SUBJECT: Expenses excluded from the 2017 operating budget

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-01-17
Wards Affected: Not applicable
File Numbers: 435-01
Date to Committee: January 19, 2017
Date to Council: January 23, 2017

Recommendation:
Receive and file finance department report F-01-17 regarding expenses excluded from the 2017 operating budget.

Purpose:
An Engaging City
- Good Governance

Background and Discussion:
With the implementation of fully compliant PSAB statements a regulation to the Municipal Act 2001(O.Reg. 284/09) was passed that allows municipalities to exclude from the annual budget, estimated expenses for all or a portion of the following:
- Amortization expenses,
- Post-employment benefit expenses, and
- Solid waste landfill and post-closure expenses.

For 2011 and subsequent years, a municipality must, prior to adopting a budget for the year that excludes any of the expenses listed above, prepare and have Council approve a report containing the following:
(a) An estimate of the change in the accumulated surplus of the municipality or local board to the end of the year resulting from the exclusion of any of the expenses listed above, and

(b) An analysis of the estimated impact of the exclusion of any of the expenses listed above on the future tangible capital asset funding requirements of the municipality.

This report details the impact of the expenses listed above should they have been included in the 2017 Budget. As the City does not have responsibility for landfills within their level of authority, this report focuses on amortization expenses and post employment benefits.

Discussion:

In 2009 accounting standards and reporting requirements underwent major revisions, most notably the inclusion of tangible capital asset accounting as required by the Public Sector Accounting Board (PSAB). However, the new standards do not require that budgets be prepared on the same basis. Therefore most municipalities, including the City of Burlington, continue to prepare budgets on a cash basis.

The annual budget process is an important municipal exercise which considers plans for current and future activities and acquisitions. One of the main outcomes of the annual budget process is a tax rate which Council is asked to approve. This tax rate is determined on a cash basis and does not include the PSAB requirements of accrual accounting and accounting for non-financial assets and liabilities such as amortization and post-employment benefits.

Post-Employment Benefits

Included in this category are expenses related to dental & health care benefits that the City provides between the time an employee retires and the time that an employee reaches 65, as well as the potential future costs to the City as a self-insured employer under the Workplace Safety and Insurance Act, 1997.

The City of Burlington has been reporting the impact of post-employment benefit expenses to Council annually as part of the financial statements. The City does budget annually for the current year costs expected to be incurred, but does not budget for the estimated future liability.

The change in the estimated future liability as of 2017 ($18.9 million) compared to the 2016 liability ($18.0 million) would result in a decrease to the City’s accumulated surplus of approximately $921,000 in 2017.

The 2016 and 2017 estimated future liabilities were determined through a 2015 actuarial review. In completing the review, an independent organization evaluates the probability
of events and quantifies the contingent outcomes based on industry and City of Burlington-specific experiences.

Any annual surpluses generated from the insurance carrier administering the health plans are placed in a Benefits Reserve Fund. This fund currently has a balance of $1.7 million which is used in part to fund these liabilities. In addition, there is a reserve for the WSIB liability with a current balance of $4.1 million. It is important to note that, while PSAB requires a municipality to disclose the liability in its financial statements, there is no requirement to fund the liability.

### Amortization Expenses
The estimated amortization expense on tangible capital assets for 2017 is $33.2 million. The City’s 2017 budget does not include this expense, however funding for the acquisition of tangible capital assets in the amount of approximately $55.5 million is included in the budget, resulting in a net increase to the accumulated surplus of $22.3 million.

### Impact on Accumulated Surplus in 2017
It is estimated that the overall impact of these excluded expenses on the 2017 accumulated surplus will be a net increase of $21.4 million summarized as follows (in $000's):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Post employment benefits expenses</td>
<td>$(634)</td>
</tr>
<tr>
<td>Change in Future WSIB expenses</td>
<td>(287)</td>
</tr>
<tr>
<td>Acquisition of Tangible Capital Assets</td>
<td>55,488</td>
</tr>
<tr>
<td>Amortization expense on Tangible Capital Assets</td>
<td>(33,163)</td>
</tr>
<tr>
<td></td>
<td>$21,404</td>
</tr>
</tbody>
</table>

### Impact on Future Tangible Capital Asset Funding Requirements
Amortization expense represents the reduction in the economic benefits realized by the City’s assets during a fiscal accounting period. The amount of amortization expense can be used as a rough indication of what should be budgeted annually for replacement of the City’s tangible capital assets. It must be noted however that amortization expense is based on the cost when assets were purchased or built and therefore it may not properly represent costs in today’s dollars and using current standards. Amortization expense also does not necessarily capture the true useful life of assets, nor does it reflect the cost of any growth related assets that may be required. Annual capital funding should typically exceed amortization expense when considering all of these issues.
In recent years the City has implemented sophisticated modeling systems for many capital categories to assist with the determination of what assets need to be repaired or replaced based on condition assessments and priority factors. These systems will continue to be refined and relied upon to more accurately determine capital funding requirements, rather than relying on the financial reporting amortization expense.

Financial Matters:
There are no direct financial implications associated with this report. The information contained in this report will be used to meet the financial statement reporting requirements, but will not result in any budget to actual variances.

Total Financial Impact
Not applicable.

Source of Funding
Not applicable.

Other Resource Impacts
Not applicable

Conclusion:
Adoption of this report by Council is needed prior to the approval of the 2017 budget to meet the requirements of O.Reg. 284/09 of the Municipal Act 2001.

Respectfully submitted,

Michelle Moore
Coordinator of Accounting
335-7600 ext. 7535

Report Approval:
All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.