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Town of Aurora
Committee of the Whole Report
No. FIN24-038

Subject: Asset Management Funding Strategy for 2025 and 2026

Prepared by: Sandy Dhillon, Senior Advisor, Financial Management

Department: Finance

Date: September 3, 2024

Recommendation

1. That Report No. FIN24-038 be received; and
2. That the short-term asset management reserve strategy for 2025 and 2026 be approved; and
3. That the tax-funded portion of the ATS debt financing of \$7.5M, be funded from the hydro reserve fund, and not debt financed, be approved; and
4. That the operating budget for ATS tax-funded debt repayment be redirected to asset management contributions be approved.

Executive Summary

The operating budget includes capital reserve contributions which is part of the overall tax levy. This reserve contribution increases on an annual basis through the one percent tax levy increase to support the Fiscal Strategy. Most of these funds go to support asset management reserves, while the balance supports contributions to the growth and new and studies and other reserves. The recently approved Corporate Asset Management Plan (AMP) identifies the gap between the annual funding to the asset management reserves and the annual asset management infrastructure capital requirements.

- The current AMP recommends lower tax levy and rate funded contributions to reserves than the previous AMP
- Strategic use of reserve and debt management principles can be used to fund the asset management reserves

- Tax-funded asset management needs, for 2025 and 2026, can be met without impacting the previously presented tax levy increase
- All rate funded asset management contribution increases should be fully phased in over a 10-year period
- A roadmap is being developed to maintain the Town's infrastructure along with financial sustainability beyond 2027

Background

The Town's present funding strategy includes an annual tax rate increase of one percent in support of the fiscal strategy. Of this increase, approximately 0.16 percent is contributed toward the growth & new and studies & other reserve. The remaining 0.84 percent annual increase is allocated in support of asset management reserves.

In the recently approved AMP, the defined level of service for the majority of tax funded and user rate funded asset classes did not change, reflecting their present levels of service. In support of the defined asset levels of service, the AMP recommended that the infrastructure deficit be addressed through an annual tax rate increase over 15 years, meaning that an increase from the existing dedicated asset management annual tax increase of 0.84 to 1.63 percent be adopted.

Similarly, for the user rate funded assets, the AMP recommends the Town adopt phase-in periods of 15 years for water, 10 years for wastewater and 20 years for stormwater networks resulting in dedicated annual rate increases of 2.89, 1.67 and 4.92 percent for water, wastewater and stormwater, respectively. These recommended increases try to find a balance between the annual burden placed on each service's user rate, while minimizing the time needed to reach a state of infrastructure affordability.

Analysis

The current AMP recommends lower tax levy and rate funded contributions to reserves than the previous AMP

The current asset management plan is built upon defined levels of service for each asset category and recommends a lower annual levy and rate increase in comparison to the 2021 AMP recommendations which were determined based solely upon the economic useful life of each asset class. The introduction of defined levels of service for each asset category has enabled the Town to more accurately estimate asset

management needs, resulting an overall reduction to the estimated average annual infrastructure deficit from \$29.3 to \$14.9 million, representing a reduction in the tax levy pressure from 58.5 in 2021 to 27.5 percent in 2024.

The application of defined levels of service to the water, wastewater and storm water asset categories has contributed to an increase in the estimated total average annual cost requirement. These increases were also attributable to inflation and new additions. Table 1 provides a summary of the levy/rate increase recommendation comparison between current asset management plan and the 2021 asset management plan.

Table 1
Levy/Rate Recommended Annual Increase Comparison

Category	2021 AMP		2024 AMP	
	Phase in Period (Years)	Annual Tax/Rate Increase	Phase in Period (Years)	Annual Tax/Rate Increase
Tax-Funded Assets	20	2.9%	15	1.63%
Rate-Funded Water	10	2.2%	15	1.92%
Rate-Funded wastewater	10	0.4%	10	1.67%
Rate-Funded Storm	15	11.0%	20	4.92%

All recommended tax/rate annual increases strive to find a balance between a worsening infrastructure deficit and/or level of service over time with the financial impact on the tax / rate payer by phasing in the overall increases over differing time periods. The financial impact is influenced through changing capital asset levels of services and/or changing the period over which the total tax / rate increase is phased in.

Strategic use of reserve and debt management principles can be used to fund the asset management reserves

The Fiscal Strategy highlights the importance of balancing the four pillars (capital planning, reserve management, debt management and revenue management) over the long-term to achieve financial sustainability. As recommended in the debt management pillar of the Fiscal Strategy, a Debt Policy was developed for the Town in 2023. The Debt Policy outlines that when the debt is fully repaid on an asset (excluding development charge funded debt), the debt servicing cost included the operating budget should be converted to an asset management reserve contribution to support future asset management needs.

The operating budget includes \$367,500 in funding for the repayment of the Town's LED streetlight conversion debt. As per the Town's Fiscal Strategy, and debt policy, the LED streetlight conversion debt servicing cost should be redirected toward asset management reserves once fully paid to support of the infrastructure deficit. In 2026 one final payment will remain, so \$183,700 can be converted to an asset management reserve contribution and the balance in 2027.

The Aurora Town Square construction project's approved funding strategy includes a contribution of \$7.5M from the tax levy to be financed over the long term. In support of this financing strategy, a total of \$510,000 for debt repayment costs is included in the tax-funded budget. In alignment with the Fiscal Strategy, the \$7.5M could be funded through an increased draw from the Aurora Hydro Reserve which would enable the redirection of the \$510,000 in tax levy funding to asset management reserve contributions. This solution would also result in interest savings of \$3.8M over 20 years as the additional Aurora Hydro reserve proceeds are readily available.

Tax-funded asset management needs, for 2025 and 2026, can be met without impacting the previously presented tax levy increase

In addition, to redirecting the debt servicing cost to asset management reserves, \$895,000, part of the savings generated from the move to producer responsibility for waste recycling, can be contributed towards the asset management reserves starting in 2026. Along with the other strategies mentioned above, the Town will be able to meet the 2025 and 2026 asset management needs without impacting the previously tabled tax levy increases as shown in Table 2

Table 2
Asset Management Funding Option

Incremental impacts in \$000s	2025	2026
Asset management plan requirements:		
Corporate Asset Management Plan (1.63%)	987.2	1,077.6
Natural Capital Asset Management Plan	320.0	-
	1,307.2	1,077.6
Currently in budget:		
1% fiscal strategy	605.6	629.3
Producer responsibility for waste		895.2
LED debt conversion (half)		183.7
Reallocate ATS tax debt repayment budget	510.0	
Less:		
Growth and New contributions	(80.1)	(226.7)
Studies and Other contributions	(16.2)	(45.9)
	1019.4	1,440.6
Annual Balance	(287.8)	359.1
Cumulative	(287.8)	71.3

As shown above the strategies in this report result in slightly larger asset management tax-funded contributions over the next two years without changing the presented tax levy in the 2024 to 2026 Budget. This will put the Town on track to meet the tax-funded asset management deficit over the short term. Staff will develop a plan to ensure that the gap is addressed over the long term prior to the 2027 Budget. However, until this gap is eliminated, service levels will decline in the interim.

All rate funded asset management contribution increases should be fully phased in over a 10-year period

Since the 2021 asset management plan update, the Town's water, wastewater and stormwater capital assets have experienced significant growth, as well as many of the existing assets have begun to reach the end of their useful lives resulting in increased asset management costs. Further, these asset's have experienced material growth in back-logged asset management requirements that must be caught up to ensure their now defined levels of service are maintained.

Stormwater asset immediate and short-term asset management requirements have been subject to significant growth over the past 5 years. Recent stormwater studies have identified a large amount of asset management work requiring immediate attention. However, the stormwater reserve has insufficient funds to meet these identified needs, resulting in work having to be delayed. To allow all identified necessary work to proceed, this reserve's balance needs to be replenished more quickly than proposed by the 2024 Asset Management Plan.

The 2024 Asset Management Plan recommends that the water, wastewater and stormwater rates increase 32.9, 18.0 and 161.4 percent respectively, be phased in over 15 years for water and wastewater and 20 years for stormwater. In consideration of the growing infrastructure deficit for these asset categories, it is recommended that the water, wastewater and stormwater rate increases be phased in over a 10-year period. Table 3 presents a summary of the proposed 2024 AMP versus-staff's recommended phase in of the required user rate increases.

Table 3
Proposed 2024 AMP versus Staff Recommendations

Category	AMP Recommendation		Staff Recommendation	
	Phase in Period (Years)	Annual Rate Increase	Phase in Period (Years)	Annual Rate Increase*
Rate-Funded Water	15	1.92%	10	2.25%
Rate-Funded Wastewater	10	1.67%	10	1.5%
Rate-Funded Storm	20	4.92%	10	6.0%

*2025 and 2026 will use amounts included in the Budget, rates going forward will be at the recommended increase.

The 2024 to 2025 Budget includes contributions to asset management for user rate funded services. To ensure that the rates remain as presented in the Budget, the contributions to reserve will remain unchanged, or increase if savings are available. Then in 2027, the recommended percentage increases identified in Table 3 could be applied. This approach results in lower contributions than recommended for water and wastewater, but a slightly higher contribution for stormwater services in 2025 and 2026.

The recommended annual rates strive to close the current infrastructure gap within 10 years. These new rates also consider future inflationary increases to the operating budget that they are applied to and the compounding of the annual percentage increase to the reserve contributions. This mitigates the increase to the rates while ensuring the gap can be closed in a timely manner.

These annual rate increases, that would be planned to begin in 2027, will result in an increase of \$0.11/m³ for water and wastewater combined and \$1.10/month for stormwater. The impact on the average quarterly residential bill with 54m³ of water consumption would be \$9.24 to support asset management.

A roadmap is being developed to maintain the Town's infrastructure along with financial sustainability beyond 2027

The current asset management plan provides a list of recommendations that will allow the Town to achieve defined asset levels of service. The 2024 budget included the approval of dedicated asset management staff who will expand upon the work and recommendations of the recently approved asset management plan which will continue to evolve over time. In collaboration with Finance, this team will continue to review/verify recommended asset replacement costs, service levels, and review the timing of how long the Town will take to close the identified asset replacement funding gap and provide recommendations to Council as the 2027 Budget approaches.

Advisory Committee Review

Not applicable

Legal Considerations

The budgeted contributions to the asset management and rate funded reserves are approved by Council.

Further, Council has already undertaken the necessary steps to access the Aurora Hydro reserve in support of the ATS project, and therefore, Council approval is now only required to access this reserve for a greater amount.

Financial Implications

This report proposes a financial strategy that aligns with the Town's Fiscal Strategy to achieve the 2024 Asset Management Plan's financial recommendations for 2025 and

2026, with no impact to the 2024 Budget's previously presented tax increases and user rates.

The hydro sale investment reserve has a balance of \$13.1M as of December 31, 2023 and is sufficient to fund all previous commitments as well as the recommended additional \$7.5M contribution to the ATS construction project. Should this \$7.5M commitment be approved by Council, the remaining balance for the Aurora Hydro reserve will be \$5.6M.

Communications Considerations

The Town will inform residents of the information contained within this report by posting it to the Town's website.

Climate Change Considerations

None

Link to Strategic Plan

The short-term asset management reserve balance strategy aligns with the fiscally strategy objectives of managing year over year fiscal shocks while maintaining the desired service levels and asset replacement. Fiscal Strategy 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

None

Conclusions

The recommended short-term asset management reserve balancing strategy ensures that Aurora remains on a financially sustainable path without increasing the previously presented levy increase for 2025 and 2026. An expanded financial strategy commencing in 2027 and beyond will be presented to Council prior to the 2027 Budget.

Attachments

None

Previous Reports

Updated Corporate Asset Management Plan, FIN24-034, July 2,2024

Pre-submission Review

Agenda Management Team review on August 13, 2024

Approvals

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

Approved by Doug Nadorozny, Chief Administrative Officer