



The Corporation of the City of Cornwall
Regular Meeting of Council
Report

Department: Financial Services
Division: Finance
Report Number: 2020-292-Financial Services
Prepared By: Paul Scrimshaw, Accounting Manager and Deputy Treasurer
Meeting Date: May 25, 2020
Subject: Ontario Regulation 284/09 - Budget Matter Expenses

Purpose

This report is being presented to Council in order to meet the requirements of Regulation 284/09 under the *Municipal Act, 2001*. This report contains information related to changes in financial reporting and budget requirements for municipalities as a result of Public Sector Accounting Board (PSAB) accounting standards.

Recommendation

That Council receive Report 2020-292-Financial Services as required by the Municipal Act, 2001, Ontario Regulation 284/09.

Financial Implications

As permitted under Regulation 284/09 in preparing the budget for a year, a municipality may exclude from the estimated expenses all or a portion of the following:

- Post employment benefits expenses,
- Solid waste landfill closure and post-closure expenses, and
- Amortization expenses (related to tangible capital assets).

These expenses were not included in the City's budget for 2020. The City of Cornwall, like most municipalities, continues to prepare budgets on the traditional funding basis where revenue and expenditures for operating and capital budgets

are balanced. Accordingly, on a funding basis, there is no projected impact to the City's accumulated surplus. Regulation 284/09 requires a municipality to identify the impact of the 2020 budget on the City's accumulated surplus after converting the 2020 budget and assumptions to the full accrual basis of accounting.

Impact of Excluded Expenses on 2020 Budgeted Accumulated Surplus

The equity of a municipality is defined as "accumulated surplus". The accumulated surplus consists mainly of:

- Any operating fund surpluses including local boards
- Equity in Tangible Capital Assets
- Reserves and Reserve Funds
- Capital Funds
- Less Unfunded Liabilities such as Employee Future Benefits and Post Closure Landfill Sites

As explained in Background/Discussions, the result of changes to accounting standards is that the City's surplus for budgeting purposes differs from the surplus on the City's financial statements. The estimated effect on the 2020 ending surplus due to the excluded expenses and change in reporting is anticipated to be a net increase of \$19.8M, summarized as follows:

Post employment benefits expenses	-758,127
Solid waste landfill closure and post-closure expense:	-495,000
Aquisition of tangible capital asstes	35,820,200
Amortization expense of tangible capital assets	<u>-14,815,349</u>
	19,751,724

The changes to accounting and reporting requirements under PSAB are a financial accounting treatment only and do not affect operating surpluses. This difference is one of financial statement presentation only.

Explanations of the increase in accumulated surplus are outlined below: (please note that the financial information provided in this report is based on 2019 Financial Statements.)

Employee Future Benefits/Post Employment Benefits Expenses

PSAB standards do not require liabilities associated with Employee Future Benefits to be fully funded by setting aside any portion of the accumulated surplus as reserves and/or reserve funds. Employee Future Benefits include sick leave benefit plans, long-term disability plans, Workplace Safety and Insurance Act (WSIB) benefits, vacation agreements and post-retirement plans. Benefits

are earned by employees in the current period but not paid for by taxes or rates until a future period and potential future WSIB payments.

The City's financial statements report liabilities and expenses relating to Employee Future Benefits while the City's budget includes estimated expenditures based on expected cash payments to be made during the year. The liability for Employee Future Benefits in the City's 2019 Financial Statements is approximately \$7.3M, of which \$2.1M is funded by Reserves.

The impact (change) of Employee Future Benefits expense is a decrease to the accumulated surplus and is estimated to be \$758K in 2020.

As part of long-term financial planning, the City continues to budget for estimated annual payments for related expenses and will continue to contribute funds to reserves which will assist in closing the current funding gap.

Solid Waste Landfill Closure and Post-Closure Liability

Under the Ontario Environmental Protection Act, the City is required to provide for the closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided over the estimated remaining life of the landfill site based on usage and recorded as such on the City's Financial Statements.

PSAB standards do not require liabilities associated with solid waste landfill closure and post-closure care activities to be fully funded by setting aside any portion of the accumulated surplus as reserves and/or reserve funds.

As at December 31, 2019, the City had a liability for landfill closure and post-closure costs of approximately \$16.2M.

The impact (change) of Landfill Closure and Post-Closure costs is a decrease to the accumulated surplus and is estimated to be \$495K in 2020.

The City does include capital costs related to the landfill site in the annual capital budget based on the ten-year capital forecast. Staff will continue to develop strategies that will provide sufficient funding to discharge this liability over the remaining life of the landfill site.

Amortization Expenses on Tangible Capital Assets

Annual financial statements include amortization expenses on tangible capital assets as required by PSAB standards.

The City's 2019 Statement of Financial Activities includes \$14.3M expensed for amortization related to the recording of tangible capital assets. This amortization is based on the cost of these assets when they were built or purchased.

Although the City's 2020 budget does not include amortization expense on tangible capital assets, provisions are made for contributions to capital and transfers to/from reserves to fund capital expenses. The 2020 budget is based on planned capital expenditures for the year. The 2020 capital budget submission (including water and sewer) is \$35.8M. Provisions of approximately \$7.7M have been included in the 2020 operating budget as contributions to capital to allow for the cash financing of capital projects. The balance of \$28.1M is mostly funded through financing, grants and reserves.

In addition to the \$35.8M provided in the 2020 budget, \$4.2M is included for the repayment of the principal component of past debt issued on the purchase of vehicles, equipment and the construction of buildings/infrastructure. In total, \$40.0M is provided in the budget for capital purposes.

As amortization expense is not included in the 2020 budget, the impact is an estimated \$14.8M reduction to the City's accumulated surplus. However, offsetting amortization expense is the funding for the acquisition of tangible capital assets estimated at \$35.8M.

The estimated 2020 impact of tangible capital assets is a net increase of \$21.0M to the accumulated surplus.

Impact on Future Tangible Capital Asset Funding Requirements

Inclusion of tangible capital asset information in the financial statements can assist in understanding the obligation to maintain, renew and replace assets. The amount provided in the 2020 budget for capital purposes (\$40.0M) can be compared to the draft 2020 estimated amount of amortization \$14.8M (2019 - \$14.3M) in order to determine whether the City has adequately provided for its capital needs.

However, even if amortization is fully funded, other factors will need to be examined to quantify the City's capital funding requirements. It would be beneficial to compare existing capital funding levels to required future funding levels; to understand that amortization is based on costs when assets were built or purchased and this is not necessarily the cost to repair or replace the asset in today's dollars and using current standards; and that assets may need to be replaced before the end of their amortization period. It is important to note that consideration is required in the replacement of existing assets, for new assets as well as growth related assets.

Accounting and reporting on the tangible capital assets will provide information, but it will not provide financial planning, set appropriate rates and fees, or supply information on the condition of assets. It can, however, provide a basis to carry out these activities in order to determine if annual funding allocations are sufficient and in determining affordability and sustainability.

Although budget constraints defer replacement of City infrastructure assets or required improvements, staff are working towards ensuring there is adequate funding and/or reserves to replace assets and address deficiencies through a sustainable Capital Investment Plan.

Strategic Priority Implications

There is no relationship to the strategic plan as this is a compliance report under the *Municipal Act*.

Background / Discussion

Municipalities are required to prepare annual Financial Statements in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These accounting principles included accounting for employment liabilities, landfill costs and tangible capital assets.

The Municipal Act requires that municipalities prepare balanced budgets which include estimates of all sums required during the year for the purposes of the municipality.

The PSAB accounting standards adopted for municipalities do not require that budgets be prepared on the same basis. With the implementation of these accounting rules, municipalities must record amortization on tangible capital assets. This becomes an annual expense of the municipality. It was realized that the requirement to include amortization expenses in municipal budgets could have significant impact on a municipality's tax levy. For many municipalities there would be the potential for a significant variance between the amount raised through the budget process to fund capital asset renewals and the annual amortization expense as reflected in the financial statements.

Ontario Regulation 284/09 Budget Matters - Expenses addresses these changes. The Regulation permits municipalities to exclude a portion or all of the following expenses from their annual budgets:

- Post employment benefits expenses,
- Solid waste landfill closure and post-closure expenses, and
- Amortization expenses (related to tangible capital assets).

However, the legislation requires staff to prepare an annual report to Council which:

- identifies the expenses that have been included in the Financial Report but excluded from the budget,

- identifies the impact of these differences on the change in the City's accumulated surplus, and
- analyze the impact of excluding these expenses from the budget on future capital assets funding requirements.

Ontario Regulation 284/09 requires that before Council adopts the annual budget, it must first receive a report as outlined above and adopt that report by Resolution.

Document Title:	Ontario Regulation 284 09 Budget Matter Expenses - 2020-292-Financial Services.docx
Attachments:	
Final Approval Date:	May 16, 2020

This report and all of its attachments were approved and signed as outlined below:

No Signature found

Paul Scrimshaw - May 15, 2020 - 4:41 PM

Tracey Bailey - May 15, 2020 - 5:03 PM

Maureen Adams - May 16, 2020 - 8:08 AM