

To: **COUNCIL**

Meeting Date: **12/02/21**

Subject: **Ontario Regulation 284/09**

Submitted By: **Sheryl Ayres, Chief Financial Officer**

Prepared By: **Usama Seraj, Budget Analyst**

Report No.: **21-321(CRS)**

File No.: **C1101**

Recommendation(s)

THAT report 21-321(CRS) re: Ontario Regulation 284/09 be received;

AND THAT the compliance report for expenses excluded from the 2022 budget outlined in report 21-321(CRS) as a requirement of Ontario Regulation 284/09 passed under the Municipal Act, 2001 be adopted.

Executive Summary

Purpose

- The City of Cambridge is required under Ontario Regulation 284/09 to report on amortization and post-employment benefits that are excluded from the annual budget.

Key Findings

- For 2022, expenditures of an estimated amount of \$22,994,373 have been excluded from the budget, as outlined in this report.

Financial Implications

- This report meets the requirements of O. Reg. 284/09 and there are no financial implications of the information outlined in the following report.

Background

As a municipality, the City of Cambridge is required to follow the accounting standards established by the Public Sector Accounting Board (“PSAB”). With the introduction of tangible capital asset accounting in 2009, the new accounting standards do not require budgets to be prepared on a full accrual basis. The City continues to prepare budgets on a modified accrual basis.

The annual budget of a municipality is an important exercise, one which plans for current and future activities and acquisitions. A key outcome of the annual budget is a tax rate which Council is asked to approve. This tax rate is based on annual cash requirements and therefore does not include the PSAB requirements around accrual accounting and accounting for “non-financial assets and liabilities.” Specifically, the City’s budget excludes expenses associated with amortization and post-employment benefits.

Amortization can be defined as the accounting process of allocating the cost (less residual value) of a tangible capital asset to operating periods as an expense over its useful life. It is calculated in a rational and systematic manner appropriate to the asset’s nature and use. Another commonly used term is “depreciation”.

Post-employment benefits are benefits which will need to be paid after the employee has completed their employment. Under PSAB accounting rules, these costs are to be reflected during the employee’s period of employment using an actuarial valuation to estimate the future obligation.

Analysis

Strategic Alignment

PEOPLE To actively engage, inform and create opportunities for people to participate in community building – making Cambridge a better place to live, work, play and learn for all.

Goal #2 - Governance and Leadership

Objective 2.5 Focus on the responsible management of financial resources, ensuring transparency and accountability.

Reporting those expenses excluded from the annual budget provides for transparent management of financial resources.

Comments

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09), which allows a municipality to exclude from its annual budget estimated expenses related to the following:

1. Amortization
2. Solid waste landfill closure and post-closure
3. Post-employment benefits

The regulation requires that the municipality report on the impact of these excluded costs and, before adopting a budget for the year that excludes any of the expenses listed above, Council must adopt the report by resolution. The City's 2022 draft budget and associated tax levy and water and wastewater user rates exclude the following:

1. Amortization expenses, estimated at \$21,576,987 are excluded since amortization is a non-cash expense.
2. Solid waste landfill closure and post-closure expenses are excluded as the City does not have responsibility for landfill sites.
3. The accrual for post-employment benefits, estimated at \$1,417,386 is excluded as the City has treated this on a "pay-as-you-go basis", covering the annual cash outflows in the budget. Actuarial reviews are conducted to estimate the unfunded liability for financial reporting.

In place of amortization expense, the City includes contributions to capital reserve funds for the major rehabilitation and replacement of the City's assets. Contributions to reserve funds should be based on the estimated future replacement cost of the assets, which generally is higher than the historical cost that amortization is based on, due to inflation. The 2022 budget includes contributions to capital replacement reserves totalling \$26,357,100 as follows:

- Tax-supported capital levy: \$10,050,300
- Water-supported capital levy: \$9,256,500
- Wastewater-supported capital levy: \$3,819,100
- Contribution to Facility Maintenance Reserve Fund for City Hall: \$120,000
- Contribution to Equipment Reserve Fund, for the future replacement of equipment: \$3,111,200

Existing Policy/By-Law

On September 8, 2014 Council approved the Budget Control By-Law 152-14 and financial policies resulting from the Corporate Financial Review.

Financial Impact

Although amortization expenses are not an ideal method of determining the impairment of an asset, since it is used to attribute the capital cost over the life of the asset it can be one potential tool to predict the annual financial commitment required for future asset rehabilitation. As discussed in the Asset Management Plan report 20-012(CRE), approved by Council in January 2020, the City has a funding gap of \$92.2 million (in 2019 dollars) between our assessed infrastructure investment needs and current capital investment funding for the 10 year period of 2020-2029. This signifies that current annual contributions to capital reserves are not sufficient to maintain the lifecycle replacement requirements of the City's assets. The City continues to work with all levels of government to identify funding opportunities and to explore alternative revenue streams such as a stormwater management utility, implementation of a special infrastructure levy, public-private partnerships and sponsorship strategies to address this infrastructure gap.

Public Input

A public engagement survey for the 2022 budget was available on [engageCambridge.ca](https://engagecambridge.ca) from June 28 through July 29, 2021.

The public is also able to provide input to the 2022 Draft Budget and Business Plan during the City's budget meeting being held virtually on December 2, 2021 or by providing written correspondence to the Office of the City Clerk prior to the meeting.

Internal/External Consultation

There was no internal/external consultation undertaken.

Conclusion

The City of Cambridge is required under Ontario Regulation 284/09 to report on amortization and post-employment benefits that are excluded from the annual budget. For 2021, expenditures of estimated amount of \$22,994,373 have been excluded from the budget.

Signature

Division Approval

Reviewed by Legal Services:



Name: Sheryl Ayres

Title: Chief Financial Officer

Departmental Approval



Name: Dave Bush

Title: Deputy City Manager

City Manager Approval



Name: David Calder

Title: City Manager

Attachments

- N/A