
Subject: Financial Disclosure Requirements – Ontario Regulations 284/09

Report to: Budget Review Committee of the Whole

Report date: Thursday, December 5, 2019

Recommendations

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

Key Facts

- The purpose of this report is to comply with *Ontario Regulation 284/09 Budget Matter – Expenses*, requiring that before adopting a budget for the year that excludes non-cash expenses noted below that a Municipality must prepare a report to council about the excluded expenses.
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- Municipal budgets exclude estimated amounts for non-cash expenses:
 - Amortization of tangible capital assets
 - Post-employment benefit expenses
 - Solid waste landfill closure and post-closure expenses
- This report identifies the components that modify the Region's balanced operating budget (prepared on modified accrual basis for tax levy and water and wastewater rate setting purposes) to a forecasted operating surplus of \$118.8 million (prepared on full accrual basis – including non-cash outlay items) that would be reported in the Region's annual financial report in accordance with Public Sector Accounting Standards (PSAS).

Financial Considerations

As required by Ontario Regulation 284/09 this report addresses current funding practices of tangible capital assets, employee future benefits, and solid waste landfill closure and post closure costs and identifies the potential impact on the Niagara Region (the Region) operating surplus if the Region were to budget for tangible capital assets through amortization, changes in the employee future benefits (EFBs) liabilities and changes with solid waste landfill closure and post closure costs liabilities. The impact of budgeting for these items, on the operating surplus, is summarized in Table 1 – 2020 PSAS Adjusted Budget.

Table 1 – 2019 PSAS Adjusted Budget (in millions)

Description	2020 Budget
Budgeted Operating Surplus	\$ 0
Impact of Non-Budgeted Items	
Tangible Capital Assets	
Principal debt repayments	48.8
Amortization	(95.4)
Other capital program revenues and expenditures	98.9
Total Tangible Capital Assets Impact	52.3
Total Net Transfers to Reserves	67.4
Employee Future Benefits Increase	(0.6)
Landfill Liability Increase	(0.3)
Operating Surplus adjusted for PSAS	118.8

Analysis

The Region's operating budget is prepared for the purpose of setting tax rates and user fees rather than a framework for presenting annual financial results. Therefore in order to issue financial statements, the Region is required to adjust its presentation of the financial results to be in accordance with Canadian public sector accounting standards. The report identifies the components that move the Region from its approved balanced operating budget to a presentation consistent with Canadian public sector accounting standards.

The Region is required under Ontario Regulation 284/09 to report the estimated impact of excluding amortization, EFBs, and solid waste landfill closure and post closure costs from the annual budget on accumulated surplus and future tangible capital asset funding requirements. The Region, like most municipalities, does not budget for amortization and its annual impact on tangible capital assets, changes in the EFBs liabilities, and changes in the solid waste landfill closure and post closure costs liability.

This report contains forward-looking information; a number of factors could cause actual results to differ from the financial estimates disclosed in this report.

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 2020 budget for amortization has been estimated at \$95.4 million. The differential between the estimated amortization and proposed capital funding budgeted in 2020 is approximately \$52.3 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 2020, it is estimated that the Region's EFB liability will increase by \$0.6 million from \$103.4 million to \$104.0 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 \$0.6 million (the increase in estimated liability during 2020). The forecasted balance of the Region's EFB reserves at December 31, 2019 based on the Q3 financial update is \$34.6 million.

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 \$0.3 million as we are anticipating that the liability will increase from \$62.1 million to \$62.3 million during 2020. The forecasted balance of the Region's Landfill Liability reserve at December 31, 2019 based on the Q3 financial update is \$8.2 million.

Based on closure and post closure cost projections as of December 31, 2019 the estimated operating and capital costs for 2020 are \$2.2 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. No properties recorded are determined to be contaminated and no liability is recorded. This liability is not anticipated to change in 2020 and therefore would not impact the accumulated surplus.

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 78-2019 2020 Levy Operating Budget

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