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Town of Aurora

General Committee Report

No. FIN23-035

Subject: Reserve Management Policy

Prepared by: Sandeep Dhillon, Senior Financial Management Advisor

Department: Finance

Date: September 5, 2023

Recommendation

1. That Report No. FIN23-035 be received; and
2. That the presented Reserve Management Policy for the Town be approved.

Executive Summary

This report highlights the significance of a Reserve Management Policy for the Town's long-term financial sustainability and financial management. The policy ensures that the Town maintains desired service levels and adapts to growth while maintaining moderate fiscal impacts from year-to-year. 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 Reserve Management Policy supports the Fiscal Strategy objective of financial sustainability
- Reserve Management Policy outlines the guidelines and controls for the creation and management of reserves
- Reserves are used to fund capital projects and deficit reserve balance should be avoided
- Annual reserve contributions should be aligned be with the asset management plan

Background

Reserves are one of the most important tools available to municipalities for achieving financial sustainability and flexibility. Reserves not only assist municipalities in managing risks, but they also play a role in the financing of capital costs and the provision of affordable and stable services to constituents. Historically, the Town had established the best practices in the use and management of reserves. However, as outlined in the Fiscal Strategy approved in 2021, a Reserve Management Policy for the Town should be developed to ensure stronger longer term financial management. This report provides an overview of the newly developed Reserve Management Policy and the alignment to the Fiscal Strategy.

Analysis

The Reserve Management Policy supports the Fiscal Strategy objective of financial sustainability

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.

Reserve Management Policy outlines the guidelines and controls for the creation and management of reserves

The purpose of the Reserve Management Policy is to establish financial guidelines and appropriate controls for the administration and management of reserves for the Town of Aurora. This policy provides guidelines on the objectives, standards of care, reporting requirements and responsibilities for the creation and management of reserves.

The objectives of the reserves management policy are stated below:

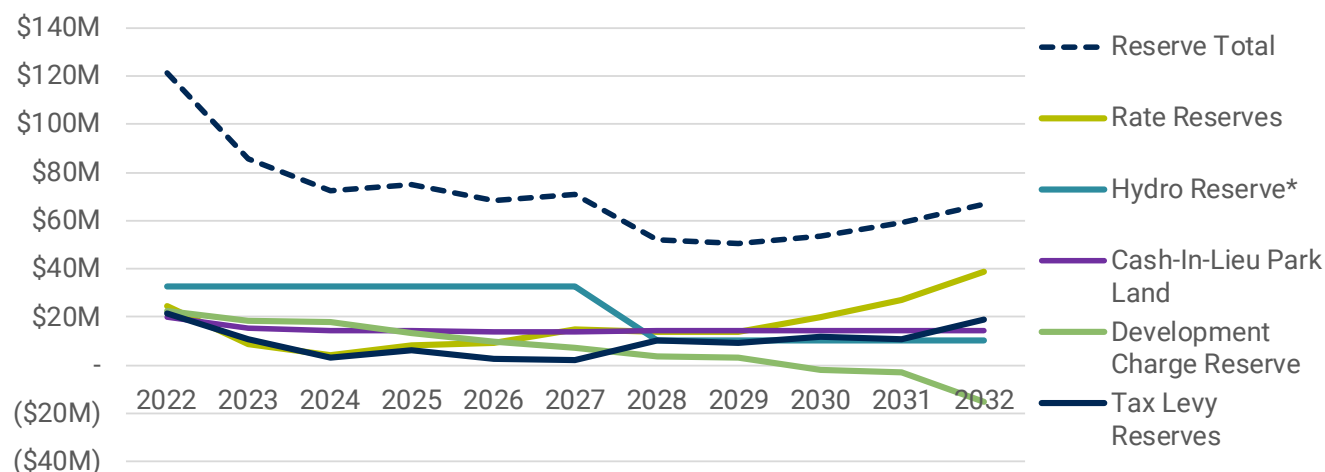
- Classification of the Town's reserves;
- Guidelines associated with the creation of reserves;
- Recommended guidelines for the management of reserves such as:
 - Investment of reserve funds and allocation of investment income to reserves;
 - Contributions to/withdrawal from reserves;
 - Temporary interfund lending between reserves;
 - Closing of reserves
 - Avoiding negative balance of reserves;
 - Maintenance of 10-year reserve forecast
- Roles and responsibilities of Town staff and Council members
- Reporting and adherence to the guidelines of the reserve policy

Reserves are used to fund capital projects and a deficit reserve balance should be avoided

Capital projects in the 10-Year Capital Plan are funded from reserves. There are a number of reserves that are used to fund capital projects and the funds are applied to the project based on the purpose for which each reserve can be used.

The tax-funded reserves maintain a healthy balance in 2023 after the elimination of \$19.9-million worth of roads projects from the 10-Year Capital Plan. The 2023 Budget assumed an increase of 0.25 percent annually starting in 2024 until the total contributions reach two percent of the tax levy in 2027. The proposed increase represents a step forward but does not meet the requirements outlined in the asset management plan. The development charge funded reserve balances go into a negative balance over this period, but overall, the consolidated capital reserves balance remains positive.

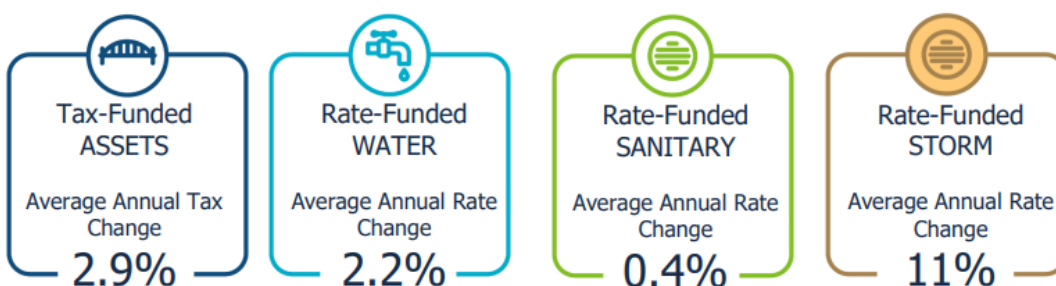
10-year capital reserves balances grouped by funding source



Annual reserve contributions should be aligned with the asset management plan

The second-generation asset management plan identified the need to further increase reserve contributions on an annual basis for the next 20 years to address a long-term infrastructure asset management funding gap. The funding gap was based on each asset's accounting estimated useful life. The next phases of the asset management plan will base asset replacement needs on approved service levels which need to be established by July 1, 2025. This additional work will refine just how big the potential funding gap is, and while it could reduce this gap, it will not eliminate it. The following shows annual tax and rate change recommended in the asset management plan to eliminate the infrastructure deficit for core assets based on a 20-year plan for tax funded assets, 10-year plan for water and wastewater assets and a 15-year plan for storm water assets.

Asset management plan recommended reserve increases by funding source



Advisory Committee Review

Finance Advisory Committee reviewed the draft debt policy at its June 13th, 2023, meeting.

Legal Considerations

This policy has been reviewed by the Corporate Management Team and the Executive Leadership Team in accordance with the Town's policy program.

Financial Implications

There are no direct financial implications from this report. The financial implications will be in the budget as the policy is applied.

Communications Considerations

The Town will inform the public about the information contained in this report by posting it to the Town's website.

Climate Change Considerations

The recommendations from this report does not impact greenhouse gas emissions or impact climate change adaptation.

Link to Strategic Plan

Reserve Management Policy supports all aspects of the strategic plan. Specifically, this report supports the Plan principles of Leadership in Corporate and Financial Management, Leveraging Partnerships, and Progressive Corporate Excellence and Continuous Improvement.

Alternative(s) to the Recommendation

1. Council provides direction.

Conclusions

The reserve policy provides the financial policy framework to ensure Aurora can set and stay on a financially sustainable path. This is done through by ensuring that the Town's fiscal impact year-over-year is manageable. The policy outlines internal guidelines for the use and funding of reserves to support the budget process and manage the timing difference between when a capital project is built and when the funding for the project is received. 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 .

Attachments

1. Reserve Management Policy

Previous Reports

FAC Memorandum, Reserve Management Policy, June 13, 2023

Pre-submission Review

Agenda Management Team review on August 17, 2023

Approvals

Approved by Rachel Wainwright-van Kessel, Director, Finance

Approved by Doug Nadorozny, Chief Administrative Officer