



**Town of Aurora  
Council Report**

**No. FS19-001**

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**Subject:** 2019 Capital Investment Program, Strategic Asset Management Policy and Ten Year Asset Management Plan Overview

**Prepared by:** Jason Gaertner, Acting Director, Financial Services

**Department:** Financial Services

**Date:** January 22, 2019

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## **Recommendation**

- 1. That Report No. FS19-001 be received; and**
- 2. That the draft strategic asset management policy, asset management plan, 2018 Ten Year Capital Investment Plan and 2019 Capital Budgets be received and referred to the Budget Committee meeting scheduled for February 2, 2019.**

## **Executive Summary**

On February 2, 2019 the budget committee will commence its review of the Town's asset management plan's draft 2018 Ten Year Capital Investment Plan; as well as its draft 2019 capital budgets. In addition, the budget committee will undertake a review and its support sought for the Town's updated asset management plan and its new strategic asset management policy. In support of this review, budget committee members will receive the following key documents at tonight's meeting:

- The Town's new Strategic Asset Management Policy for review and approval.
- The updated asset management plan (AMP) for review and approval which outlines the "how" of the Town's asset planning and management methodologies, including an assessment of the overall condition of the Town's depreciating assets. A detailed review and update of this plan has been undertaken as per the Town's best practice to do so every four years, aligning with Council's term in office.
- The AMP's draft 2018 Ten Year Capital Investment Plan which is derived based upon the methodologies set out in the AMP, setting out specific capital investments required in order to maintain the serviceability of existing town assets, as well as new assets required or anticipated in order to service and

meet the expectations of the growing community. This component of the Town's AMP is updated on an annual basis.

- The draft detailed 2019 proposed capital budgets for review and approval, representing a highly detailed breakout of the 2019 items of the Ten Year Capital Plan.

## **Background**

### **The Town is required to have a Council approved Strategic Asset Management Policy in place by July 1, 2019**

As per its recently approved Asset Management for Municipal Infrastructure regulation (O. Reg. 588/17), the Province of Ontario requires its municipalities to conduct long term asset management planning through the implementation of a strategic asset management policy and detailed asset management plans. This regulation requires municipalities to comply with a prescribed list of key milestones:

- i. A *Strategic Asset Management Policy* must be in place by July 1, 2019
- ii. All municipalities are required to ensure that their asset management plans include the following elements as per the prescribed timelines:
  - a. Addresses core infrastructure assets such as roads, bridges, culverts, including any assets used in the collection, conveyance/distribution of wastewater/water; and stormwater management systems by July 1, 2021.
  - b. In addition to core infrastructure assets, addresses all other infrastructure assets by July 1, 2023.
  - c. All infrastructure assets should include a greater breadth of prescribed details, such as service level requirements, by July 1, 2024.

### **The asset management plan is the foundation upon which Town asset decisions are based**

The Province of Ontario requires all municipalities to have in place a Council approved Asset Management Plan (AMP). An approved AMP has become the foundation upon which the Town's asset decisions are based; as well as an essential application requirement for all municipal requests for provincial or federal infrastructure funding. The Town's AMP is guided by its Strategic Asset Management Policy.

**A Ten Year Capital Investment Plan assists the Town in ensuring the longer term sustainability of each of its assets**

Complementing the Town's AMP is its annual Ten Year Capital Investment Plan representing a consolidation of the anticipated needs of all Town departments. This plan is intended to assist the managers responsible for each asset category to carefully plan for the longer term sustainability of each asset, and ensure appropriate and timely budgeting for the replacement of assets at the optimal time, balancing available funding, with the need and condition of the asset and its service standard.

The plan is sorted into three sections: Repair and replacement of existing assets (R&R), plans for growth and new assets (G&N), and periodic studies and other special projects (S&O). This plan is reviewed and updated each year by staff and presented to Council for its review and endorsement. It is important background material for the annual capital budget review and approval processes.

In addition to ensuring the alignment of ten year capital plan funding recommendations with defined AMP strategies, these recommendations also align with the following four Council endorsed asset sustainability strategies:

1. The Town generally will not use debt to finance the major restoration or replacement of its assets which were originally funded from development charges or would be so funded if initially constructed today. To avoid incurring debt, the Town will strive to annually set aside sufficient reserves to provide for existing asset sustainability.
2. Targets for R&R reserve funds future desired balances at the end of each ten year planning period should be set equal to two times the average of the ten year annual funding requirement for that period, reviewed annually.
3. Annual "tax cash to capital" funding will be apportioned pro rata amongst the asset specific reserve funds for each asset category, including tax funded Growth & New and Studies & Other.
4. Annual "tax cash to capital" budget amounts must achieve sustainable infrastructure funding and should be reviewed annually as part of the ten year capital plan update process to ensure annual contributions keep pace with capital cost inflation, capital plan needs, and ultimately allowing for the achievement of the goal of concluding each ten year planning period with R&R reserve balances at approximately equal to their applicable ten year average funding requirement for that period

**The Town's recommended 2019 capital budgets are built upon the foundation as set out in the Town's AMP**

As part of its review of the Ten Year Capital Investment Plan, staff have undertaken its usual detailed review and documentation of their recommended 2019 capital budgets. This review considers several factors including the foundations as set out in the Town's AMP, available reserve funding, as well as other key Town priorities.

NOTE: The budget binder materials referenced in this report will be distributed at the January 22, 2019 Council meeting for review prior to the first formal budget committee review meeting which has been scheduled for 9:00 a.m. Saturday February 2, 2019. All materials will be available from the Towns' web site shortly after the January 22<sup>nd</sup> meeting.

## **Analysis**

### **Strategic Asset Management Policy**

The purpose of this policy is to provide leadership in and commitment to the development and implementation of the Town of Aurora's asset management program. It is intended to guide the consistent use of asset management across the organization, to facilitate logical and evidence-based decision-making for the management of municipal infrastructure assets and to support the delivery of sustainable community services in the name of "*Today, tomorrow, our future together*". Through its regulation, the province prescribes the key elements that must be addressed within the policy. The approval of this policy is an important step towards integrating the Town's strategic mission, vision and goals with its asset management program, and ensuring that critical municipal infrastructure assets and vital services are maintained and provided to the community in a reliable, sustainable manner.

A copy of the Town's strategic asset management policy has been included in the budget binder.

### **Asset Management Plan (AMP)**

The Town's AMP is strongly aligned with its Strategic Asset Management Policy. Its primary objective is to maximize benefits, control risks, and provide a satisfactory level of service to the community in a sustainable manner. Infrastructure management ensures that the Town is capable of providing the desired level of service to support attaining the Town's high level strategic goals. The AMP is a strategic document stating

the characteristics and condition of infrastructure assets, levels of service expected from them, planned actions to ensure that assets are providing the expected level of service and financing strategies to implement the planned actions. The overall intent of the AMP is to help the Town ensure investments are made at the right time, future repair and rehabilitation costs are minimized, and municipal assets are being appropriately maintained.

The Town's AMP is an outcome of its stewardship responsibilities: how we plan to look after what we own. In addition, the Town has also incorporated future growth and future required asset investments into its plan in order to document what new assets it plans to invest in as the community grows, including how it plans to finance those investments. The growth side of the plan becomes an input into the existing asset replacement side of the plan, as these new growth driven assets begin to require replacement as well, sometimes within the same 10-year period, such as for new fleet light vehicle additions.

2019 represents the current plan's four year anniversary; as per the Town's best practice, staff have undertaken a comprehensive review and update of this plan which now requires Council's formal approval. This four year anniversary period aligns with Council's term in office period. Some financial tables included in the AMP are updated annually.

A copy of the town's AMP will be included in the budget binder.

### **2018 Ten Year Capital Investment Plan – Totals \$285,812,400**

This year's ten year capital plan contains detailed plans for assets showing the approved 2018 capital budget, plus ten forecast years from 2019 to 2028. It is the result of a comprehensive review and update undertaken by each asset manager of the 2017 Ten Year Capital Investment Plan.

The ten year plan shows a planned investment requirement of \$286 million total including 2018 and the next ten years; \$139 million for R&R, \$143 million for G&N assets, and \$4 million for S&O. The Town's updated Ten Year Capital Investment Plan is included in the budget binder. The committee is encouraged to review this material in detail, and raise questions with regard to any proposed project, with a particular review of the first three years of the plan, as well as any significant one-time projects appearing in the plan.

Comparing the previous ten year capital plan and this year's ten year capital plan the

change in the average required investment per year is as follows:

**Table 1: Historic and Planned Average Annual Investment**

		<b>Ten Year Average Annual Required Investment</b>	
		<b>2017</b>	<b>2018</b>
Tax Funded:			
R & R		7,574,000	7,776,000
G & N		11,879,500	11,964,100
S & O		246,900	338,300
		19,700,400	20,078,400
Rates Funded:			
		3,494,600	4,169,600

The assets that the Town owns need to be segregated as to whether they are maintained and funded by general taxation (“tax funded assets”), or whether they are maintained and funded by utility rates (“rate funded assets”). Rates funded assets are restricted to all underground water, sanitary sewer, and stormwater systems, pumping stations, stormwater management ponds, storm drainage ditches, culverts and related infrastructure. Tax funded assets are all other assets owned by the Town, including fleet, equipment, technology assets, roads, sidewalks, street lighting, town facilities, parks, fields and other structures, together with Aurora located fire halls. In an effort to minimize the impact on these core funding sources, both the tax and rate funded capital requirements are subsidized through any other available funding sources, if any, such as provincially or federally available grant monies.

The Town receives both Federal Gas Tax and Ontario Community Infrastructure Fund (OCIF) allocations each year. To simplify the financial planning and reporting, while remaining segregated in the Town’s books, these funds are notionally pooled with the Town’s tax cash to capital amount for funding tax supported infrastructure capital reserves. These two grant amounts are used exclusively to fund the first requirements of the roads asset category, with other tax cash used to complete the funding allocation requirements for roads. Accordingly, gas tax and OCIF are only used by the Town to fund roads projects, despite their eligibility to fund other types of projects.

As will be seen in the next section of this report, the funding strategy of the ten year capital plan hinges on the reliability, completeness and reasonableness of this plan. If the planned spend is inflated, the funding strategy will impose an unnecessary burden on taxpayers and the annual budget. Contrary, if the ten year plan is understated, the

funding strategy employed will be insufficient in providing for the real needs of the Town. While this plan is updated each year in detail by staff, it is important for Council to identify any projects contained in the plan which may require further discussion. Amendments can be made by removing projects altogether or amending the planned timing of projects to more realistically align with the expectations of Council.

**Repair & Replacement (R&R)**

Optimally staff recommend that the annual funding of capital R&R match the ten year planned average spend. Currently, the annual funding compared to annual planned averages spend is as follows:

**Table 2: Budget Funding Compared to Average Annual Planned Investment**

	<b>2018 Ten Year Avg. R&amp;R Requirement*</b>	<b>Ten Year Average Gas Tax and OCIF funding expected</b>	<b>2019 Draft Cash to Capital Funding**</b>	<b>Funding (Short-fall) / Surplus</b>
Tax Funded	7,776,000	2,741,200	4,174,300	(860,500)
Rate Funded	4,169,600	0	4,400,000	230,400

\* Ten Year Average R&R Requirement is net of all other funding sources, with the exception of grants.  
 \*\* R&R Cash to Capital share only.

As per the above table, we see that the annual tax contribution to capital for R&R is less than the average annual spend by \$860,500 per year over the ten year period. This represents the equivalent of an unfunded 2019 tax rate pressure of 1.9%. This short-fall will be addressed by the proposed cash to capital increases recommended in Table 3 below.

The 2019 contribution from utility rates is more than is required for the next ten year period average requirement as it is based upon a much longer time horizon (50 to 100 years). This is done in an effort to grow these related reserve balances in preparation for the future when the very expensive R&R costs for the Town’s underground infrastructure begin arising as they reach the end of their useful lives. Annual utility budgets consider this updated plan and long term funding needs.

Overall Cash to Capital Contributions to Reserves

Overall in 2018, excluding the receipt of federal gas tax and Ontario Community Infrastructure Funding (OCIF), the tax base contributed \$5,053,400 to the capital reserves for infrastructure. This amount gets immediately allocated amongst R&R, G&N and S&O capital reserves. As infrastructure costs increase with inflation, so to must the annual contribution from the tax base. Otherwise, the inflationary growth of future R&R requirements will out-pace the growth of available reserve balances resulting in insufficient funds being available when required in the mid to longer term future. The Town's financial goal is to grow its infrastructure reserve balances to "two times the average annual spend requirement" by the end of the ten year plan period. In order to achieve this goal the Town will require a minimum increase to the prior year's cash to capital contribution as outlined in Table 3 below. The following schedule of increases to the base cash to capital contribution each year has been designed to achieve a more manageable annual budget impact:

**Table 3: Proposed Cash to Capital Increases for Infrastructure Sustainability as a percentage of the prior year's tax levy**

2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
0.50%	0.70%	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	1.00%	1.00%

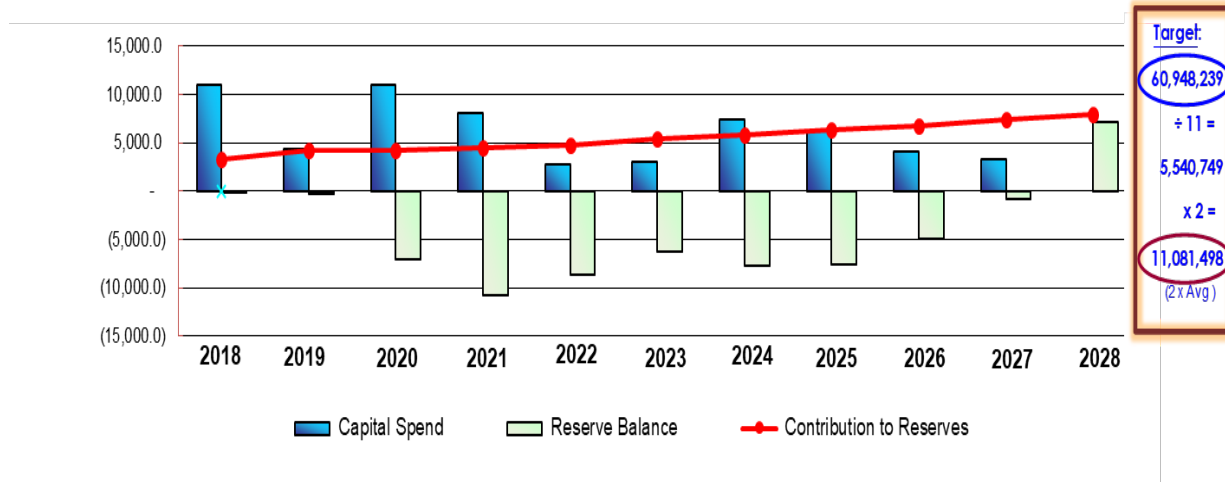
In recognition of growing inflationary and aging asset pressures, staff recommend the above noted rates of growth for the next 10 years. This requirement would be funded out of the annual 1.0% recommended tax increase in support of fiscal strategies, such as this and the continued reduction in the Town's reliance upon supplementary tax proceeds revenue. No annual operating budget surplus contributions to these reserves are included in this forecast model as surpluses of this nature are difficult to project; however contributions of this nature will only serve to reduce the impact of inflationary pressures on the plan and contributions.

Projected Ten Year Financial Performance of the Repair and Replacement Reserves

While individual asset category reserves are kept, on a consolidated level, the Town's R&R reserves which are tax funded can be summarized as follows:



**Consolidated Tax Based Repair & Replacement Reserve Performance**



This graph illustrates the annual planned spend to be funded from these reserves, based upon the updated 2018 ten year capital plan. It is important to note that this identified planned spend does not represent the full planned R&R spend for each year, rather it is only the portion of the full planned spend that has not been funded through an alternative source of revenue such as grants, gas tax or other external funding. The above graphic presents the projected consolidated R&R reserve fund balance at the end of each year, and the expected total cash to capital contribution to flow into these reserves each year. Looking at the far right hand side, the Town’s target of achieving an ending reserve balance of approximately two times the average annual spend for that planning period is presented. As can be seen above, the tax funded R&R reserves, as a group, do not reach the desired planning period end reserve balance target. However, the period end consolidated balance of \$7,088,100 does exceed the period’s average annual funding need of \$5,540,800. Staff will strive to continue to improve upon this target in future years. A similar analysis to that presented above for the Town’s other key capital funding reserves can be found within the detailed ten year capital plan under the “Funding Sources” section.

Each year, this model must be reviewed in order to ensure that the ten year plan for the cash to capital contributions remains sustainable and balanced with the capital requirements of the plan, with an expectation of annual cash to capital increases in the long term that keep pace with the inflationary pressures placed on capital program costs. It is important to note that the planned annual contribution increases as set out in Table 3 are based only on the data contained in the most current 10 year plan, and are revisited each year based upon all new available information that has been acquired as part of the most recent capital update process.

### **Draft 2019 Capital Budgets**

For 2019, the capital budget continues to be segregated into three key groupings which align with the conceptual differences in capital project funding sources, thus allowing for a more focussed examination. These three sections being:

- Repair and Replacement (R&R) of existing Town Infrastructure Capital
- Growth and New (G&N) Town Infrastructure Capital
- Major Studies and Other (S&O) Capital

Any 2019 capital budget proposals that came out of the Town's January 14, 2019 public stakeholder consultation that were referred by Council to the draft 2019 capital budget have been integrated into the draft 2019 capital plan for the budget committee's consideration.

In some instances, staff have recommended the conditional approval of select capital projects in recognition that further information (in the form of an additional report to Council) is required before the project can be formally approved by Council. Any conditionally approved capital projects that do not have their conditions satisfied by September 30, 2019 will require Council reconsideration. In addition, any Council pre-approved projects have been identified as such.

The Draft 2019 Repair and Replacement of existing Town infrastructure Capital program, for both tax and rate funded assets, is summarized follows:

2019 to 2028 average annual planned requirement	\$11,945,600
2019 planned requirements as forecasted in 2017 ten year plan	\$19,471,000
2019 Draft Budget	\$10,846,200
<b>Funded by:</b>	
Tax funded R&R reserves	\$4,008,100
Rate funded R&R reserves	4,560,000
Federal Gas Tax Grants	1,150,000
Ontario Community Infrastructure Grant	1,101,000
Special Purpose Reserves	27,100

The recommended repair and replacement capital program for 2019 is included in the budget binder, with details provided for each proposed project.

The Draft 2019 Growth & New Town Infrastructure for existing Town Infrastructure Capital program for both tax and rate funded assets, is summarized as follows:

2019 to 2028 average annual planned requirement	\$11,964,100
2019 planned requirements as forecasted in 2017 ten year plan	\$61,746,500
2019 Draft Budget	\$49,617,600
<b>Funded by:</b>	
Development Charges	\$11,685,800
External Funding (grants)	13,500,000
Tax Funded G&N Reserve	2,223,800
Tax Funded R & R Reserve	335,000
Other Funding Sources (ie. Special Purpose reserves, Hydro fund, etc.)	21,873,000

This Growth & New capital program includes five major projects (i) an addition to the Stronach Aurora Recreation Complex (SARC), (ii) the redevelopment of Library Square, (iii) a pumper truck for the new fire hall, (iv) continued work at the wildlife park and (v) Aurora promenade work.

Of these noted projects, the proposed addition to the SARC and the redevelopment of Library Square, their included requirements and funding sources have been inserted into the 2019 budget purely as placeholders. These placeholders will be subject to change as per future staff reports to Council. Consequently, staff will recommend that the Budget Committee conditionally approve these two projects.

In many instances the incremental costs relating to the creation of a new asset extend beyond its initial capital investment. Many new assets will require an ongoing incremental operating fund requirement over the course of their useful lives such as fuel, electricity, maintenance and staff input costs. In instances where these noted costs are known and can be estimated, they have been identified along with the initial capital investment costs within each capital project business case for Council's recognition and pre-approval. Should Council approve staff's recommended 2019 growth and new capital investment program, they are pre-approving these capital investment's incremental operating costs as well.

The recommended Growth and New Town Infrastructure Capital program for 2019 is included in the budget binder.

The Draft 2019 Studies and Other Capital program, for both tax and rate funded assets, is summarized as follows:

2019 to 2028 average annual planned requirement	\$338,400
2019 planned requirements as forecasted in 2017 ten year plan	\$560,000
2019 Draft Budget	\$1,160,000

The recommended Studies and Other Capital program for 2019 is included in the budget binder.

The 2019 capital budget binder is being distributed to members of Council at the meeting of January 22, 2019. All such material will be subject to review and discussion by the Budget Committee at its budget review meeting to be held at 9am on Saturday, February 2, 2019. This meeting will also include a discussion of the Town's new Strategic Asset Management Policy, its Asset Management Plan and its Ten Year Capital plan. The Committee will then turn its attention to the detailed 2019 Capital Budgets.

### **Advisory Committee Review**

Not applicable

### **Financial Implications**

With regards to the Strategic Asset Management Policy, the AMP and its associated Ten Year Capital Investment Plan, there are no direct financial commitments being made in this report. The Strategic Asset Management Policy, AMP and Ten Year Capital Investment Plan are guidance and/or planning documents only, serving to assist in asset repair and replacement decision points as well as long range financial planning. These documents provide insight and opportunity to make financial planning adjustments to avoid future financial pinch points or other problems arising. The AMP and associated ten year plan also give clear insight to Council and to the public as to planned projects well in advance, including the provision of further context such as the priorities of individual projects relative to each other.

Staff recommend an equivalent tax increase amount of 0.7% to the tax cash to capital contribution to be funded out of the total 1% tax increase for Town Fiscal Strategies that

will be included in the 2019 draft operating budget as per Council direction. This increased contribution in support of infrastructure is consistent with the recommendations contained within this report. The remaining fiscal strategy funding will be addressed as part of the annual operating budget discussions that are scheduled to commence in the latter half of February, 2019.

The 2019 Draft Capital Budget proposes a total capital program of \$61,623,800. Staff feel that this proposed budget is financially feasible assuming Council's continued support for the Town's cash to capital funding strategy as outlined in table 3 and the continued receipt of the key federal (federal gas tax) and provincial infrastructure grants (Ontario Community Infrastructure Funding).

### **Communications Considerations**

Financial Services and Corporate Communications have worked closely to develop a comprehensive communication plan around the Town's 2019 capital and operating budget. The plan was developed with the intent of increasing public participation in the budget process.

A 2019 operating and capital budget special consultation meeting was held on January 14<sup>th</sup> where public stakeholders were invited to attend in order to make funding requests or to share their ideas relating to opportunities for service delivery savings and/or for new revenue generation.

Also available via the Town's web site is a suite of budget videos that have been promoted extensively through the Town website, social media, media release, online newspapers, partner web sites, digital screens, email blasts, newspaper advertisements, postcards, banner displays in Town Hall and through in-person public engagement at Town facilities and Town events.

In addition to the above mentioned channels, budget meetings are open to the public and Corporate Communications will continue to promote these meetings through the website, social media and the Notice Board.

### **Link to Strategic Plan**

Developing the annual capital budget supports all aspects of the Strategic Plan. In particular, outlining and understanding the Town's long term financial planning and use of financial reserves to buffer related fluctuations in financial requirements from year to year contribute to achieving the Strategic Plan's guiding principle of "Leadership in

Corporate Management” and improves transparency and accountability to the community.

### **Alternative(s) to the Recommendation**

1. Council may choose to accept, amend or reject any or all of the recommendations of this report.
2. Council may provide alternative directions with respect to the Strategic Asset Management Policy, the Ten Year Capital Plan contents, including the detailed 2019 Capital Plan.

### **Conclusions**

The 2019 recommended capital investment budget is introduced by this report. The Budget Committee will now begin its detailed reviews of the Strategic Asset Management Policy, Asset Management Plan, Ten Year Capital Investment Plan and the 2019 Capital Budgets.

All Budget Committee meetings are open to the public. Members of the public interested in providing input to these proceedings are encouraged to attend as early in the process as possible, or to provide their comments by email through the Town’s website at [www.aurora.ca](http://www.aurora.ca); or by email to [OurTownBudget@Aurora.ca](mailto:OurTownBudget@Aurora.ca). All constructive input related to the 2019 Capital Budgets is welcomed; however no formal funding requests can be received via this mechanism. Any email submission comments will be summarized and presented to Committee as they are submitted. Submissions relating to the 2019 operating budget will be retained and presented at the appropriate time to Committee.

### **Attachments**

The following materials will be included in the budget binder to be distributed separately at the January 22, 2019 Council meeting for its review at its subsequent budget committee meeting scheduled on February 2, 2019. This distributed material will also be available electronically on the Town’s web site on January 23, 2019.

- New Strategic Asset Management Policy
- Updated Asset Management Plan
- 2018 Ten Year Capital Investment Plan

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- 2019 Repair and Replacement of Existing Town Infrastructure Capital program
- 2019 Growth and New Town Infrastructure Capital program
- 2019 Studies and Other Capital program
- Reserve and Reserve Fund Schedule – Forecast December 31, 2018
- State of Asset Management Maturity Report

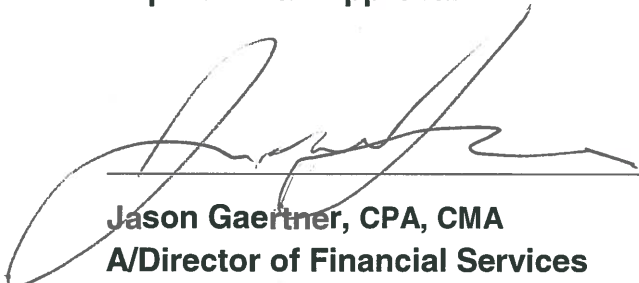
### **Previous Reports**

FS18-004: 2019 Budget Development Direction

### **Pre-submission Review**

Agenda Management Team review on January 8, 2019

#### **Departmental Approval**



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**Jason Gaertner, CPA, CMA**  
**A/Director of Financial Services**  
**- Treasurer**

#### **Approved for Agenda**



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**Doug Nadorozny**  
**Chief Administrative Officer**