

## **City of North Bay Report to Council**

Report No: CORP-2022-005

Date: December 21, 2021

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2022 Operating Budget - Ontario Regulation 284/09 Disclosure

Closed Session: yes ☐ no ☒

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### **Recommendation**

That City Council acknowledges the 2022 General Operating, Water & Wastewater Operating, and Capital Budgets were prepared on the cash basis format and excluded the following expenses:

- Amortization of tangible capital assets
- Employee future benefit costs
- Solid waste landfill closure and post closure expenses

That Council authorizes the continued preparation of the City's annual General, Water & Wastewater Operating, and Capital Budgets using the cash basis format.

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### **Background**

Section 294.1 of the Municipal Act requires municipalities to prepare annual financial statements in accordance with generally accepted accounting principles for local governments as recommended, from time to time, by the Public Sector Accounting Board (PSAB). In 2009, PSAB standards and reporting requirements changed dramatically with the most significant change being the introduction of tangible capital asset accounting. Under the new accounting standards, municipalities are required to report their tangible capital assets on the balance sheet and amortize these assets over their useful lives. Other accounting changes were introduced such that municipalities must now prepare their audited financial statements under the accrual basis format, similar to the Private Sector.

In addition to the provisions in the Act related to financial reporting, Section 290 of the Municipal Act requires municipalities to have a balanced budget that includes sufficient funds to cover all of the operating costs and debt repayment obligations arising throughout the year. Accordingly, municipalities in Ontario, including the City of North Bay, have continued to develop budgets on a cash basis. These budgets do not include the PSAB requirements of accrual accounting and accounting for non-financial assets such as tangible capital assets.

The Province of Ontario enacted a regulation, Ontario Regulation 284/09, allowing for certain items to be excluded from municipal budgets provided that the municipality prepares a report regarding the excluded expenses.

The allowable excluded expenses are:

- Amortization of tangible capital assets
- Employee future benefit costs
- Solid waste landfill closure and post closure expenses

The Ontario Regulation additionally states that the report must outline:

1. The change in accumulated surplus of the municipality from the exclusion of any of the expenses listed above; and
2. The impact on future tangible capital asset funding requirements of the municipality.

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### **Financial/Legal Implications**

There are no direct financial implications associated with continuing to budget on a cash basis. All appropriate accruals will be reported in the annual audited financial statements in accordance with PSAB standards.

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### **Corporate Strategic Plan**

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|---|--|
| <input checked="" type="checkbox"/> Natural North and Near                | <input type="checkbox"/> Economic Prosperity     |
| <input type="checkbox"/> Affordable Balanced Growth                       | <input type="checkbox"/> Spirited Safe Community |
| <input checked="" type="checkbox"/> Responsible and Responsive Government |  |

### **Specific Objectives**

- Ensure that Council and staff have a shared perception and goals

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### **Options Analysis**

The City's 2022 General Operating, Water & Wastewater Operating, and Capital Budgets were prepared on the cash basis format and excluded the following estimates:

- Amortization of tangible capital assets estimated to be \$24,609,085 based on preliminary calculations. 2021 amortization will be finalized by the end of April for the annual financial statements after Council approves the December Capital Status report.
- A full actuary review (employee future benefit costs) is completed every three years and will be completed for 2021 in the spring of 2022. As per the prior actuary review, the estimated annual employee future benefit costs are \$322,600.
- The changes in projected solid waste landfill closure and post closure expenses are estimated to be \$79,916. Estimated costs are obtained from realized expenses as well as the 2020 Merrick Landfill Annual Monitoring Report.

In addition to these excluded expenses, the cash based budgets prepared by the City include certain types of transactions that need to be excluded for PSAB reporting purposes. These items are not covered in Ontario Regulation 284/09; however, for transparency purposes and consistency, the accumulated surplus contained in this report will be included as adjusted budget figures in the 2022 audited financial statements. As such, the following items which are included in the cash based budgets will be excluded from the accumulated surplus on a PSAB basis:

- Debenture principal repayments
- Transfer to/from reserve funds
- Tangible Capital Asset costs
- Cash inflows from debenture proceeds

The following table is an estimated conversion of approved 2022 cash based budgets to full accrual accounting for PSAB financial statement reporting purposes:

**Revenues (Gross):**

Operating Budget	\$146,411,816
Water & Sewer Operating Budget	26,164,306
Capital Budgets	<u>69,162,309</u>
	\$241,738,431

**Expenses (Gross):**

Operating Budget	\$(146,411,816)
Water & Sewer Operating Budget	(26,164,306)
Capital Budgets	<u>(69,158,482)</u>
	<u>\$(241,734,604)</u>

**Budgeted Surplus (Deficit)**

\$3,827

Estimated Adjustments for Full Accrual Accounting:

Less Amortization (Preliminary 2022 estimate)	\$(24,609,085)
Less Employee Future Benefit Costs (2020 costs)	(322,600)
Less Post-Closure Landfill (2020 costs)	(79,916)
Less Debenture Proceeds (2022 budget)	(19,621,208)
Add Debenture Repayments (2022 budget)	9,369,866
Add Annual Capital Expenditures (2022 budget)	58,336,377
Less Transfer from Reserves–Capital (2022 budget)	(1,953,229)
Add Net Transfers to Reserves–Operating (2022 budget)	<u>1,569,740</u>

**Total Estimated Change in Accumulated Surplus**

\$22,693,772

The 2022 planned capital program provides for the sustainability and replacement of City assets as well as growth related projects. The planned net annual capital expenditures noted above in the amount of \$58,336,377 is higher than the estimated annual amortization.

It should be noted that there are risks of using amortization as an indicator of appropriate capital funding and include the following:

- Assets that are fully depreciated would be excluded
- Amortization is based on historical costs and not the future replacement values of the assets, which may differ due to inflation, changing standards, or operational needs (i.e. accessibility, legislation, health & safety, etc.)
- Not all capital requirements are capitalized and would be omitted
- In-year current amortization does not provide for estimating future capital requirements, i.e. growth-related infrastructure

If estimated employee future benefit costs and solid waste landfill closure & post closure

expenses were to be budgeted, the annual estimated accrued costs could be set aside in reserves to pay for future expenditures.

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### **Recommended Option**

That City Council acknowledges the 2022 General Operating, Water & Wastewater Operating, and Capital Budgets were prepared on the cash basis format and excluded the following expenses:

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- Solid waste landfill closure cost & post closure expenses

That Council authorizes the continued preparation of the City's annual Operating, Water & Wastewater Operating, and Capital Budgets using the cash basis format.

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Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA

Title: Manager, Financial Services

### **I concur with this report and recommendation**

Name Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name David Euler, P.Eng., PMP

Title: Chief Administrative Officer

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer