Subject: 2024 Operating Budget Reconciliation and Financial Disclosure O. Reg 284/09

Report to: Budget Review Committee of the Whole

Report date: Thursday, December 7, 2023

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 primarily on a 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 Matters – 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 financial statement operating surplus of $163.9 million to be reported in the Region’s annual financial report in accordance with Public Sector Accounting Standards.

Financial Considerations

When preparing the budget, the Region considers its cash needs for the year to ensure it collects sufficient tax revenue to cover its obligations and execute its business plan. This includes budgeting for principal debt repayments and considers required transfers to reserves. Conversely, the 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. Had we budgeted for non-cash items and excluded cash requirements for debt principal payments and reserve transfers we would have a total PSAS operating surplus of $163.9 million as per Table 1.

Table 1 – 2024 PSAS Adjusted Budget (in millions)

Description	2024 Budget
Budgeted Operating Surplus	$ 0
Non-Cash items	
Amortization	(102.2)
Employee Future Benefits Increase	(5.3)
Landfill Liability Increase	(2.7)
Total Non-Cash Items	(110.2)
Cash Items	
Capital Project Expenditures not resulting in Tangible Capital Assets	(9.4)
Operating Expenditures resulting in Tangible Capital Assets	2.6
Principal Debt Repayments	52.4
Total Net Transfers to Reserves	120.8
Total Cash Items	166.5
PSAS Operating Surplus	56.3
Capital Fund revenues	107.6
Total PSAS Operating Surplus	163.9

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 as well as the cash items resulting in a PSAS Operating Surplus of $56.3 million before capital fund revenues. This means the Region requires $56.3 million more to pay for operations than would be available with the PSAS accrual based 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

This 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 2024 budget for amortization has been estimated at $102.2 million (Table 1). The differential between the estimated amortization and proposed capital funding from reserves in the 2024 Capital Budget is approximately $39.4 million. Amortization reflects the historical cost of the asset and does not take into consideration current replacement costs. Budgeting for amortization alone does not support the Region's future capital needs, nor does it properly consider the Region's asset funding strategies. Budgeting for amortization alone would result in a cash flow deficit to the Region.

Employee Future Benefits

In 2024, it is estimated that the Region's Employee Future Benefits (EFB) liability will increase by $5.3 million from $133.9 million to $139.2 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 $5.3 million (the increase in estimated liability during 2024). The forecasted balance of the Region's EFB reserves at December 31, 2023 based on the Q3 financial update is $34.9 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 decrease by $2.7 million as we are anticipating that the liability will increase from $109.5 million to $112.2 million during 2024. The forecasted balance of the Region's Landfill Liability reserve at December 31, 2023 based on the Q3 financial update is $5.6 million.

Based on closure and post closure cost projections as of December 31, 2023 the estimated operating and capital costs for 2024 are $1.8 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, 2022, there is a liability recorded of $0.58 million for contaminated sites. This reflects the estimated costs to remediate the contamination in 2028 subject to Council approval. At this time, the liability is not anticipated to change 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. The following table compares the 2022 budget disclosure requirement against the most recent audited financial statements (2022).

Table 2 – 2022 Regulatory Disclosure vs 2022 Audited Financial Statement (in millions)

Description	Disclosure Report	Financial Statement
Operating Surplus	$ 0	$(2.0)
Non-Cash items		
Amortization	(101.9)	(96.2)
Loss on Transfer of Capital Assets		(77.8)
Employee Future Benefits Increase	(3.7)	(7.6)
Landfill Liability Increase	2.3	1.0
Total Non-Cash Items	(103.3)	(180.6)

Description	Disclosure Report	Financial Statement
Cash Items		
Capital Project Expenditures not resulting in Tangible Capital Assets	(11.7)	(6.8)
Operating Expenditures resulting in Tangible Capital Assets	2.6	2.5
Principal Debt Repayments	51.8	33.5
Total Net Transfers to Reserves	53.6	102.9
Total Cash Items	96.4	132.1
PSAS Operating Surplus	(6.9)	(50.6)
Capital Fund revenues	128.6	57.0
Total PSAS Operating Surplus	121.6	6.4

At the time the 2022 Budget was approved, and this report prepared, staff had estimated and reported to Council a financial statement surplus that was actually lower than the actual PSAS surplus by $115.2 million. An explanation of the primary variances are as follows:

- Loss on Transfer of Capital Assets was as a result of the transfer of the Canada Summer Games Park from Work In Progress to the Canada Summer Games Consortium upon reaching the stage of substantial completion in 2022. The consortium is made up of four partners, the Region has a 25% interest. The transfer of the completed asset resulted in a loss on transfer of 75% of the total cost of $103.6 for a loss of $77.8 which is recorded in the 2022 audited financial statements.
- Changes in modeling of estimates to the Employee the Future Benefit and Landfill Liability
- Capital Project expenditures not resulting in Tangible Capital Assets are caused primarily by capital items below the capitalization threshold, Regional grants to transit providers for buses, consulting, engineering and professional services that may have been incurred that did not lead to completion of a capital asset.
- Principal debt repayment are lower as the Region only debentures when a capital project has been substantially complete.
- Provincial COVID 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 54-2023 Consolidated Levy 2024 Operating Budget

Prepared by:
Beth Brens, CPA, CA
Associate Director, Budget Planning and Strategy
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 Donovan D'Amboise, Associate Director, Reporting and Analysis and Cailyn McLean, Corporate Reporting Supervisor, and reviewed by Helen Furtado, Director, Financial Management & Planning/Deputy Treasurer.