

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES & POLICY COMMITTEE MEETING ON FEBRUARY 29, 2016
FROM:	MARTIN P. HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	UPDATE ON UNFUNDED LIABILITY

RECOMMENDATIONS

That this report **BE RECEIVED** for information.

BACKGROUND

At the City Council meeting on December 8, 2015, included with the approval of the Surplus/Deficit Policy, the following resolution was included:

- c) *Civic Administration BE DIRECTED to bring forward a report providing information with respect to the Corporation's current unfunded liability.*

The two major components of unfunded liabilities are future employee benefits payable and landfill post closure costs. These liabilities are offset by reserves and reserve funds resulting in a net unfunded liability.

Employee Benefits Payable

The City of London is liable for a number of employee benefits, including post-employment and post-retirement benefits, Workplace Safety and Insurance Board (WSIB) obligations, vacation credits, and vested sick benefits. The total liability for employee benefits was \$146.5 million as at December 31, 2014 (as reported in Note 13 of the Financial Highlights in the Financial Report 2014). These liabilities are offset by a number of reserve funds directly related to employee benefits.

Solid Waste Landfill Closure and Post Closure Liability

The City of London is also liable for anticipated closure and post closure costs for existing and closed landfill sites. The standard for this liability is defined by the Public Sector Accounting Board (PSAB) under Section 3270 as the estimated cost to date, based on a volumetric basis, of the expenses relating to those activities required when the site or phase stops accepting waste.

The liability for solid waste landfill closure and post closure was \$29.1 million as at December 31, 2014 (as reported in Note 13 of the Financial Highlights in the Financial Report 2014). The Sanitary Landfill Reserve Fund is used to fund activities that manage and extend the life of the current landfill site, such as design and construction projects, leachate management programs, gas management programs and adjacent property acquisition, so it is not considered an offset to this liability.

Unfunded Liability Reserve

The Unfunded Liability Reserve is intended to offset both employee benefit liabilities and solid waste landfill closure and post closure. When available, some portion of year end surpluses are contributed to the Unfunded Liability Reserve.

Details for current liabilities, reserves and reserve funds can be seen in **Table 1** below.

TABLE 1 (\$000)	2014	2013
Employee Benefits Payable		
Post-employment and post-retirement benefits	79,314	73,990
Workplace Safety and Insurance Board obligation	46,878	37,068
Vacation credits	15,056	14,577
Vested sick benefits	<u>5,264</u>	<u>4,794</u>
Total Employee Benefits Payable	146,512	130,429
Offsetting Reserves and Reserve Fund Balances		
Employee Benefits	18,149	18,209
Unfunded Liability	<u>52,957</u>	<u>49,003</u>
Total Reserves and Reserve Fund Balances	71,106	67,212
Unfunded Liability per Financial Statements	75,406	63,217
Unamortized loss from actuarial valuation	8,876	9,926
Total Unfunded Liability *	84,282	73,146
Solid Waste Landfill Closure and Post Closure Liability *	<u>29,125</u>	<u>28,130</u>
Total Unfunded Liability (including Solid Waste)	113,407	101,276

* as per Note 13 of the Financial Highlights in the Financial Report 2014

The Financial Highlights for the City's financial statements have noted this net unfunded liability with the recommendation that offsetting reserves and reserve funds should be bolstered.

"Allocation of future surpluses should be considered as contributions to this funding to provide for specific components of these expenses".

Note 13 of the Financial Highlights in the Financial Report 2014

Municipal Council has authorized Civic Administration to contribute to the Unfunded Liability Reserve any operational savings realized from personnel and contingency budgets at year end in order to address the net unfunded liability.

PREPARED BY:	REVIEWED BY:
ALAN DUNBAR Manager of Financial Planning & Policy	LARRY PALARCHIO Director of Financial Planning & Policy
RECOMMENDED BY:	
MARTIN HAYWARD Managing Director, Corporate Services and City Treasurer, Chief Financial Officer	