "C" of this new By-law, the Treasurer has delegated authority to close any capital project deemed complete including the adjustment to project funding to return or draw from the originating funding sources on behalf of Council and to report to council on an annual basis.

Financial Implications

Residential tax bills contain three different property taxes. Taxes collected for provincial education purposes represents approximately 20.3 percent of a residential tax bill, while

taxes for York Region are approximately 42.7 percent and the Town's share is the remaining 37.0 percent.

The Town's proposed annual tax increases of 2.9 percent for 2021 and 2022 would add approximately \$8.77 and \$9.02 per year to the Town's share of the tax bill for each \$100,000 of assessment. For the average home in Aurora assessed at \$800,000, the Town's share of the tax bill in 2020 is \$2,418. This proposed to increase by 2.9% in 2021 and 2022 which results in an increase of \$70 in 2021 and \$72 in 2022. This is less than the proposed increase in the 2020 budget for these years of \$83 in 2021 and \$73 in 2022.

The average quarterly residential water bill assumes the use of 54 cubic meters of water during the three month period. The rates for water and waste water are charged per cubic meter and then the stormwater charge is a monthly fee. So each residential bill will include three months. Despite the increase to the stormwater rates in 2021 and 2022, the average quarterly residential water bill is expected to be \$14.31 less in 2021 and \$13.95 in 2022 than what was included in the 2020 to 2022 Budget.

The proposed 2021 capital plan is affordable should Council reaffirm the proposed allocation of 0.9 percent of the total planned fiscal strategy 1 percent tax rate increase in support of the Town's capital infrastructure renewal. The affordability of the presented 10-year capital plan (2022 to 2030) will be determined as part of the Town's work in its development of a long-term fiscal policy in 2021.

Communications Considerations

The Town of Aurora will use 'Inform' as the level of engagement for this project. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. Staff will inform the public of the changes to the budget process by posting information to the Town website. The calendar of budget-related meetings will also be shared on the website and through social media.

Link to Strategic Plan

Developing the annual budget supports all aspects of the Strategic Plan. Specifically, this report supports the Plan principles of Leadership in Corporate Management, Leveraging Partnerships, and Progressive Corporate Excellence and Continuous Improvement.

Alternative(s) to the Recommendation

1. None at this time. The Committee may make recommendations for changes to the 2021 and/or 2022 draft budgets at any time during its review process

Conclusions

Council approved tax rate increases of 3.4%, 3.4% and 2.9% for 2020, 2021 and 2022, respectively on December 10, 2019. As part of this year's budget reaffirmation, the Mayor requested that staff strive to reduce the 2021 required increase by 0.5%. Staff have responded with recommended tax levy funded operating budgets for 2021 and 2022 that require a tax increase of 2.9 percent in each of these years. The Town's recommended water, wastewater and storm water rates reflect all necessary changes at this time and strive to manage any upward pressure on water rates responsibly.

The presented 2021 capital budget is affordable with Council's approval of the proposed operating budget support of the Town's capital asset sustainability.

The 2021 Budget Binder containing all supporting material for this year's budget process will be provided to Council at the end of this evening's meeting for its review prior to the commencement of the scheduled Budget Committee meetings in early November.

Attachments

None

Previous Reports

FIN20-009, 2021 Budget Process and Timeline, April 14, 2020

Pre-submission Review

Agenda Management Team review on October 1, 2020

Approvals

**Approved by Rachel Wainwright-van Kessel, CPA, CMA, Director
Finance/Treasurer**

Approved by Doug Nadorozny, Chief Administrative Officer