

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES & POLICY COMMITTEE MEETING NOVEMBER 21, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	RECONCILIATION OF TABLED BUDGET TO PUBLIC SECTOR ACCOUNTING BOARD (PSAB) FINANCIAL STATEMENT BUDGET

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)
- Additional Municipal Act Reporting Requirements due to Implementation of Tangible Capital Assets (February 16, 2016 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 2017 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 2017 Operating Budget excluding amortization, post-employment benefits and solid waste landfill closure and post closure expenses.

London’s 2017 operating budget is scheduled to be approved by Council on December 6, 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 \$134.1 million. However, the budget did include reserve fund contributions of \$84.4 million for capital asset additions and \$78.8 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 \$8.2 million for employees that are eligible for these benefits. The consolidated liability as at December 31, 2015 was \$152.8 million. Reserve fund balances as of December 31, 2015 of \$18.9 million are available to offset this obligation.
- 3. The City has a landfill closure and post-closure liability of \$33.6 million, which is not recorded as an expense in the budget. There is also a Sanitary Landfill reserve fund with a balance of \$12.1 million as of December 31, 2015, 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, 2015 in this reserve is \$53.5 million.

The above items, should they have been included in the 2017 budget, would decrease the annual surplus, before exclusions.

The inclusion of a contribution to capital asset replacement program in the 2017 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 Operating 2017 draft tabled budget and 2016 approved revised budget in Public Sector Accounting Board format.

**FINANCIAL IMPLICATIONS**

While there are no direct financial implications associated with this report. Information contained in this report will be reflected in the 2017 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.

PREPARED BY:	PREPARED BY:
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REVIEWED BY:	RECOMMENDED BY:
ANNA LISA BARBON DIRECTOR, FINANCIAL SERVICES	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER

APPENDIX "A"

Reconciliation from Traditional Budget to PSAB Compliant	Total 2017 Operating Draft Tabled Budget (000's)	2017	2017	2017
		Tax	Water	Wastewater
Projected Net PSAB Surplus	134,469	86,808	16,644	31,017
Public Sector Accounting Board (PSAB) Reporting Requirements:				
Addback to revenues:				
Transfers from Capital	-	-	-	-
Transfers from Reserves and Reserve Funds	5,147	5,147	-	-
Deduct from expenses:				
Transfers to Reserves and Reserve Funds	(84,429)	(48,127)	(10,951)	(25,351)
Transfers to Capital	(78,822)	(41,716)	(19,854)	(17,252)
Debt principal repayments	(40,034)	(29,868)	(338)	(9,828)
PSAB adjustments:				
Capital program funding earned in year <sup>(1)</sup>	(60,038)	(54,766)	(108)	(5,164)
Capital projects not resulting in tangible capital assets <sup>(2)</sup>	52,770	35,737	5,608	11,425
Amortization <sup>(3)</sup>	134,133	76,062	14,412	43,659
Developer contributions of assumed tangible capital assets <sup>(4)</sup>	(45,354)	(14,701)	(6,229)	(24,424)
Loss on disposal of tangible capital assets <sup>(5)</sup>	2,493	809	787	897
Obligatory reserve fund deferred revenue earned in year - DC, Gas Tax <sup>(6)</sup>	(23,899)	(18,319)	(199)	(5,381)
Government Business Enterprises adjustments <sup>(7)</sup>	(6,196)	(6,196)	-	-
Landfill liability <sup>(8)</sup>	1,601	1,601	-	-
Employee future benefit liability <sup>(9)</sup>	8,159	7,529	228	402
NET SURPLUS (DEFICIT) PER DRAFT BUDGET	-	-	-	-
Comprised of:				
REVENUES				
Property Tax	552,073	552,073	-	-
Property Tax - Proposed budget increase	-	-	-	-
Government Grants & Subsidies	196,283	196,243	-	40
User Fees	212,578	44,780	75,626	92,172
Municipal Revenues - Other	68,518	68,051	154	313
Municipal Revenues - Transfers from Capital	-	-	-	-
Municipal Revenues - Transfers from Reserves and Reserve Funds	5,147	5,147	-	-
Total Revenues	1,034,599	866,294	75,780	92,525
EXPENSES				
Personnel Costs	353,261	329,088	8,947	15,226
Administrative Expenses	12,201	6,325	2,376	3,500
Financial Expenses - Other	11,452	11,381	71	-
Financial Expenses - Interest & Discount on Long-term Debt	7,912	5,607	68	2,237
Financial Expenses - Debt Principal Repayments	40,031	29,868	338	9,828
Financial Expenses - Transfers to Reserves and Reserve Funds	84,429	48,127	10,951	25,351
Financial Expenses - Transfers to Capital	78,822	41,716	19,854	17,252
Purchased Services	171,503	165,186	3,057	3,260
Materials & Supplies	71,062	34,372	25,739	10,951
Furniture & Equipment	28,963	24,019	1,809	3,135
Transfers	186,848	186,848	-	-
Other Expenses	8,485	1,125	2,693	4,667
Recovered Expenses	(20,373)	(17,368)	(123)	(2,882)
Total Expenses	1,034,599	866,294	75,780	92,525
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 17% of capital expenditure budget, based on 2015 actuals.
- (3) - Represents the annual writedown of the tangible capital assets over the useful life of the asset. Estimated 4.3% annual increase based on 2009 - 2015 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 4 year average of actuals.
- (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. Estimate based on 4 year average of actuals from 2012 - 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. Estimate based on 5 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"

Reconciliation from Traditional Budget to PSAB Compliant	Total 2016 Operating Approved Revised (000's)	2016  Tax	2016  Water	2016  Wastewater
Projected Net PSAB Surplus	138,288	83,896	19,607	34,785
Public Sector Accounting Board (PSAB) Reporting Requirements:				
Addback to revenues:				
Transfers from Capital	-	-	-	-
Transfers from Reserves and Reserve Funds	7,014	7,014	-	-
Deduct from expenses:				
Transfers to Reserves and Reserve Funds	(81,519)	(45,689)	(11,132)	(24,698)
Transfers to Capital	(74,500)	(39,734)	(18,913)	(15,853)
Debt principal repayments	(39,565)	(29,001)	(281)	(10,283)
PSAB adjustments:				
Capital program funding earned in year <sup>(1)</sup>	(71,684)	(63,166)	(1,894)	(6,624)
Capital projects not resulting in tangible capital assets <sup>(2)</sup>	55,111	36,554	7,048	11,509
Amortization <sup>(3)</sup>	128,539	72,890	13,811	41,838
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>	1,001	492	366	143
Obligatory reserve fund deferred revenue earned in year - DC, Gas Tax <sup>(6)</sup>	(21,058)	(16,141)	(175)	(4,742)
Government Business Enterprises adjustments <sup>(7)</sup>	(6,196)	(6,196)	-	-
Landfill liability <sup>(8)</sup>	2,080	2,080	-	-
Employee future benefit liability <sup>(9)</sup>	9,253	8,539	258	456
NET SURPLUS (DEFICIT) PER DRAFT BUDGET	-	-	-	-
Comprised of:				
REVENUES				
Property Tax	536,434	536,434	-	-
Property Tax - Proposed budget increase	-	-	-	-
Government Grants & Subsidies	187,491	187,453	-	38
User Fees	206,754	43,853	73,532	89,369
Municipal Revenues - Other	66,731	66,263	155	313
Municipal Revenues - Transfers from Capital	-	-	-	-
Municipal Revenues - Transfers from Reserves and Reserve Funds	7,014	7,014	-	-
Total Revenues	1,004,424	841,017	73,687	89,720
EXPENSES				
Personnel Costs	345,194	320,347	9,734	15,113
Administrative Expenses	11,825	6,079	2,325	3,421
Financial Expenses - Other	11,345	11,206	139	-
Financial Expenses - Interest & Discount on Long-term Debt	8,005	6,034	61	1,910
Financial Expenses - Debt Principal Repayments	39,565	29,001	281	10,283
Financial Expenses - Transfers to Reserves and Reserve Funds	81,519	45,689	11,132	24,698
Financial Expenses - Transfers to Capital	74,500	39,734	18,913	15,853
Purchased Services	167,016	160,865	2,969	3,182
Materials & Supplies	68,650	33,318	24,926	10,406
Furniture & Equipment	28,536	23,742	1,683	3,111
Transfers	181,401	181,401	-	-
Other Expenses	7,911	702	2,640	4,569
Recovered Expenses	(21,043)	(17,101)	(1,116)	(2,826)
Total Expenses	1,004,424	841,017	73,687	89,720
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.
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