

To: Corporate and Finance Services Committee

From: Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

Report Number: CNCL-23-06

Date of Report: January 9, 2023

Date of Meeting: January 13, 2023

Subject: 2023 Budget Expense Exclusions per the Municipal Act, 2001
(O.Reg 284/09)

Ward: All Wards

File: 03-05

1.0 Purpose

The purpose of this report is to obtain Council's approval (as required under the Municipal Act, 2001, Ontario Regulation 284/09) to exclude estimated expenditures for tangible capital asset amortization and future post-employment benefit liabilities from the 2023 Operating Budget.

2.0 Recommendation

That as outlined in Report CNCL-23-06 dated January 9, 2023, tangible capital asset amortization expense and post-employment benefit expenses be excluded from the 2023 Operating Budget.

3.0 Executive Summary

Changes to the Public Sector Accounting Handbook in 2009 require municipalities to prepare their financial statements using full accrual accounting. As a result, certain expenses are included in the financial statements that are not included in the budget. For the City of Oshawa, these expenses include amortization on tangible capital assets and post-employment benefits. The budget presented to Council is prepared using the cash basis method where operating and capital budgets are balanced. This differs from the restated budget included in the financial statements using the accrual basis method.

Ontario Regulation 284/09 of the Municipal Act titled "Budget Matters – Expenses" requires that before Council adopts its annual budget, it must first receive a report regarding excluded expenses and adopt that report by resolution.

4.0 Input From Other Sources

Not applicable.

5.0 Analysis

5.1 Background

Changes to the Public Sector Accounting Handbook in 2009, require municipalities to prepare their financial statements using full accrual accounting. As a result, non-cash expenses related to the amortization of tangible capital assets and post-employment benefits are included in the financial statements.

Ontario Regulation 284/09 allows municipalities to continue preparing their annual budgets using the cash basis method, which excludes amortization expenses for tangible capital assets and post-employment benefits liabilities. The regulation requires municipalities to prepare a report regarding the excluded expenses and adopt the report by resolution prior to the approval of the annual operating budget. The report must contain:

- an estimate of the impact of excluded expenses on the accumulated surplus; and,
- the estimated impact on future tangible capital asset funding requirements of the municipality.

The accumulated surplus shown in the financial statements of the City represents net resources available to provide future services. It does not represent surplus cash. The City's accumulated surplus, as at December 31, 2021 was \$693.7 million.

The following sections outline the estimated difference in the accumulated surplus between the City's 2023 cash based budget and the City's 2023 accrual based budget.

5.2 Amortization Expenses on Tangible Capital Assets

Amortization expense represents the reduction in the economic benefits realized by the City's assets during a fiscal accounting period. Although the City's budget does not include amortization expense on tangible capital assets, provisions are made for contributions to capital and transfers to capital reserves to fund capital expenses. Future tangible capital asset funding requirements of the City are not impacted by the expense exclusions from the budget.

Since 2009, the City's average annual amortization expense is \$25.6 million.

The estimated amortization for 2023 is \$27.9 million, which will reduce the City's accumulated surplus. The details of the estimated 2023 amortization are outlined in Attachment 1. However, partially offsetting the amortization expense is the funding for the acquisition of tangible capital assets proposed in the 2023 budget.

Additions represent assets put into service or are work-in-progress during a fiscal year. The tangible capital asset additions will not tie to the approved expenditures in the City's Capital Budget.

The estimated additions to tangible capital assets for 2023 are \$35.3 million based on the 2022 approved capital excluding projects that will not lead to a tangible capital asset.

5.3 Post-Employment Benefits Liability

Post-employment benefits are non-pension benefits provided to employees after retirement. These benefits include extended health care, life insurance, accumulated sick leave payout and future payments required to WSIB.

An actuary prepares an annual valuation of the City's estimated post-employment benefits liability. It is anticipated that the 2022 valuation will be complete by March 2023. For the purposes of this report, the calculation for the estimated change in the post-employment benefits liability is based on the 2021 actuarial valuation.

The impact of post-employment benefits expense is an increase to the accumulated surplus estimated at \$0.3 million for 2023.

5.4 Debt Principal Repayment

The budget, prepared using the cash basis method, includes a provision for the annual repayment of debt, including both interest and principal. Under the accrual basis method, debt principal repayments are a repayment of a long-term liability and not an expense.

The debt principal repayments are for external debentured debt only. They do not include principal reductions on internal debt, which is accounted for differently than external debt.

The estimated debt principal repayment in 2023 is \$6.4 million, which will decrease the accumulated surplus by the same amount.

5.5 Summary

The estimated change in the City of Oshawa's accumulated surplus using the accrual budget method is calculated as follows:

<u>Accrual Budget</u>	<u>2023 Estimate</u>	<u>2022 Estimate</u>
Tangible Capital Asset Amortization	\$27,914,708	\$27,861,864
Post-Employment Benefits	308,295	83,071
Total Additions	28,223,003	27,944,935
Tangible Capital Asset Acquisition	35,308,740	33,851,000
Debt Principal Payments	6,421,922	8,410,589
Total Exclusions	41,730,662	42,261,589
Net Increase/(Decrease) in Budgeted Accumulated Surplus	\$ (13,507,659)	\$ (14,316,654)

The budgeted accumulated surplus for 2023 is approximately \$13.5 million less than that estimated using the cash basis method.

6.0 Financial Implications

There are no financial implications arising from this report.

7.0 Relationship to the Oshawa Strategic Plan

This report responds to the Oshawa Strategic Plan goal of accountable leadership by ensuring respect, responsiveness and transparency and the Oshawa Strategic Plan goal of Economic Prosperity and Financial Stewardship by ensuring cost effective and fairly priced quality core programs and services that are responsive to community needs through responsible taxation.



Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

2023 Estimated Amortization for Tangible Capital Assets

In 2009, the City implemented accounting for tangible capital assets. Provincial legislation does not require non-cash expenses, such as tangible capital assets to be included in annual operating budgets. The information contained in this schedule is for disclosure purposes only and funding is not required.

Asset Class	2023 Estimated Amortization
General Capital Assets	
Land Improvements	480,697
Buildings	6,734,256
Machinery & Equipment	2,280,297
Vehicles	892,129
Other-Furniture	74,142
Other-Parks Misc	262,689
Other-Library Collection	612,637
Other	-
Subtotal	11,336,847
Infrastructure Assets	
Land Improvements	1,503,045
Buildings	751,743
Machinery & Equipment	122,839
Vehicles	1,577,640
Linear Assets	12,468,595
Other-Parks Misc	153,998
Subtotal	16,577,862
Total Amortization	27,914,708

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