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Town of Aurora
Council Report
No. FIN22-039

Subject: 2023 Budget Introduction

Prepared by: Jason Gaertner, CPA, CMA, Manager, Financial Management

Department: Finance

Date: December 13, 2022

Recommendation

1. That Report No. FIN22-039 be received; and
2. That the proposed 2023 budget be referred to Budget Committee for review at the scheduled meetings starting on January 9, 2023.

Executive Summary

With the commencement of the new Council term, a new multi-year budget cycle begins. As per the defined budget process, Council will only consider the budget for the first year of the term being 2023. In the next budget, year two of the term, Council will consider the budgets for the remaining three years.

- The operating budget proposes a tax increase of 3.5 percent for 2023
- The user rate funded operating budget proposes combined water and wastewater increases for 2023
- Inflation represents a key pressure in the 2023 budget
- Total capital budget authority of \$202.7 million is being requested in 2023 with \$73.9 million in planned spending for 2023
- The 10-year capital plan includes \$347.1 million of capital investments
- This budget proposes the addition of a new capital program for Information Technology Services

- The fiscal strategy continues to inform the development of the 2023 budget
- 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 current 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 for the next three year's budgets. In the second year of its term, Council will approve a three-year operating budget, including all related tax impacts. Years 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. Table 1 presents a summary of the multi-year budget framework's key milestones.

Table 1
Multi-year Key Milestones

Year	Action	Status
One	Approve 2023 Receive 2024 to 2026	In Progress
Two	Approve 2024 to 2026	
Three	Re-affirm 2025 to 2026	
Four	Re-affirm 2026	

As per the Town's current best practices, the newly appointed Council will have an opportunity to review and update the budget principals and process documents in 2023.

Analysis

The operating budget proposes a tax increase of 3.5 percent for 2023

This budget proposes a tax increase of 3.5 percent for 2023. This proposed increase exceeds the direction set by Council to not exceed three percent per year including one percent for the Town's fiscal strategies of contributing to asset management reserves and reducing the reliance upon non-sustainable revenues such as supplementary taxes (in-year tax growth). Unfortunately, unprecedented inflationary pressures are having and impact on service delivery costs. The proposed budget strives to offset these inflationary pressures as much as possible through increased user fees and other identified savings.

Total gross operating expenditures of \$112.5M are proposed for 2023. 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 is funded through property taxes. Table 2 presents a summary of the Town's proposed net tax levy increase for 2023.

Table 2
Operating Budget Summary

\$000's	Net Actual Results		2022	2022	Budget
	2020	2021	Net Fcst*	Budget	2023
Aurora Departments:					
Expenditures	99,012.5	109,034.5	88,241.7	88,419.9	95,645.8
Non-Tax Revenues	(64,621.2)	(72,928.5)	(52,655.0)	(50,444.4)	(55,463.3)
Subtotal	34,391.3	36,106.0	35,586.7	37,975.5	40,182.5
Central York Fire Service	11,749.3	11,955.6	12,294.9	12,294.9	12,722.9
Aurora Public Library	3,868.1	3,896.1	3,934.1	3,934.1	4,052.1
Total Proposed Budget	50,008.7	51,957.7	51,815.7	54,204.5	56,957.5
Assessment Growth	\$			553.5	807.8
	%			1.1%	1.5%
Tax Increase	\$			1,544.7	1,945.2
	%			2.9%	3.5%

*Net forecast as of October 31, 2022

The user rate funded operating budget proposes combined water and wastewater increases for 2023

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 of this budget are the Town's wholesale water and wastewater management fees, both of which are paid to York Region. York Region Council has approved 2023 wholesale water and wastewater rate increases of 3.3 percent for 2023 resulting in upward pressures on these budgets.

The Town's previously identified infrastructure funding gap continues to subject all user rate funded services to further budgetary pressures. This funding gap is most pronounced in storm water services.

Table 3 presents a summary of each proposed rate for 2023 versus those approved in 2022.

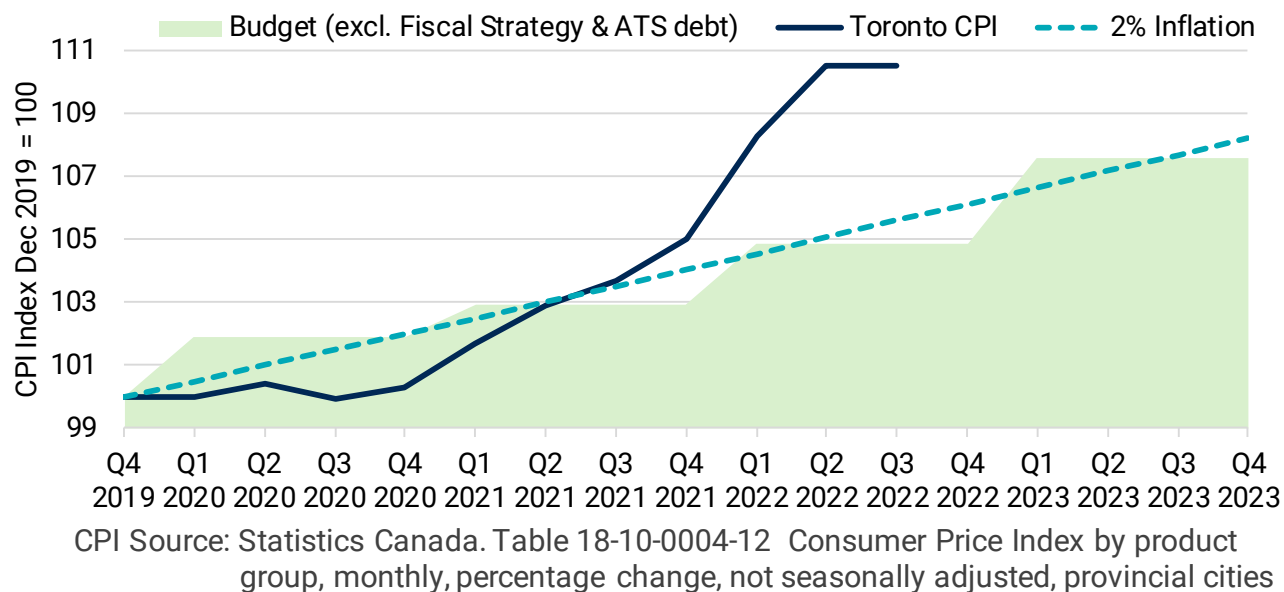
Table 3
Proposed user rates effective May 1st 2023

	2021	2022	2023	Rate Change	
	Rates	Budget	Proposed	\$	%
Water and Wastewater (\$/m³):					
Water Rate	\$ 2.34	\$ 2.27	\$ 2.41	\$ 0.14	6.2%
Wastewater Rate	\$ 2.89	\$ 2.87	\$ 2.89	\$ 0.02	0.7%
Combined Rate	\$ 5.23	\$ 5.14	\$ 5.30	\$ 0.16	3.1%
Stormwater Rate (\$/month):					
Residential	\$ 9.18	\$ 11.69	\$ 13.41	\$ 1.72	14.7%
Non-Residential	\$ 116.64	\$ 148.51	\$ 170.41	\$ 21.90	14.7%

Inflation represents a key pressure in the 2023 budget

Similar to residents and businesses, the Town's goods and service prices have been subject to significant inflationary pressure as a result of the pandemic and the war in Ukraine over the past year and a half. Overall inflation for all goods and services in Canada continue to average six to seven percent. More specifically, the Town's typical basket of goods and services have been subject to higher inflationary pressures well in excess of the Town's historical average of two percent as can be seen in Figure 1.

Figure 1
Recent Historical Inflationary Trends



These recently experienced inflationary price increases will not go away; rather, the Town's average costs for goods and services will have increased for the long term and be subject to further future inflationary pressures.

Total capital budget authority of \$202.7 million is being requested in 2023 with \$73.9 million in planned spending for 2023

Capital budget authority 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 2023 capital budget authority includes actuals to December 31, 2021, plus the 2022 forecast plus 2023 capital cash flow and capital from 2024 and beyond only as required. This budget proposes a total of \$203.8 million in capital budget authority which is made up of \$172.8 million in previously approved capital projects and \$29.9 million in net new capital budget authority requests. A summary of the proposed 2023

capital budget authority categorized by the traditional funding buckets of Asset Management (AM), Growth & New (G&N) and Studies & Other (S&O) is presented in Table 4.

Table 4
Capital Project 2023 Budget Authority Summary

(\$000s)	Previously Approved Budget	2023 Budget		Capital Budget Authority Cash Flow			
		Capital Budget Authority*	Budget Change	Actuals to Dec/21	2022 Forecast	2023	2024+
Asset Management	55,988.5	78,213.5	22,225.0	23,818.2	12,473.8	37,991.9	3,929.6
Growth & New	113,882.1	119,816.5	5,934.4	49,318.6	28,965.3	33,786.0	7,746.7
Studies & Other	2,895.9	4,653.9	1,758.0	1,508.4	700.1	2,164.5	280.9
Proposed Budget	172,766.5	202,684.0	29,917.5	74,645.2	42,139.3	73,942.4	11,957.1

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

The 10-year capital plan includes \$347.1 million of capital investments

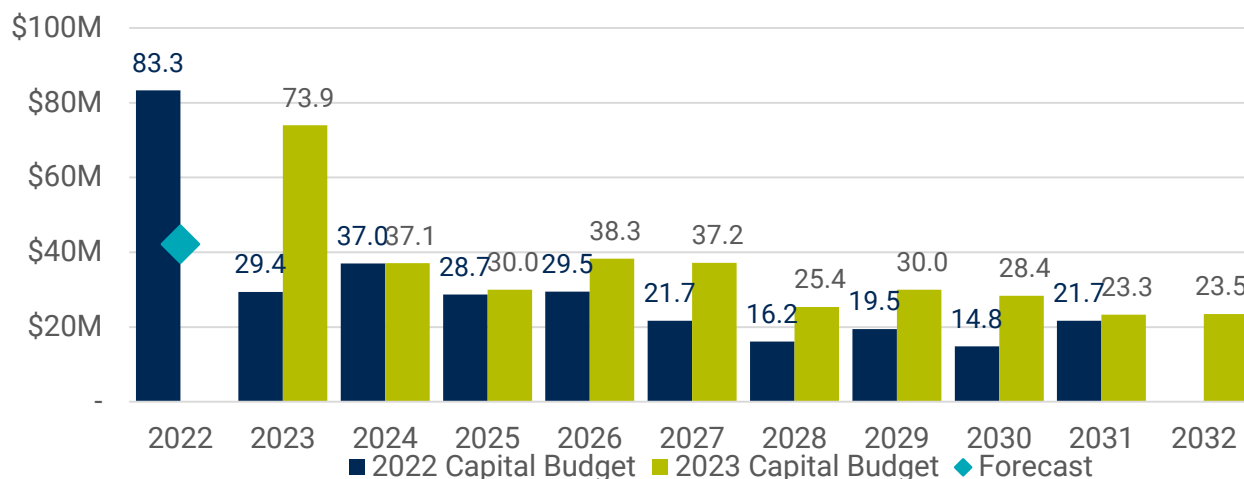
The capital budget proposes a 10-year plan totalling \$347.1 million. This 10-year capital plan continues to focus its investments on asset management with asset management projects representing 58.9% of the capital plan, growth and new 39.7% which includes the construction of Aurora Town Square and studies and other at 1.4%.

By focusing on planned capital project cash flows 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 2023 asset management budget is built upon the Town's new and approved asset management plan foundation. This second-generation asset management plan includes modernized level of service measures for all core asset categories upon which future asset management decisions will be based. This plan will be further enhanced over the coming years as the Town continues the asset management journey toward full compliance with all provincial regulation phase three requirements by 2025.

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 16 to 19 of the budget binder.

Table 5
10-Year Capital Project Summary



This budget proposes the addition of a new capital program for Information Technology Services

Capital programs group projects of a like funding source together. These programs enable staff to more effectively manage variances of capital projects and reduces the delays needed to seek additional budget authority when tenders come in higher than expected. In turn staff are able to improve the delivery of capital projects resulting in projects taking less time to complete.

Capital programs were established in the 2021 capital budget for facilities, fleet, roads and storm sewer asset management projects. This budget proposes the addition of a fifth capital program for Information Technology Services asset management projects. The capital budget authority for the five capital programs totals \$57.5 million with \$31.2 million planned to be spent in 2023. These capital programs represent 73% of the proposed asset management capital spending authority.

The fiscal strategy continues to inform the development of the 2023 budget

The Town’s fiscal strategy provides a long-term view of financial sustainability through the balancing of the four strategic pillars: Revenue Management (Tab 3 Operating Budget), Capital Planning (Tab 4 Capital Budget) and Reserve Management and Debt Management (Tab 5 Reserves and Debt Management).

This budget supports the fiscal strategy through the following:

- **Revenue management:** Striving to maintain a predictable tax levy while facing very challenging financial circumstances such as extraordinary inflationary pressures by managing budget pressures through expenditure savings and revenue adjustments, while continuing to reduce the budget reliance on supplementary taxes.
- **Capital planning:** Aligning with the asset management plan and identifying future asset management needs over the long-term through the continued modernization of the Town's asset management plan and the accompanying framework, while also planning for future growth needs over the next 10 years.
- **Reserve management:** Increasing contributions to asset management reserves through the one percent increase in the tax levy for fiscal strategy and looking ahead at reserve balances to manage the capital plan.
- **Debt management:** Identifying future debt and managing annual debt repayments over the 10-year plan, recommending policy to convert tax-funded debt repayment costs to asset management reserve contributions once the debt is fully paid off.

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

The 2023 proposed budget tabled at this evening's meeting will be referred to the Town's Budget Committee for review and recommendation to Council for approval. Weekly Budget Committee meetings taking place on Monday evenings starting at 6pm and one Saturday meeting have been scheduled for this review beginning January 9, 2023.

Over the course of these meetings, the Budget Committee will receive multiple presentations in support of the review of the proposed 2023 budget. These presentations will include an overview of the proposed 2023 operating budget by department, information on the presented capital budget, and presentations from the Fire Chief and our community partners (Aurora Public Library, Aurora Cultural Centre, Aurora Historical Society, Aurora Sport Hall of Fame and the Aurora Business Improvement Area (BIA)).

Upon conclusion of the Budget Committee's review, the 2023 budget will be considered for approval by Council on either January 31, 2023, or February 28th as shown in Table 6 below.

Table 6
Proposed budget meeting schedule

Meeting Description	Date
2023 Budget Public Session	Complete
Council – Budget Kickoff	Tuesday December 13, 2022
Budget Committee Reviews	Monday January 9, 2023 Saturday January 14, 2023 Monday January 16, 2023 Monday January 23, 2023
Council Approval (if Budget Committee reviews are complete)	Tuesday January 31, 2023
Budget Committee Reviews (if required)	Monday January 30, 2023 Monday February 6, 2023 Monday February 13, 2023
Council Approval (If required)	Tuesday February 28, 2023

Achieving a budget approval in January will allow for the earlier tender and award of time sensitive capital work. If necessary, the 2023 budget approval may also take place during the February Council meeting. The operating and capital budget will need to be approved together as funding for some capital is through contributions to capital reserves included in the operating budget.

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 percent of a residential tax bill, while taxes for York Region are approximately 43 percent and the Town’s share is the remaining 37 percent.

The Town’s proposed tax increase of 3.5 percent for 2023 would add approximately \$10.19 per year to the Town’s share of the tax bill for each \$100,000 of assessment. For an average home in Aurora assessed at \$800,000, the Town’s share of the tax bill in 2022 is \$2,328. If the proposed tax increase of 3.5% is approved, this tax bill will increase by \$81.51 to \$2,410 for 2023.

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 wastewater are charged per cubic meter and then the stormwater charge is a monthly fee. So, each residential bill will include three months. The average residential bill in 2022 was \$312.63; if approved, the rates in this budget for water, wastewater and stormwater will increase this average bill by \$13.80 to \$326.43 in 2023.

The proposed 2023 capital plan is affordable based on the contributions to capital reserves proposed in the operating budget. The affordability of the proposed 10-year capital plan (2023 to 2032) is reviewed annually as part of the Town’s Fiscal Strategy.

Communications Considerations

The Town will inform the public of the changes to the budget process by posting information to the Town’s website. The calendar of budget-related meetings will also be shared on the website and through social media.

Climate Change Considerations

The recommendations from this report do not directly impact greenhouse gas emissions or climate change adaptation. Climate change has been considered in the

2023 proposed budget that will be reviewed by Budget Committee for its review and consideration in the new year.

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 2023 draft budget at any time during its review.

Conclusions

The 2023 Budget represents the first year of four of the Town's next multi-year budget. The proposed tax rate increase strives to minimize the impact on taxpayers in light of the considerable budget pressures faced by the Town such as those arising from inflation.

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, wastewater and storm water rates responsibly.

The presented 2023 capital budget is affordable with Council's approval of the proposed operating budget support of the Town's capital asset sustainability.

The 2023 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 review prior to the commencement of the scheduled Budget Committee meetings in early January 2023. The budget materials will also be made available on the Town's website.

Attachments

Attachment 1: Budget presentation.

Previous Reports

FIN22-018, 2023 Budget Timeline and Process, June 7, 2022

Pre-submission Review

Agenda Management Team review on November 17, 2022

Approvals

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

Approved by Doug Nadorozny, Chief Administrative Officer