

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING FEBRUARY 16, 2016</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>ADDITIONAL MUNICIPAL ACT REPORTING REQUIREMENTS DUE TO IMPLEMENTATION OF TANGIBLE CAPITAL ASSETS</b>

**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**

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)

Additional Municipal Act Reporting Requirements due to Implementation of Tangible Capital Assets (February 17, 2015 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 2016 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 2016 Operating Budget excluding amortization, post-employment benefits and solid waste landfill closure and post closure expenses.

London's 2016 operating budget is scheduled to be approved by Council on March 10, 2016 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 \$131.3 million. However, the budget did include reserve fund contributions of \$80.8 million for capital asset additions and \$70.9 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 \$8.4 million for employees that are eligible for these benefits. The consolidated liability as at December 31, 2014 was \$146.5 million and reserve funds offset the liability by \$18.2 million.
3. The City has a landfill closure and post-closure liability of \$29.1 million, which is not recorded as an expense in the budget. There is also a Sanitary Landfill reserve fund with a balance of \$9.9 million as of December 31, 2014, 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, 2014 in this reserve is \$52.9 million.

The above items, should they have been included in the 2016 budget, would decrease the annual surplus, before exclusions.

The inclusion of a contribution to capital asset replacement program in the 2016 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 2016 draft budget and 2015 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 2016 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.

<b>PREPARED BY:</b>	<b>PREPARED BY:</b>
<b>SHARON SWANCE MANAGER FINANCIAL SERVICES</b>	<b>TANYA LANDRY MANAGER FINANCIAL MODELLING, FORECASTING &amp; SYSTEMS CONTROL</b>
<b>REVIEWED BY:</b>	<b>REVIEWED BY:</b>
<b>ANNA LISA BARBON DIRECTOR FINANCIAL SERVICES</b>	<b>ALAN DUNBAR MANAGER FINANCIAL PLANNING &amp; POLICY</b>
<b>RECOMMENDED BY:</b>	
<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>	

## APPENDIX "A"

(000's)

### Reconciliation from Traditional Budget to PSAB Compliant

	Total 2016	2016		
	Operating Draft Tabled Budget	Tax	Water	Wastewater
<b>Projected Net PSAB Surplus</b>	<b>122,401</b>	<b>72,763</b>	<b>18,974</b>	<b>30,664</b>
<b>Public Sector Accounting Board (PSAB) Reporting Requirements:</b>				
Addback to revenues:				
Transfers from Capital	1,135	841	82	212
Transfers from Reserves and Reserve Funds	4,905	4,905	-	-
Deduct from expenses:				
Transfers to Reserves and Reserve Funds	(80,814)	(45,067)	(11,072)	(24,675)
Transfers to Capital	(70,853)	(36,087)	(18,913)	(15,853)
Debt principal repayments	(39,846)	(29,001)	(350)	(10,495)
PSAB adjustments:				
Capital program funding earned in year <sup>(1)</sup>	(60,824)	(54,030)	(1,894)	(4,900)
Capital projects not resulting in tangible capital assets <sup>(2)</sup>	54,769	34,864	7,628	12,277
Amortization <sup>(3)</sup>	131,273	74,035	14,036	43,202
Developer contributions of assumed tangible capital assets <sup>(4)</sup>	(46,764)	(11,538)	(8,695)	(26,531)
Loss on disposal of tangible capital assets <sup>(5)</sup>	1,000	224	514	262
Obligatory reserve fund deferred revenue earned in year - DC, Gas Tax <sup>(6)</sup>	(19,996)	(14,923)	(525)	(4,548)
Government Business Enterprises adjustments <sup>(7)</sup>	(5,831)	(5,831)	-	-
Landfill liability <sup>(8)</sup>	1,065	1,065	-	-
Employee future benefit liability <sup>(9)</sup>	8,380	7,780	215	385

**NET SURPLUS (DEFICIT) PER DRAFT BUDGET** - - - -

#### Comprised of:

#### REVENUES

Property Tax	-	-	-	-
Property Tax - Proposed budget increase	535,457	535,457	-	-
Government Grants & Subsidies	187,472	187,434	-	38
User Fees	206,616	43,715	73,532	89,369
Municipal Revenues - Other	67,368	66,901	154	313
Municipal Revenues - Transfers from Capital	1,135	841	82	212
Municipal Revenues - Transfers from Reserves and Reserve Funds	4,905	4,905	-	-
<b>Total Revenues</b>	<b>1,002,953</b>	<b>839,253</b>	<b>73,768</b>	<b>89,932</b>

#### EXPENSES

Personnel Costs	342,951	318,144	9,694	15,113
Administrative Expenses	11,966	6,198	2,345	3,423
Financial Expenses - Other	11,276	11,206	70	-
Financial Expenses - Interest & Discount on Long-term Debt	8,005	6,034	61	1,910
Financial Expenses - Debt Principal Repayments	39,846	29,001	350	10,495
Financial Expenses - Transfers to Reserves and Reserve Funds	80,814	45,067	11,072	24,675
Financial Expenses - Transfers to Capital	70,853	36,087	18,913	15,853
Purchased Services	165,950	159,739	3,007	3,204
Materials & Supplies	68,635	33,303	24,926	10,406
Furniture & Equipment	28,263	23,470	1,683	3,110
Transfers	184,944	184,944	-	-
Other Expenses	9,465	2,256	2,640	4,569
Recovered Expenses	(20,015)	(16,196)	(993)	(2,826)
<b>Total Expenses</b>	<b>1,002,953</b>	<b>839,253</b>	<b>73,768</b>	<b>89,932</b>

**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 18% of capital expenditure budget, based on 2014 actuals.
- (3) - represents the annual writedown of the tangible capital assets over the useful life of the asset. Estimated 5% annual increase based on 2014 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. Estimate based on 3 year average.
- (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 2016.
- (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. Estimate based on 4 year average.
- (8) - represents the annual increase in the estimated future cost of post-closure related to landfills. Estimate based on 7 year average.
- (9) - represents the annual change in the estimated future costs of employee benefits. Estimate based on 7 year average.

## APPENDIX "A"

(000's)

### Reconciliation from Traditional Budget to PSAB Compliant

	Total 2015			
	Operating Approved Revised Budget	2015 Tax	2015 Water	2015 Wastewater
<b>Projected Net PSAB Surplus</b>	<b>111,960</b>	<b>54,975</b>	<b>21,483</b>	<b>35,502</b>
<b>Public Sector Accounting Board (PSAB) Reporting Requirements:</b>				
Addback to revenues:				
Transfers from Capital	990	714	64	212
Transfers from Reserves and Reserve Funds	5,028	5,028	-	-
Deduct from expenses:				
Transfers to Reserves and Reserve Funds	(82,918)	(42,921)	(13,659)	(26,338)
Transfers to Capital	(68,708)	(37,783)	(17,202)	(13,723)
Debt principal repayments	(38,098)	(26,779)	(273)	(11,046)
PSAB adjustments:				
Capital program funding earned in year <sup>(1)</sup>	(27,976)	(21,158)	(344)	(6,474)
Capital projects not resulting in tangible capital assets <sup>(2)</sup>	43,473	25,439	5,232	12,803
Amortization <sup>(3)</sup>	125,021	70,509	13,368	41,144
Developer contributions of assumed tangible capital assets <sup>(4)</sup>	(46,764)	(11,538)	(8,695)	(26,531)
Loss on disposal of tangible capital assets <sup>(5)</sup>	1,000	225	513	262
Obligatory reserve fund deferred revenue earned in year - DC, Gas Tax <sup>(6)</sup>	(27,374)	(20,430)	(718)	(6,226)
Government Business Enterprises adjustments <sup>(7)</sup>	(5,831)	(5,831)	-	-
Landfill liability <sup>(8)</sup>	1,161	1,161	-	-
Employee future benefit liability <sup>(9)</sup>	9,035	8,389	231	415
<b>NET SURPLUS (DEFICIT) PER DRAFT BUDGET</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Comprised of:</b>				
<b>REVENUES</b>				
Property Tax	517,151	517,151	-	-
Property Tax - Proposed budget increase	-	-	-	-
Government Grants & Subsidies	171,264	171,224	-	40
User Fees	205,689	43,711	73,358	88,620
Municipal Revenues - Other	66,748	66,291	146	311
Municipal Revenues - Transfers from Capital	990	714	64	212
Municipal Revenues - Transfers from Reserves and Reserve Funds	5,028	5,028	-	-
<b>Total Revenues</b>	<b>966,870</b>	<b>804,119</b>	<b>73,568</b>	<b>89,183</b>
<b>EXPENSES</b>				
Personnel Costs	333,505	309,105	9,254	15,146
Administrative Expenses	11,570	5,905	2,829	2,836
Financial Expenses - Other	11,162	11,084	78	-
Financial Expenses - Interest & Discount on Long-term Debt	8,324	6,189	69	2,066
Financial Expenses - Debt Principal Repayments	38,098	26,779	273	11,046
Financial Expenses - Transfers to Reserves and Reserve Funds	82,918	42,921	13,659	26,338
Financial Expenses - Transfers to Capital	68,708	37,783	17,202	13,723
Purchased Services	161,218	155,265	2,883	3,070
Materials & Supplies	67,158	33,167	23,893	10,098
Furniture & Equipment	27,620	22,701	1,678	3,241
Transfers	168,300	168,300	-	-
Other Expenses	21,039	882	7,348	12,809
Recovered Expenses	(32,750)	(15,962)	(5,598)	(11,190)
<b>Total Expenses</b>	<b>966,870</b>	<b>804,119</b>	<b>73,568</b>	<b>89,183</b>
<b>NET SURPLUS (DEFICIT)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Footnotes and assumptions:

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