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Town of Aurora
Council Report
No. FIN21-044

Subject: 2022 Budget Introduction

Prepared by: Jason Gaertner, Manager Financial Management

Department: Finance

Date: October 26, 2021

Recommendation

1. That Report No. FIN21-044 be received; and
2. That the proposed 2022 budget be referred to Budget Committee for review at its scheduled meetings starting on November 8, 2021.

Executive Summary

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

- The operating budget proposes a tax increase of 2.9 percent for 2022
- The user rate funded operating budget proposes combined water and wastewater increases that are lower than those approved in the 2022 budget
- Managing inflationary pressures will be a challenge in 2022
- The operating budget focuses on the changes to the approved multi-year budget for tax and rate funded operations
- Total capital budget authority of \$198.2 million is being requested in 2022 with \$83.6 million in planned spending for 2022
- The 10-year capital plan includes \$302 million of capital investments

- The most recently closed capital projects are presented for Council's information
- The fiscal strategy informed the development of the 2022 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 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. 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.

On December 10, 2019 Council approved its first three-year multi-year operating budget for 2020, 2021 and 2022. It has now reached the fourth year of its budget lifecycle being the reaffirmation of the previously approved 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	Complete
Four	Re-affirm 2022	In Progress

On April 28, 2020 Council approved a series of changes to the Town's budget process and format to be phased in over the 2021 and 2022 budget processes.

Analysis

The operating budget proposes a tax increase of 2.9 percent for 2022

This budget proposes a tax increase of 2.9% for 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 proposed tax increase remains unchanged from what was originally approved for 2022 in the 2020 to 2022 Budget.

Total gross operating expenditures of \$108.1M are proposed for 2022. 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 2022 versus previous years.

Table 2
Operating Budget Summary

\$000's	2020 Approved	2021 Approved	2022 Outlook	2022 Proposed	Net Change to	
					2021	Outlook
Departmental:						
Expenditures	85,432.9	86,751.4	86,219.5	91,840.9	5,089.5	5,621.4
Non-Tax Revenues	(50,951.8)	(50,502.9)	(47,595.1)	(53,865.4)	(3,362.5)	(6,270.4)
Net Departmental	34,481.1	36,248.5	38,624.4	37,975.5	1,727.0	(649.0)
Central York Fire Services	11,755.3	11,961.6	12,257.5	12,294.9	333.3	37.4
Library	3,868.1	3,896.1	3,934.1	3,934.1	38.0	-
Total Proposed Budget	50,104.5	52,106.2	54,816.0	54,204.5	2,098.3	(611.6)
Assessment Growth	\$ 1,209.4	1,000.8	1,165.1	553.5	(447.3)	(611.6)
	% 2.6%	2.0%	2.2%	1.1%	(0.9%)	(1.1%)
Tax Increase	\$ 1,636.6	1,000.9	1,544.8	1,544.7	543.8	(0.1)
	% 3.4%	1.96%	2.9%	2.9%	1.0%	0.0%

The user rate funded operating budget proposes combined water and wastewater increases that are lower than those approved in the 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 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 recently approved 2022 wholesale water and wastewater rate increases of 3.3 percent effective April 1, 2022 compared to the increase of 2.9 percent that was originally planned for in the 2022 budget resulting in upward pressures on these budgets. These 2022 pressures are offset by 2021 savings arising from the Region's decision to not increase its 2021 wholesale water and wastewater rates by the originally planned 2.9 percent.

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 continues with the phasing in of an adjustment to the storm water rates to reflect the correct number of billings which is being phased in over 2021 and 2022. Table 3 presents a summary of each proposed rate versus its outlook which was approved in 2021.

Table 3
Water, Wastewater, Stormwater Rate Summary

	2020 Rates	2021 Budget	2021 Current	2022 Outlook	2022 Proposed	Change to	
						Current	Outlook
Water and Wastewater (\$/m³):							
Water Rate	\$ 2.18	\$ 2.34	\$ 2.18	\$ 2.34	\$ 2.27	4.1%	(3.0%)
Wastewater Rate	\$ 2.77	\$ 2.89	\$ 2.79	\$ 2.90	\$ 2.87	2.9%	(1.0%)
Combined Rate	\$ 4.95	\$ 5.23	\$ 4.97	\$ 5.24	\$ 5.14	3.4%	(1.9%)
Stormwater Rate (\$/month):							
Residential	\$ 7.09	\$ 9.18	\$ 9.18	\$ 11.69	\$ 11.69	27.3%	-
Non-Residential	\$ 90.07	\$ 116.64	\$ 116.64	\$ 148.51	\$ 148.51	27.3%	-

Managing inflationary pressures will be a challenge in 2022

The 2022 budget is based on information known when this budget was initially being developed. In recent months the Consumer Price Index (CPI) for the Toronto area has increased significantly. The CPI year-over-year increase as of September 30, 2021 was 3.8% for Toronto and 4.4 percent for Ontario. The current recommended 2022 tax increase includes 1.9% for town operations, including management of inflationary pressures on existing goods and service purchases. It is staff's intention to manage any excess inflationary operating pressures experienced in 2022 within the overall proposed

budget. However, should inflationary pressure remain at these levels over a longer period of time, this strategy will not be sustainable.

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

As the previously approved 2022 budget is being reaffirmed, this budget's focus is on any proposed changes to the original approved outlook budget. 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 2022 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 2022
- Tax assessment growth revenue is less than forecasted in previous budget
- Increased water and wastewater wholesale costs from York Region
- Increased Fire Services costs relating to an adjustment to the Town's share of total service costs
- Solid waste collection savings resulting from the Town's enforcement of its three-bag limit

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

Total capital budget authority of \$198.2 million is being requested in 2022 with \$83.6 million in planned spending for 2022

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 2022 capital budget authority includes actuals to December 31, 2020 plus the 2021 forecast plus 2022 capital cash flow and capital from 2023 and beyond only as required. This budget proposes a total of \$198.2 million in capital budget authority which is made up of \$181.9 million in previously approved capital projects and \$16.2 million in net new budget authority requests. A summary of the proposed 2022 capital

budget authority categorized by its traditional funding buckets of Rehab & 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.

Table 4
Capital Project 2022 Budget Authority Summary

(\$000s)	Previously Approved Budget	2022 Budget		Capital Budget Authority Cash Flow			
		Capital Budget Authority*	Budget Change	Actuals to Dec/20	2021 Forecast	2022	2023+
Rehab & Replacement	68,418.1	77,805.8	9,387.7	34,995.7	11,308.9	28,433.9	3,067.3
Growth & New	110,190.4	116,864.9	6,674.5	25,162.9	32,096.1	53,970.8	5,635.0
Studies & Other	3,337.7	3,502.7	165.0	1,194.4	1,043.7	1,164.0	100.6
Proposed Budget	181,946.2	198,173.4	16,227.2	61,353.1	44,448.8	83,568.7	8,802.9

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

Additionally, a presentation and report to Budget Committee is planned prior to starting the review of capital projects.

The 10-year capital plan includes \$302 million of capital investments

The capital budget proposes a 10-year plan totalling \$302 million. This 10-year capital plan continues to focus its investments on asset management with rehab and replacement projects representing 52% of the capital plan, growth and new 47% which includes the construction of Aurora Town Square and studies and other at 1%.

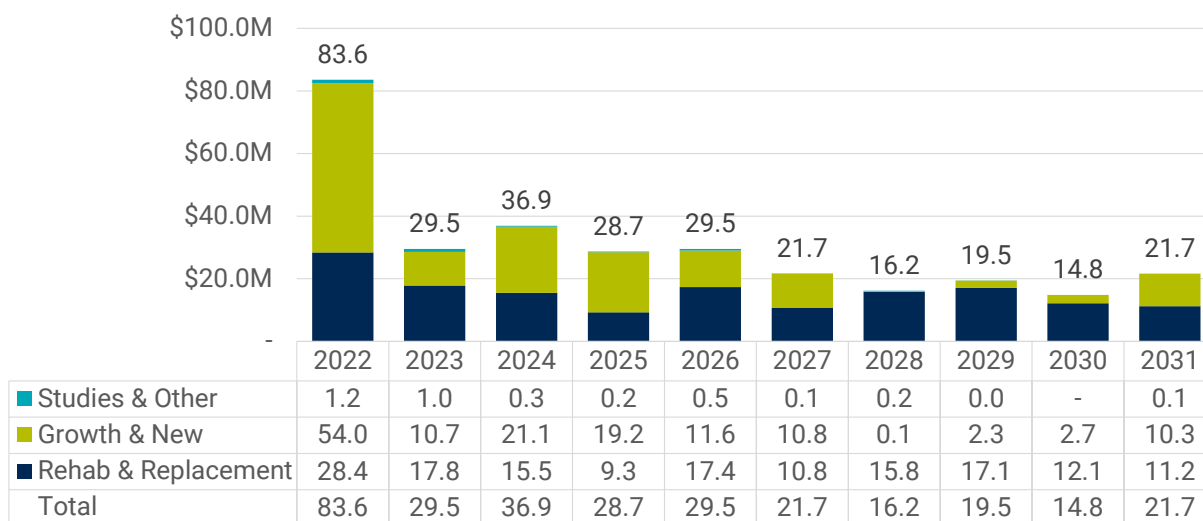
By planning the cash flow in the 10-year capital plan, the Town is able to better manage its cash, timing of investments and reserve needs on an annual basis. The previous practice of approving the full project as a lump sum without consideration of actual planned cash outflows has made the estimation 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 2022 rehab & replacement plan continues to be built upon the Town's previously approved asset management plan foundation. In October 2021 Council endorsed a significantly updated asset management plan to maintain its compliance with the province's municipal asset management regulation. This second-generation asset

management includes modernized level of service measures for all core asset categories upon which future rehab & replacement decisions will be based.

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 20 of the budget binder.

Table 5
10-Year Capital Project Summary



The Fiscal Strategy informed the development of the 2022 Budget

The fiscal strategy was approved by Council in 2021. The 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:** Maintaining a predictable tax levy at 2.9 percent by managing budget pressures through expenditure savings and revenue adjustments, continuing to reduce the budget reliance on supplementary taxes and managing one-time COVID-19 pressures through the use of grants
- **Capital planning:** Adding an additional \$11 million in rehab and replacement projects and identifying future asset management needs over the long-term through the first phase of the second-generation asset management plan

- **Reserve management:** Increasing contributions to rehab & replacement 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 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

The 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, 2021 is included in the budget binder under tab 20 for Council's information. This list details a total of 52 projects that will be closed by the Town as of December 31, 2021. These project closures included a total net \$0.6 million in fund returns.

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

The 2022 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 8th to Monday November 29th.

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 2022 budget. These presentations will include an overview of the changes to the multi-year operating budget, 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 2022 budget will be considered for approval by Council on December 14th, 2021 as shown in Table 6 below.

Table 6
Proposed budget meeting schedule

Meeting Description	Date
2022 Budget Public Session	Tuesday June 1 st
General Committee – Budget Kickoff	Tuesday October 26 th
Budget Committee Reviews (if required)	Monday November 8 th Monday November 15 th Saturday November 20 th Monday November 22 nd Monday November 29 th
Council Approval	Tuesday December 14 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 percent of a residential tax bill, while

taxes for York Region are approximately 43 percent and the Town's share is the remaining 37.0 percent.

The Town's proposed tax increase of 2.9 percent for 2022 would add approximately \$8.94 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 2021 is \$2,465.70. If the proposed tax increase of 2.9% is approved, this tax bill will increase by \$71.51 to \$2,537.21 for 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 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 2021 was \$295.92 in 2021; if approved, the rates in this budget for water, wastewater and stormwater will increase this average bill by \$16.71 to \$312.63 in 2022.

Compared to the rates proposed in the multi-year budget approved last year, the average bill will be lower. The average bill in 2022 is estimated to be \$312.63 which is \$5.40 less than the approved outlook. This reduction relates mostly to the savings in purchased water and wastewater services from York Region in 2021 partially offset by an increase to the rates they charge effective April 1st, 2022.

The proposed 2022 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 2031) will be determined as part of the Town's ongoing delivery of its long-term fiscal strategy.

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

The 2022 Budget represents the final year of the three-year multi-year budget. Even in light of the considerable pressures that the Town is anticipating such as decreased assessment growth, inflationary and COVID-19 pressures, Staff have successfully tabled a 2022 operating budget that requires an equivalent tax increase to what was previously approved by Council as part of the 2021 – 2022 budget. 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 2022 capital budget is affordable with Council's approval of the proposed operating budget support of the Town's capital asset sustainability.

The 2022 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

Attachment 1: Budget Presentation

Previous Reports

FIN21-012, 2022 Budget Process and Timeline, March 23, 2021

Pre-submission Review

Agenda Management Team review on October 14, 2021

Approvals

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

Approved by Doug Nadorozny, Chief Administrative Officer