
Subject: 2022 Operating Budget Reconciliation and Financial Disclosure under O.Reg 284/09

Report to: Budget Review Committee of the Whole

Report date: Thursday, December 9, 2021

Recommendations

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

Key Facts

- The purpose of this report is to reconcile the Region's budget, which is prepared in consideration of its cash needs for the year against the Public Sector Accounting Standards (PSAS) presentation which would include non-cash items.
- Municipal budgets are prepared on primarily cash basis for setting the tax levy and water & wastewater rate requisition. This includes the items such as principal debt repayments and transfers to reserves.
- Ontario Regulation 284/09 Budget Matter – Expenses (O.Reg 284/09), requires that before adopting a budget for the year that excludes non-cash items, a Municipality must prepare a report to council about the excluded expenses.
- This report identifies the components that reconcile the Region's balanced operating budget to the estimated operating surplus of \$121.6 million to be reported in the Region's annual financial report in accordance with Public Sector Accounting Standards.

Financial Considerations

When preparing the budget, Niagara Region (the Region) considers its cash needs for the year to ensure it collects sufficient tax revenue to cover its obligations and executes its business plan. This includes budgeting for principal debt repayments and considers required transfers to reserves. Conversely, Niagara Region does not budget for amortization of capital assets, changes in employee future benefits liabilities, and changes in the solid waste landfill closure, contaminated site and post-closure costs liability, as these are primarily non-cash items.

A requirement of the regulations is for Niagara Region to reconcile the approved budget to PSAS surplus. Had we budgeted for non-cash items and excluded cash requirements for debt principle payments and reserve transfers is that we would have an operating surplus of 121.6 million as per Table 1.

Table 1 – 2022 PSAS Adjusted Budget (in millions)

Description	2022 Budget
Budgeted Operating Surplus	\$ 0
Non-Cash items	
Amortization	(101.9)
Employee Future Benefits Increase	(3.7)
Landfill Liability Decrease	2.3
Total Non-Cash Items	(103.3)
Cash Items	
Capital Project Expenditures not resulting in Tangible Capital Assets	(11.7)
Operating Expenditures resulting in Tangible Capital Assets	2.6
Principal Debt Repayments	51.8
Total Net Transfers to Reserves	53.6
Total Cash Items	96.4
PSAS Operating Deficit	(6.9)
Capital Fund revenues	128.6
Total PSAS Operating Surplus	121.6

Under PSAS, the Operating Budget (excluding the Capital Fund) would be at a deficit. If the Region were to adopt budgeting on a PSAS accrual basis, the budget would need to include the non-cash expenditures of amortization, employee future benefits, and landfill liability expenses in the 2022 budget of \$103.3 million. Were the Region to budget on this basis the levy increase would have been 6.05% as opposed to 4.35% currently being recommended in CSD 74-2021 Levy Operating Budget.

Capital Fund revenue and expenditures would not have a budget impact under PSAS as these revenues are project specific and from external parties. Some examples of these revenues are development charges, Canada Community Building Fund, 3rd party grants and cost recoveries.

Analysis

The next section provides further analysis into assumptions of the adjusted items.

Tangible Capital Assets

Amortization is a non-cash expense reflecting the estimated usage of our tangible capital assets in the financial statements over time. For purposes of this report the 2022 budget for amortization has been estimated at \$101.9 million. The differential between the estimated amortization and proposed capital funding budgeted in 2022 is approximately \$69.4 million, as disclosed in Table 1. Amortization reflects the historical cost of the asset. Budgeting for amortization alone does not support the Region's future capital needs, nor does it properly consider the Region's asset funding strategies. As detailed in Table 1, budgeting for amortization alone would result in a cash flow deficit to the Region.

Employee Future Benefits

In 2022, it is estimated that the Region's EFB liability will increase by \$3.7 million from \$117.4 million to \$121.1 million. If the forecasted growth in the EFB liabilities was budgeted, in addition to the projected cash payments, the impact would be a reduction in the accumulated surplus by approximately \$3.7 million (the increase in estimated liability during 2022). The forecasted balance of the Region's EFB reserves at December 31, 2021 based on the Q3 financial update is \$33.9 million. Any unfunded growth in the EFB liability could impact the Region's credit rating in the future.

Solid Waste Landfill Closure and Post Closure Costs

If solid waste landfill closure and post closure liability costs were included in the budget the accumulated surplus would increase by \$2.3 million as we are anticipating that the liability will decrease from \$66.3 million to \$64.0 million during 2022. The forecasted balance of the Region's Landfill Liability reserve at December 31, 2021 based on the Q3 financial update is \$10.2 million.

Based on closure and post closure cost projections as of December 31, 2021 the estimated operating and capital costs for 2022 are \$4.7 million. The Region has two remaining open landfill sites for which the closure and post-closure costs have been reflected in the liability.

Contaminated Sites

Similar to the EFB and solid waste landfill closure and post closure costs, the Region does not budget for liabilities related to contaminated sites. As of December 31, 2020, there is a liability recorded of \$0.58 million for contaminated sites. This reflects the estimated costs to remediate the contamination in 2024 subject to Council approval. Any changes in estimated cost of remediation will be reflected in the 2021 fiscal year. At this time, the liability is not anticipated to change in 2022 and therefore would not impact the accumulated surplus.

Prior Year Reconciliation of the Disclosure Report and Financial Statements

This report contains forward-looking information; a number of factors could cause actual results to differ from the financial estimates disclosed in this report. This reconciliation to comply with O. Reg 284/09 has always resulted in a PSAS surplus. The following table compares the 2020 budget disclosure requirement against the most recent audited financial statements (2020).

Table 2 – 2020 Regulatory Disclosure vs 2020 Audited Financial Statement (in millions)

Description	Disclosure Report	Financial Statement
Operating Surplus	\$ 0	\$41.5
Non-Cash items		
Amortization	(95.4)	(92.3)
Employee Future Benefits Increase	(0.6)	(6.6)
Landfill Liability Increase	(0.3)	(6.2)
Total Non-Cash Items	(96.3)	(105.1)
Cash Items		
Capital Project Expenditures not resulting in Tangible Capital Assets	(10.5)	(20.1)
Operating Expenditures resulting in Tangible Capital Assets	2.6	2.8
Principal Debt Repayments	48.8	31.6
Total Net Transfers to Reserves	67.4	89.9
Total Cash Items	108.3	104.2
PSAS Operating Surplus	12.0	40.6
Capital Fund revenues	106.8	55.6
Total PSAS Operating Surplus	118.8	96.2

At the time the 2020 Budget was approved and this report received in 2019, staff had estimated and reported to Council a financial statement surplus that was actually greater than the actual by \$22 million. An explanation of the primary variances are as follows:

- Changes in modeling of estimates to the Employee Future Benefit and Landfill Liability.
- Capital Project expenditures not resulting in Tangible Capital Assets are caused by legacy Combined Sewer Overflow projects, which were historically budgeted in capital. This adjusting item should not occurring going forward as all Combined Sewer Overflows projects are now included in the operating budget.
- Principle debt repayment are lower as the Region only debentures when a capital project has been substantially complete in accordance with the Municipal act.
- Unforeseen Safe Restart funding as a result of the pandemic increased the Net Transfers to Reserves.

- Capital revenues are budgeted in full in the year the capital budget is approved and does not always correspond to the date it is earned and recorded in the audited financial statements.

Alternatives Reviewed

No alternatives were reviewed as all municipalities are required to comply with Ontario Regulation 284/09.

Relationship to Council Strategic Priorities

This report was written to comply with Ontario Regulation 284/09. There are no direct links between this report and Council Strategic Priorities.

Other Pertinent Reports

CSD 74-2021 2022 Levy Operating Budget

Prepared by:

Ricci Cheung CPA, CA
Senior Budget Analyst
Corporate Services

Recommended by:

Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Services

Submitted by:

Ron Tripp, P.Eng.
Chief Administrative Officer

This report was prepared in consultation with Margaret Murphy, Associate Director, Budget Planning and Strategy, and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer.