

TO:	CHAIR AND MEMBERS FINANCE & ADMINISTRATIVE SERVICES COMMITTEE MEETING ON SEPTEMBER 4, 2012
FROM:	MIKE TURNER DEPUTY CITY TREASURER
SUBJECT:	ADDITIONAL MUNICIPAL ACT REPORTING REQUIREMENTS DUE TO IMPLEMENTATION OF TANGIBLE CAPITAL ASSETS

RECOMMENDATION

That on the recommendation of the Deputy City Treasurer, this report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

2009 - Additional Municipal Act Reporting Requirements due to Implementation of Tangible Capital Assets (September 29, 2010 meeting of the Board of Control)

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 2012 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 2012 Operating Budget excluding amortization, post employment benefits and solid waste landfill closure and post closure expenses.

London's 2012 operating budget was approved by Council on February 21, 2012 and excluded the following expenses:

1. The budget did not include expense for the amortization of its tangible capital assets estimated in the sum of \$133.6 million. However, the budget did include reserve fund contributions of \$51.7 million for capital asset additions and \$41.3 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 \$6.2 million for employees that are eligible for these benefits. The liability as at December 31, 2011 was \$117.3 Million and reserve funds offset the liability by \$17.9 million.

3. The City has a landfill closure and post-closure liability of \$23.2 million, which is not recorded as an expense in the budget. There is also a Landfill reserve fund of \$9.8 million, which partially offsets this liability. The City also make contributions to an additional reserve to offset the liabilities created from the post employment and landfill closure and post-closure expenses depending upon generated surpluses and personnel cost savings. The balance in this reserve is currently \$39 million.

The above items, should they have been included in the 2012 budget, would decrease the annual surplus, before exclusions. However that surplus is still greater than the current amortization, post employment benefit and landfill closure and post closure expenses that would be included under O. Reg. 284/09.

The inclusion of a contribution to capital asset replacement program in the 2012 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.

The following table illustrates the 2012 budget in Public Sector Accounting Board 3150 format:

	<u>2012 Approved Budget</u>
<u>Revenues (000's)</u>	
Approved budgets: (Property tax, Water and Wastewater)	
Operating	864,700
Capital	<u>175,000</u>
	<u>1,039,700</u>
Adjustments:	
Transfers from reserves and reserve funds (1)	(5,496)
Proceeds on debt authorized (2)	<u>(45,072)</u>
Total Revenues	<u>989,132</u>
<u>Expenses (000's)</u>	
Approved budgets: (Property tax, Water and Wastewater)	
Operating	864,700
Non-Tangible Capital Assets budgeted in Capital budget (5)	22,000
Capital	<u>153,000</u>
	<u>1,039,700</u>
Adjustments:	
Transfers to capital fund (3)	(41,328)
Transfers to reserves and reserve funds (3)	(51,735)
Debt principal repayments (4)	(37,600)
Tangible Capital Assets (TCA) (5)	<u>(153,000)</u>
Total Expenses	<u>756,037</u>
Annual Surplus; before exclusions	<u>233,095</u>
Exclusions	
Amortization (6)	133,600
Post-employment benefits and accumulated sick leave (7)	6,194
Landfill closure and post-closure (8)	<u>117</u>
Total Exclusions	<u>139,911</u>
Estimated Annual Surplus; after exclusions	<u>93,184</u>

2012 Budget PSAB 3150 Reconciliation

Notes:

1. "Transfers from reserves and reserve funds" are not considered a revenue source under PSAB accounting.
2. "Proceeds on debt issues" is a debt financing decision and is considered a liability and is not a revenue source under PSAB accounting.
3. "Transfer to capital and reserves and reserve funds" represents the contribution to capital and reserves and is not considered an expense under new PSAB accounting.
4. "Debt principal repayments" are considered a repayment of a long term liability and are not an expense under new PSAB accounting.
5. "Tangible Capital Assets and Non-Tangible Capital Assets" are both budgeted in the capital budget. However, tangible capital assets are recorded as assets, not expenses under new PSAB accounting, while non-tangible capital assets have been moved to operating expenses under the new PSAB accounting, based on the historical split between capital assets and operating expenditures in the capital fund expenditures.
6. "Amortization" is the annual expense of the asset amortized of the life of the assets, but is not currently recorded in the budget. Estimated at 5% increase over 2011.
7. "Post-employment benefits and accumulated sick leave" are recorded as expenses for the annual change to the liability, but are not currently recorded in the budget.
8. "Landfill closure and post-closure" are recorded as expenses for the annual change to the liability, but are not currently recorded in the budget.

FINANCIAL IMPLICATIONS

While there are no direct financial implications associated with this report, information contained in this report will be reflected in the 2012 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:	REVIEWED BY:
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RECOMMENDED BY:	
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