

**4. REPORT ON BUDGET EXPENSES PURSUANT TO ONTARIO REGULATION  
284/09**

**RAPPORT SUR LES DÉPENSES BUDGÉTAIRES CONFORMÈMENT AU  
RÈGLEMENT DE L'ONTARIO 284/09**

**COMMITTEE RECOMMENDATION**

That Council adopt this report.

**RECOMMANDATION DU COMITÉ**

**Que le Conseil adopte ce rapport.**

**DOCUMENTATION / DOCUMENTATION**

Marian Simulik, City Treasurer, report dated 29 March 2016/ Trésorière  
municipale, rapport daté le 29 mars 2016 (ACS2016-CMR-FIN-0005)

**FINANCE AND ECONOMIC  
DEVELOPMENT COMMITTEE  
REPORT 13  
13 AVRIL 2016**

**34**

**COMITÉ DES FINANCES ET DU  
DÉVELOPPEMENT ÉCONOMIQUE  
RAPPORT 13  
LE 13 AVRIL 2016**

Report to  
Rapport au:

Finance and Economic Development Committee  
Comité des finances et du développement économique  
5 April 2016 / 5 avril 2016

and Council  
et au Conseil  
13 April 2016 / 13 avril 2016

Submitted on March 29, 2016  
Soumis le 29 mars 2016

Submitted by  
Soumis par:  
Marian Simulik, City Treasurer / Trésorière municipale

Contact Person  
Personne ressource:  
Isabelle Jasmin, Deputy City Treasurer-Corporate Finance, Finance Department  
/Trésorière municipale adjoint-Finances municipales, Service des finances  
*613-580-2424 ext./poste 21312 [Isabelle.Jasmin@ottawa.ca](mailto:Isabelle.Jasmin@ottawa.ca)*

**Ward:** CITY WIDE / À L'ÉCHELLE DE LA VILLE      **File Number:** ACS2016-CMR-FIN-0005

**SUBJECT: REPORT ON BUDGET EXPENSES PURSUANT TO ONTARIO  
REGULATION 284/09**

**OBJET: RAPPORT SUR LES DÉPENSES BUDGÉTAIRES CONFORMÉMENT  
AU RÈGLEMENT DE L'ONTARIO 284/09**

**REPORT RECOMMENDATIONS**

That the Finance and Economic Development Committee recommend Council adopt this report.

## **RECOMMANDATIONS DU RAPPORT**

**Que le Comité des finances et du développement économique recommande au Conseil d'adopter ce rapport.**

## **BACKGROUND**

The Municipal Act requires Municipalities to prepare annual Financial Statements that are in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, (PSAB). These accounting principles include pronouncements on how to account for tangible capital assets, employment liabilities and landfill costs. Municipalities were required to implement tangible capital asset accounting starting with the 2009 Financial Statements. This meant that assets would no longer be recorded as expenditures in the year they were acquired but would be amortized over their useful lives with amortization appearing as an expense on the Statement of Operations in the City's audited Financial Statements. The new accounting treatment had implications for the "balanced budget" provisions of the Municipal Act.

The Municipal Act requires that municipalities prepare balanced budgets which include estimates of all sums required during the year for the purposes of the municipality. This means that municipalities need to have or raise sufficient funds each year, through the setting of tax rates, water rates and user fees, to cover the operating and capital spending requirements for the year. The City, like other municipalities, continues to prepare its annual budgets on a modified cash basis.

With the implementation of these new accounting rules, including those for the recording of tangible capital assets and the related amortization expense, there was a concern that the requirement to include amortization expense in municipal budgets could have significant impacts on many municipalities' tax levies. For many municipalities there would be the potential for a significant variance between the amount

raised through the budget process to fund capital asset renewal and the annual amortization expense as reflected in the financial statements.

Ontario Regulation 284/09 permits municipalities to exclude a portion or all of the following expenses from their annual budgets.

- Post employment benefits expenses;
- Solid waste landfill closure and post-closure expenses; and
- Amortization expenses (related to tangible capital assets).

However the legislation requires staff to prepare an annual report to Council which:

- Identifies the expenses that have been included in the Financial Report but excluded from the budget;
- Identifies the impact of these differences on the change in the City's accumulated surplus; and
- Analyses the impact of excluding these expenses from the budget on future capital asset funding requirements.

The municipality must prepare this report before adopting a budget for the year. Council must adopt the report by resolution.

## **DISCUSSION**

Ontario Regulation 284/09 requires that Council consider and adopt a report with respect to noncash items such as fixed assets amortization expenses, employee benefits liabilities, and landfill closure costs, prior to finalizing the budget for the year.

Staff are bringing forward this report prior of finalization of 2016 tax rates.

### Capital Assets - Amortization

The City's 2015 draft consolidated statement of operations includes a \$303.2 million expensed for amortization related to the recording of tangible capital assets. This

amortization is based on the cost of these assets when they were first built or purchased. It should be noted that this is not necessarily the costs to repair or replace the asset in today's dollars and using current standards.

The City's tax levy and utility rates are calculated to provide for annual operating costs, estimates of amounts required to purchase and maintain fixed assets and to service debt principal and interest.

Provisions of approximately \$438.5 million has been included in the 2016 operating budget as contributions to capital to allow for the cash financing of a significant portion of the rehabilitation projects contained in the City's 2016 capital budget.

In addition to the \$438.5 million provided in the 2016 budget, \$98.0 million is provided for the repayment of the principle component on past debt issued on Council authorized projects. In total \$536.5 million is provided in the budget for capital purposes from the City's revenue sources. It is important to note that these funds are required to fund both the replacement of existing assets, as well as capital funding for new assets and growth related assets.

The amount provided in the 2016 budget for capital purposes (\$536.5 million), can be compared to the draft 2015 estimated amount of amortization (\$303.2 million) in order to determine whether the City has adequately provided for its capital needs. However, other factors need to be examined when making this determination. First, as stated earlier, the amortization figure which is based on costs when assets were first acquired, is not necessarily a good reflection of today's replacement need. Secondly, there is a need to take a risk based approach to prioritizing and plan for the City's investments asset renewal. Assets may need to be replaced before the end of their amortization period.

During the last term of Council, Council approved two long range financial planning reports that identified a need to increase current funding levels for the renewal of the City's ageing infrastructure.

In February 2012, Council approved the Long Range Financial Plan IV – Water and Sewer Rate Supported Programs. That report identified the utility rate increases

required to provide for the renewal of water and sewer infrastructure and provided for a funding plan that moves the City's required investment in these assets towards the state of good repair objective identified in the City's Comprehensive Asset Management Strategy report.

In October of 2012, Council approved the Long Range Financial Plan IV – Tax Supported Capital Program. The report established a funding strategy for the renewal of the assets that had been identified in the Comprehensive Asset Management Strategy report. The funding strategy would see that the \$80 million that the City currently spends on the renewal of the tax supported assets of roads, bridges, buildings and parks would grow to a to a level of \$165 million per year by the year 2022.

The funding strategies included in these two financing plans have been adhered to in the 2016 budgets. In particular, the 2016 tax supported budget includes an increase of \$5.4 million in the contributions to capital reserves to address rehabilitation and maintenance requirements of City infrastructure.

#### Employment Benefit Liabilities

The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and active and long-term disabled employees, including income, medical, dental, and life insurance, workers' compensation, and sick leave benefits. Employee future benefits include benefits earned by employees in the current period but not paid for by taxes or rates until a future period, and potential future Workplace Safety and Insurance Board (WSIB) payments in the future.

For budget purposes, the City estimates the amount of cash that will be paid out for these benefits. The cash requirement is fairly predictable and the amount required each year grows with the employment base and inflation. Provisions are also made in the budget to fund deficits associated with the non OMERS pension plans.

For accounting purposes, however, there is recognition that benefits earned by employees will be paid out after they leave the City. This is effectively deferred compensation that should be recognized as it is earned while the employee is working,

rather than as it is paid out, when the employee is retired or disabled. Accordingly, the accounting expense will usually be higher than the cash requirement.

WSIB specifically is difficult to predict. Some claims are of short duration, while others can include lengthy treatments and therapies and can include lost wages and survivor benefits. WSIB claims are also influenced by legislation. Recent provincial legislation to deem certain types of cancers as work related for firefighters has resulted in unpredictable costs for the City as these claims can be made retroactively going back many years.

As at December 31, 2015 the City had a total liability of \$555.4 million for employee future benefits and a \$23.1 million liability for non OMERS pension agreements. An employee benefits reserve fund exists to help reduce the future impact of employee future benefit obligations. As at December 31, 2015, the balance in the employee benefits reserve fund was \$69.3 million. In the summer of 2007, the City's Long Range Financial Planning Committee reviewed the unfunded employee benefit liabilities in order to determine which liabilities would only be funded on a year by year basis in the budget, and those where the City would try to fund the liability as it increased and reduce any unfunded portion. These strategies include.

- a) Using any year-end surpluses that arise in the specific benefit accounts within the operating budget to reduce the unfunded and future liabilities; and
- b) Crediting the reserve fund with interest to further reduce the unfunded liability.

#### Landfill closure and post-closure liability

Under the *Ontario Environmental Protection Act*, the City is required to provide for the closure and post-closure care of solid waste landfill sites. The costs related to these obligations are provided over the estimated remaining life of the landfill sites based on usage. As at December 31, 2015 the City had a liability for landfill closure and post closure costs of approximately \$20.8 million. The City has established reserve funds to help reduce the future impact of these obligations. The balance in these reserve funds was \$3.9 million as at December 31, 2015.

The City is currently budgeting approximately \$359,700 per year for this liability and it is anticipated that funds will be sufficient to discharge this liability over the remaining life of the landfill sites.

### Accumulated Surplus

The regulation requires an assessment of the impact of the excluded expenses on the change in the City's accumulated surplus. This analysis would show if the City's financial position is deteriorating because of increasing liabilities and underfunded asset renewal requirements.

The term accumulated surplus is used in the consolidated financial statements. It shows the assets of the government, net of all liabilities that will be available to provide services to future generations. The accumulated surplus changes on an annual basis based on the accounting surplus or deficit for the year. The accounting surplus represents the amount of revenue recorded during the year which is in excess of operating expenses, amortization and interest expense. Any surplus is available for capital formation including the repayment of debt principal and for the purchase or new assets and the rehabilitation of existing assets.

At the end of 2015, the City's consolidated accumulated surplus stood at \$12.2 billion. The \$12.2 billion was comprised of the following elements: \$12.0 billion invested in tangible capital assets (net of debt) and available to service future generations; \$0.5 billion in funds set aside in reserves; \$0.4 billion equity in Ottawa Hydro and \$0.7 billion in unfunded liabilities such as future employee benefit costs and landfill costs. The 2015 accumulated surplus had risen by \$0.5 billion from the 2014 reported amount as a result of the investment in capital assets during the year. The changes in reserve and unfunded liability balances had a minimal impact.

The impact of the capital asset budgeting practices will continue to show an increase in the City's accumulated surplus because the City is setting aside funds in its capital budget for the acquisition and renewal of assets at a rate that is greater than the amounts required to fund historical based amortization expenses and interest on debt used to fund a portion of the capital program. However, as discussed previously, historical cost amortization expenses are not an accurate determinant of the amount of



renewal investment that should be made in current and future years. The City will need to continue to grow its investment in asset renewal, in accordance with its long range financial plans and in accordance with Council's established asset management strategic direction.

The increasing liabilities for employment related expenses will have a negative but relatively small impact on the accumulated surplus each year. The impact of landfill expenses has a positive impact because the City is setting aside funds in the budget to provide for these expenses in the future.

### **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

### **CONSULTATION**

This report is administrative in nature and therefore no consultation was required.

### **COMMENTS BY THE WARD COUNCILLOR(S)**

This report is administrative and City Wide in nature.

### **ADVISORY COMMITTEE(S) COMMENTS**

Not applicable.

### **LEGAL IMPLICATIONS**

There are no legal impediments to implementing the recommendation in the report. As noted in the report, Ontario Regulation 284/09 requires that Council consider and adopt a report with respect to noncash items such as fixed assets amortization expenses, employee benefits liabilities, and landfill closure costs, prior to finalizing the budget for the year. Staff are bringing forward this report prior of finalization of 2016 tax rates.

### **RISK MANAGEMENT IMPLICATIONS**

There are no risk management implications.

## **ASSET MANAGEMENT IMPLICATIONS**

The information provided in this report is consistent with the City's Comprehensive Asset Management (CAM) Program ([City of Ottawa Comprehensive Asset Management Program](#)) objectives. The implementation of the CAM program results in timely investments that minimize lifecycle costs and ensure the long-term affordability of assets. The City's financial reporting is recognized as one reporting mechanism that supports CAM. Key initiatives have been identified in the CAM program to develop reporting that includes amortization based figures combined with service focused comprehensive asset management plans.

## **FINANCIAL IMPLICATIONS**

Financial implications are discussed in the body of this report.

## **ACCESSIBILITY IMPACTS**

There are no accessibility implications to receiving this report.

## **TERM OF COUNCIL PRIORITIES**

The recommendations in this report support the Term of Council priorities: FS2 "Maintain and enhance the City's financial position"; Planning and Decision Making; and, the development of a comprehensive Asset Management Program.

## **DISPOSITION**

No action is required.