

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING FEBRUARY 17, 2015
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	ADDITIONAL MUNICIPAL ACT REPORTING REQUIREMENTS DUE TO IMPLEMENTATION OF TANGIBLE CAPITAL ASSETS

RECOMMENDATION

That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial officer, this report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Additional Municipal Act Reporting Requirements due to Implementation of Tangible Capital Assets (August 20, 2012 meeting of the Finance & Administrative Services Committee)

Additional Municipal Act Reporting Requirements due to Implementation of Tangible Capital Assets (June 18, 2013 meeting of the Corporate Services Committee)

Additional Municipal Act Reporting Requirements due to Implementation of Tangible Capital Assets (February 4, 2014 meeting of the Corporate Services Committee)

BACKGROUND

The City of London is required under Ontario Regulation 284/09 (O. Reg. 284/09) to report on whether amortization expenses, post-employment benefits and solid waste landfill closure and post-closure expenses are included in the budget. The purpose of this report is to explain Ontario Regulation 284/09 and illustrate the 2014 budget in the Public Sector Accounting Board (PSAB) 3150 format.

The Province of Ontario enacted a regulation allowing for certain items to be excluded from budgets but with a required reporting disclosure.

Accounting standards and reporting requirements changed dramatically in 2009 including the introduction of tangible capital assets accounting. The new accounting standards, however, do not currently require that budgets be prepared on the same basis. The City of London, like most municipalities, continues to prepare budgets on the traditional basis.

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09) that allows a municipality to exclude from their estimated expenses, costs related to amortization expense, post-employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report on the impact of these excluded costs.

The regulation requires that the report contain information regarding:

- (1) An estimate of the change in the accumulated surplus of the municipality to the end of the year resulting from the exclusion of any of those expenses; and
- (2) An analysis of the estimated impact of the exclusion of any of those expenses on the future tangible capital asset funding requirements of the municipality or local board.

ANALYSIS AND OPTIONS

The City of London developed its 2015 Operating Budget excluding amortization, post-employment benefits and solid waste landfill closure and post closure expenses.

London's 2015 operating budget is scheduled to be approved by Council on February 26, 2015 and excludes the following expenses:

1. The budget did not include expense for the amortization of its tangible capital assets estimated in the sum of \$130.0 million. However, the budget did include reserve fund contributions of \$82.8 million for capital asset additions and \$66.9 million for pay as you go capital asset additions.

2. The budget did not contain the current year's post-employment benefit expense for early retirement and accrued sick leave estimated to total \$6.3 million for employees that are eligible for these benefits. The consolidated liability as at December 31, 2013 was \$130.4 million and reserve funds offset the liability by \$19.5 million.
3. The City has a landfill closure and post-closure liability of \$28.1 million, which is not recorded as an expense in the budget. There is also a Sanitary Landfill reserve fund with a balance of \$12.6 million as of December 31, 2013, which partially offsets this liability.
4. The City also makes contributions to an additional reserve to offset the liabilities created from the post-employment (Paragraph 2 above) and landfill closure and post-closure (Paragraph 3 above) expenses depending upon generated surpluses and personnel cost savings. The balance as of December 31, 2013 in this reserve is \$49.0 million.

The above items, should they have been included in the 2015 budget, would decrease the annual surplus, before exclusions.

The inclusion of a contribution to capital asset replacement program in the 2014 budget will help to ensure that the City's tangible capital assets are being replaced in a timely manner without large fluctuations in the tax rate or the issuance of a high amount of debt.

Appendix A illustrates the 2015 draft budget and 2014 approved revised budget in Public Sector Accounting Board 3150 format.

FINANCIAL IMPLICATIONS

While there are no direct financial implications associated with this report, information contained in this report will be reflected in the 2015 annual audited Financial Statements.

CONCLUSION

This report provides the information necessary to provide disclosure under Ontario Regulation 284/09 that requires municipalities to report to Council when certain expenses are excluded from the budget and the impact on the overall accumulated surplus of such transactions.

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APPENDIX "A"	Total 2015 Operating Draft Tabled Budget	2015 Tax	2015 Water	2015 Wastewater
	(000's)			
Reconciliation from Traditional Budget to PSAB Compliant				
Projected Net PSAB Surplus	112,401	53,897	18,800	39,704
Public Sector Accounting Board (PSAB) Reporting Requirements:				
Addback to revenues:				
Transfers from Capital	1,049	773	64	212
Transfers from Reserves and Reserve Funds	4,254	4,254	-	-
Deduct from expenses:				
Transfers to Reserves and Reserve Funds	(82,768)	(42,771)	(13,659)	(26,338)
Transfers to Capital	(66,910)	(35,984)	(17,202)	(13,723)
Debt principal repayments	(38,106)	(26,779)	(281)	(11,046)
PSAB adjustments:				
Capital program funding earned in year ⁽¹⁾	(32,885)	(20,740)	(1,144)	(11,001)
Capital projects not resulting in tangible capital assets ⁽²⁾	30,673	16,788	3,865	10,020
Amortization ⁽³⁾	130,016	71,798	13,732	44,485
Developer contributions of assumed tangible capital assets ⁽⁴⁾	(45,000)	(10,488)	(4,191)	(30,321)
Loss on disposal of tangible capital assets ⁽⁵⁾	1,000	11	198	791
Obligatory reserve fund deferred revenue earned in year - DC, Gas Tax ⁽⁶⁾	(16,048)	(12,621)	(339)	(3,088)
Government Business Enterprises adjustments ⁽⁷⁾	(4,923)	(4,923)	-	-
Other	-	-	-	-
Landfill liability ⁽⁸⁾	928	928	-	-
Employee future benefit liability ⁽⁹⁾	6,320	5,857	157	306
NET SURPLUS (DEFICIT) PER DRAFT BUDGET	-	-	-	-
Comprised of:				
REVENUES				
Property Tax	-	-	-	-
Property Tax - Proposed budget increase	518,196	518,196	-	-
Government Grants & Subsidies	171,220	171,180	-	40
User Fees	205,616	43,638	73,358	88,620
Municipal Revenues - Other	66,833	66,376	146	312
Municipal Revenues - Transfers from Capital	1,049	773	64	212
Municipal Revenues - Transfers from Reserves and Reserve Funds	4,254	4,254	-	-
Total Revenues	967,169	804,418	73,568	89,183
EXPENSES				
Personnel Costs	334,021	309,621	9,254	15,146
Administrative Expenses	11,494	5,829	2,829	2,836
Financial Expenses - Other	11,154	11,084	70	-
Financial Expenses - Interest & Discount on LTD	8,324	6,189	69	2,066
Financial Expenses - Debt Principal Repayments	38,106	26,779	281	11,046
Financial Expenses - Transfers to Reserves and Reserve Funds	82,768	42,771	13,659	26,338
Financial Expenses - Transfers to Capital	66,910	35,984	17,202	13,723
Purchased Services	159,664	153,712	2,883	3,070
Materials & Supplies	66,966	32,975	23,893	10,098
Furniture & Equipment	27,399	22,480	1,678	3,241
Transfers	172,508	172,508	-	-
Other Expenses	22,683	2,526	7,348	12,809
Recovered Expenses	(34,828)	(18,039)	(5,598)	(11,191)
Total Expenses	967,169	804,418	73,568	89,183
NET SURPLUS (DEFICIT)	-	-	-	-
Footnotes and assumptions:				
(1) - represents capital revenue such as provincial and federal grants and other contributions. Does not include debenture financing, transfers from operating or reserve funds.				
(2) - for PSAB purposes, expenses not considered to be part of the cost of a tangible capital asset are expensed as operating expenses although funded through capital. Estimated based on 13% of capital expenditure budget.				
(3) - represents the annual writedown of the tangible capital assets over the useful life of the asset. Estimated 5% annual increase based on 2013 actuals.				
(4) - contributed tangible capital assets are tangible capital assets that become the ownership of the City when a subdivision is assumed by the City. These assets are recognized at fair market value during the year of assumption. These assets are predominantly comprised of roads, water and wastewater infrastructure.				
(5) - when an asset is replaced prior to the end of its useful life, an adjustment must be made to expense the remaining book value. Amount fluctuates from year to year. Estimated \$1 m for 2015.				
(6) - transactions recorded directly to reserve funds must be accounted for through the operating or capital fund. This includes recognition of development charge levies earned and federal gas tax earned in the year.				
(7) - London Hydro Inc., Fair-City Joint Venture and City-YMCA Joint Venture are considered Government Business Enterprises (GBE). At year end, the City must record the City's share of earnings based on our percentage ownership in each GBE.				
(8) - represents the annual increase in the estimated future cost of post-closure related to landfills. Estimate based on 7 year				
(9) - represents the annual change in the estimated future costs of employee benefits. Estimate based on 7 year average.				

APPENDIX "A"	Total	2014	2014	2014
	Operating Approved Revised Budget	Tax	Water	Wastewater
(000's)				
Reconciliation from Traditional Budget to PSAB Compliant				
Projected Net PSAB Surplus	96,384	46,434	16,043	33,908
Public Sector Accounting Board (PSAB) Reporting Requirements:				
Addback to revenues:				
Transfers from Capital	1,302	1,030	61	212
Transfers from Reserves and Reserve Funds	8,956	8,956	-	-
Deduct from expenses:				
Transfers to Reserves and Reserve Funds	(75,244)	(40,922)	(11,012)	(23,311)
Transfers to Capital	(60,506)	(31,656)	(16,946)	(11,904)
Debt principal repayments	(39,696)	(28,001)	(218)	(11,477)
PSAB adjustments:				
Capital program funding earned in year ⁽¹⁾	(24,256)	(17,852)	(419)	(5,985)
Capital projects not resulting in tangible capital assets ⁽²⁾	26,405	14,346	3,577	8,482
Amortization ⁽³⁾	123,825	68,379	13,078	42,367
Developer contributions of assumed tangible capital assets ⁽⁴⁾	(45,000)	(10,488)	(4,191)	(30,321)
Loss on disposal of tangible capital assets ⁽⁵⁾	1,000	11	198	791
Obligatory reserve fund deferred revenue earned in year - DC, Gas Tax ⁽⁶⁾	(16,048)	(12,621)	(339)	(3,088)
Government Business Enterprises adjustments ⁽⁷⁾	(4,923)	(4,923)	-	-
Other	-	-	-	-
Landfill liability ⁽⁸⁾	1,060	1,060	-	-
Employee future benefit liability ⁽⁹⁾	6,741	6,248	168	326
NET SURPLUS (DEFICIT) PER DRAFT BUDGET	-	-	-	-
Comprised of:				
REVENUES				
Property Tax	498,730	498,730	-	-
Property Tax - Proposed budget increase	-	-	-	-
Government Grants & Subsidies	160,991	160,954	-	38
User Fees	196,869	43,406	69,496	83,967
Municipal Revenues - Other	64,944	64,483	148	312
Municipal Revenues - Transfers from Capital	1,302	1,030	61	212
Municipal Revenues - Transfers from Reserves and Reserve Funds	8,956	8,956	-	-
Total Revenues	931,792	777,559	69,705	84,529
EXPENSES				
Personnel Costs	327,470	303,456	9,240	14,775
Administrative Expenses	11,286	5,708	2,779	2,799
Financial Expenses - Other	10,595	10,470	125	-
Financial Expenses - Interest & Discount on LTD	9,384	7,083	92	2,210
Financial Expenses - Debt Principal Repayments	39,696	28,001	218	11,477
Financial Expenses - Transfers to Reserves and Reserve Funds	75,244	40,922	11,012	23,311
Financial Expenses - Transfers to Capital	60,506	31,656	16,946	11,904
Purchased Services	155,746	149,946	2,810	2,990
Materials & Supplies	65,280	31,843	23,045	10,392
Furniture & Equipment	28,492	23,759	1,648	3,084
Transfers	160,104	160,104	-	-
Other Expenses	21,263	1,030	7,443	12,789
Recovered Expenses	(33,275)	(16,420)	(5,653)	(11,202)
Total Expenses	931,792	777,559	69,705	84,529
NET SURPLUS (DEFICIT)	-	-	0	0
Footnotes and assumptions:				
(1) - represents capital revenue such as provincial and federal grants and other contributions. Does not include debenture financing, transfers from operating or reserve funds.				
(2) - for PSAB purposes, expenses not considered to be part of the cost of a tangible capital asset are expensed as operating expenses although funded through capital. Estimated based on 13% of capital expenditure budget.				
(3) - represents the annual writedown of the tangible capital assets over the useful life of the asset. Estimated 5% annual increase based on 2012 actuals.				
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(7) - London Hydro Inc., Fair-City Joint Venture and City-YMCA Joint Venture are considered Government Business Enterprises (GBE). At year end, the City must record the City's share of earnings based on our percentage ownership in each GBE.				
(8) - represents the annual increase in the estimated future cost of post-closure related to landfills. Estimate based on 5 year average.				
(9) - represents the annual change in the estimated future costs of employee benefits. Estimate based on 5 year average.				