

To: City Council

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

Report Number: CNCL-24-122

Date of Report: November 13, 2024

Date of Meeting: November 22, 2024

Subject: 2025 Budget Expense Exclusion 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 2025 Operating Budget.

2.0 Recommendation

It is recommended to City Council:

That as outlined in Report CNCL-24-122 dated November 13, 2024, tangible capital asset amortization expense and post-employment benefit expenses be excluded from the 2025 Operating Budget.

3.0 Input From Other Sources

Not applicable.

4.0 Analysis

4.1 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, 2023 was \$778.4 million.

The following sections outline the estimated difference in the accumulated surplus between the City's 2025 cash based budget and the City's 2025 accrual based budget.

4.2 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 \$25.9 million.

The estimated amortization for 2025 is \$31.0 million (2024 estimate \$28.7 million), which will reduce the City's accumulated surplus. The details of the estimated 2025 amortization are outlined in the table below. However, partially offsetting the amortization expense is the funding for the acquisition of tangible capital assets in the 2025 capital budget.

Estimated Amortization by Category	Amount
General Government	\$ 3,594,162
Protection to Persons and Property	1,400,299
Transportation Services	14,202,554
Environmental Services	3,585,866
Health Services	64,381
Recreation and Cultural Services	8,129,590
Planning and Development Services	-
Total	\$30,976,852

Tangible capital asset acquisitions represent assets put into service or are work-in-progress during a fiscal year. These asset additions will not tie to the approved

expenditures in the City's Capital Budget. This is a result of projects that are completed over a span of several years.

The estimated additions to tangible capital assets for 2025 are \$50.5 million based on the 2024 approved capital excluding projects that will not lead to a tangible capital asset.

4.3 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 2023 actuarial valuation.

The impact of post-employment benefits expense is a decrease to the accumulated surplus estimated at \$0.8 million for 2025.

4.4 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 2025 is \$5.8 million, which will decrease the accumulated surplus by the same amount.

4.5 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>2025 Estimate</u>	<u>2024 Estimate</u>
Tangible Capital Asset Acquisitions	\$50,488,671	\$51,939,275
Debt Principal Payments	<u>5,775,486</u>	<u>6,692,174</u>
Total Additions	56,264,157	58,631,449
Tangible Capital Asset Amortization	\$30,976,852	\$28,702,549
Post-Employment Benefits	<u>(783,214)</u>	<u>(2,529,162)</u>
Total Exclusions	30,193,638	26,173,387
Net Increase/(Decrease) in Budgeted Accumulated Surplus	<u>\$26,070,519</u>	<u>\$32,458,062</u>

The budgeted accumulated surplus for 2025 is approximately \$26.1 million more than that estimated using the cash basis method.

5.0 Financial Implications

There are no financial implications arising from this report.

6.0 Relationship to the Oshawa Strategic Plan

This report responds to the Oshawa Strategic Plan Priority Area “Lead: Governance and Service Excellence” with the goal to provide transparent, efficient, and responsible fiscal stewardship and use of resources.



Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department