



SUBJECT: Expenses excluded from the budget

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-01-19

Wards Affected: None

File Numbers: 435-01

Date to Committee: January 17, 2019

Date to Council: January 28, 2019

Recommendation:

Receive and file finance department report F-01-19 regarding expenses excluded from the budget to meet the requirements of Regulation 284/09 Municipal Act, 2001.

Purpose:

An Engaging City

- Good Governance

Background and Discussion:

With the implementation of Full Accrual Basis by Public Sector Accounting Board (PSAB) in 2009, Ontario Regulation 284/09 to the *Municipal Act 2001* was passed that allows municipality to exclude from its annual budget, the estimated expenses for all or a portion of the following:

- Amortization expenses,
- Post-employment benefit expenses, and
- Solid waste landfill and post-closure expenses.

The municipality is required to prepare a report about the excluded expenses 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.
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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.

This report details the impact of the expenses listed above which is excluded from the 2019 proposed Budget.

Amortization Expenses

The estimated amortization expense on tangible capital assets for 2019 is \$34.2 million. The City's 2019 proposed budget does not include this expense; however, funding for the acquisition of tangible capital assets in the amount of approximately \$72.3 million is included in the budget (amount excludes the funding from Hamilton to the Waterdown Road North Rehabilitation & Capacity Improvement Project), resulting in a net increase to the accumulated surplus of \$38.1 million.

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 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 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.

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 2019 and 2018 estimated future liabilities were determined through a 2018 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.

The increase to the 2019 Post-Employment Benefit is estimated at the amount of \$785K, which is the total of \$727K per actual review for Health Benefits and \$58K estimate for Work Place Safety and Insurance liability. The increased Post-Employment Expense will decrease the Accumulated Surplus by \$785K.

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.

Solid waste landfill and post-closure expenses

As the City does not have responsibility for landfills within their level of authority, this report focuses on amortization expenses and post employment benefits.

Impact on Accumulated Surplus in 2019

It is estimated that the overall impact of these excluded expenses on the 2019 accumulated surplus will be a net increase of \$37.3 million summarized as follows (in \$000's):

Change in Post employment benefits expenses	\$(727)
Change in Future WSIB expenses	(58)
Acquisition of Tangible Capital Assets	72,278
Amortization expense on Tangible Capital Assets	(34,158)
	\$37,335

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.

Conclusion:

Approval of this report by Council is needed prior to the approval of the 2019 Budget to be in compliance with O.Reg. 284/09 of the *Municipal Act 2001*.

Respectfully submitted,

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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.