

To: Corporate and Finance Services Committee

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

Report Number: CNCL-23-128

Date of Report: November 27, 2023

Date of Meeting: December 1, 2023

Subject: 2024 Budget Expense Exclusions per the Municipal, 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 2024 Operating Budget.

2.0 Recommendation

That the Corporate and Finance Services Committee recommend to City Council:

That as outlined in Report CNCL-23-128 dated November 27, 2023, tangible capital asset amortization expense and post-employment benefit expenses be excluded from the 2024 Operating Budget.

3.0 Executive Summary

The Public Sector Accounting Handbook requires 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, 2022 was \$732.8 million.

The following sections outline the estimated difference in the accumulated surplus between the City's 2024 cash based budget and the City's 2024 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 \$25.7 million.

The estimated amortization for 2024 is \$28.7 million, which will reduce the City's accumulated surplus. The details of the estimated 2024 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 2024 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. This is a result of capital projects that are completed over a span of several years.

The estimated additions to tangible capital assets for 2024 are \$51.9 million based on the 2023 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. For the purposes of this report, the calculation for the estimated change in the post-employment benefits liability is based on the 2022 actuarial valuation.

The impact of post-employment benefits expense is a decrease to the accumulated surplus estimated at \$2.5 million for 2024.

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 2024 is \$6.7 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>2024 Estimate</u>	<u>2023 Estimate</u>
Tangible Capital Asset Acquisition	51,939,275	35,308,740
Debt Principal Payments	6,692,174	6,421,922
Total Additions	58,631,449	41,730,662
Tangible Capital Asset Amortization	\$28,702,549	\$27,914,708
Post-Employment Benefits	(2,529,162)	308,295
Total Exclusions	26,173,387	28,223,003
Net Increase/(Decrease) in Budgeted Accumulated Surplus	\$32,458,062	\$13,507,659

The budgeted accumulated surplus for 2024 is approximately \$32.4 million more 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

2024 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	2024 Estimated Amortization
General Capital Assets	
Land Improvements	722,771
Buildings	6,158,915
Machinery & Equipment	2,683,024
Vehicles	899,124
Other-Furniture	89,663
Other-Parks Misc	256,144
Other-Library Collection	547,479
Other	-
Subtotal	11,357,119
Infrastructure Assets	
Land Improvements	1,474,508
Buildings	715,837
Machinery & Equipment	143,422
Vehicles	1,982,591
Linear Assets	12,859,628
Other-Parks Misc	169,443
Subtotal	17,345,430
Total Amortization	28,702,549

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Functional Classification	2024 Estimated Amortization
General Government	3,449,230
Fire	995,066
Protective inspection and control	226,625
Building permit and inspection services	42,564
Roads - Paved	9,357,040
Roads - Bridges and Culverts	491,319
Roadways - Traffic Operations & Roadside	600,919
Winter Control - Except sidewalks, Parking Lots	455,556
Winter Control - Sidewalks, Parking Lots Only	147,423
Parking	994,302
Street lighting	834,739
Air transportation	596,916
Urban storm sewer system	2,365,009
Rural storm sewer system	375,225
Solid waste collection	490,522
Cemeteries	62,180
Non-Profit/Cooperative Housing	-
Parks	2,099,040
Rec Fac - All other	3,957,544
Libraries	969,552
Museums	191,778
Commercial and industrial	-
Total Amortization	28,702,549