REPORT TO COUNCIL

CITY OF KINGSTON

REPORT TO COUNCIL

TO: Mayor and Members of Council
FROM: Desirée Kennedy, City Treasurer
RESOURCE STAFF: Lana Foulds, Financial Planning Coordinator
DATE OF MEETING: 2010-10-05
SUBJECT: Financial Disclosure Requirements - Ontario Regulation 284/09

EXECUTIVE SUMMARY:
The adoption of the full accrual basis of accounting by municipalities for the 2009 financial statements as required by the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Board (PSAB) required a change to the reporting of expenses. As a result, reported expenses now include non-cash expenses. In response to the resulting disconnect between the way expenses are budgeted and the way expenses are reported, Ontario Regulation 284/09, Budget Matters – Expenses, allows municipalities to exclude, from their budgets, estimated amounts for non-cash expenses. These excluded expenses include:

- amortization of tangible capital assets;
- post-employment benefit expenses; and
- solid waste landfill closure and post-closure expenses.

The Regulation requires that, where a municipality has adopted a budget for 2010 that excludes any of the expenses above, a report about the excluded expenses and their impact on the accumulated surplus shall be approved by Council and adopted by resolution within 60 days of completing the 2009 audited financial statements. In addition, the Regulation requires a reporting of the estimated impact of the exclusion of these expenses on the future tangible capital asset funding requirements of the municipality.

RECOMMENDATION:
THAT Council approve and adopt Report No. 10-293 addressing the financial disclosure requirements as outlined in Ontario Regulation 284/09 with respect to expense amounts excluded from the 2010 municipal operating budget.
AUTHORIZING SIGNATURES:

| ORIGINAL SIGNED BY DIRECTOR OF FINANCIAL SERVICES |
| Desieree Kennedy, City Treasurer |

| ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER |
| Gerard Hunt, Chief Administrative Officer |

CONSULTATION WITH THE FOLLOWING COMMISSIONERS:

<table>
<thead>
<tr>
<th>Commissioner Name</th>
<th>N/R</th>
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<tbody>
<tr>
<td>Cynthia Beach, Sustainability &amp; Growth</td>
<td>N/R</td>
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<tr>
<td>Terry Willing, Community Services</td>
<td>N/R</td>
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<tr>
<td>Denis Leger, Transportation, Properties &amp; Emergency Services</td>
<td>N/R</td>
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<tr>
<td>Jim Keech, President and CEO, Utilities Kingston</td>
<td>N/R</td>
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(N/R indicates consultation not required)
OPTIONS/DISCUSSION:

The adoption of the full accrual basis of accounting by municipalities for the 2009 financial statements as required by the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Board (PSAB) required a change from the reporting of expenditures to the reporting of expenses. Expenditures represent outlays of assets, such as cash, to purchase goods and services, however under the full accrual basis of accounting, expenses are charged as the goods and services are actually utilized or consumed. As a result, amounts reported for expenses will now include, for example, amortization of tangible capital assets.

Section 290 of the Municipal Act requires municipalities to prepare balanced budgets which include all of the expenditures and revenues for the taxation year. However, the reporting changes result in a disconnect between the way expenses are budgeted and the way expenses are reported. Ontario Regulation 284/09, Budget Matters – Expenses, allows municipalities to exclude from their budgets estimated amounts for non-cash expenses. These excluded expenses specifically include:

- amortization of tangible capital assets,
- post-employment benefit expenses
- solid waste landfill closure and post-closure expenses.

The PSAB reporting standards do not require liabilities associated with employee future benefit obligations and solid waste landfill closure and post-closure care activities to be fully funded through operations or set aside in specific reserves or reserve funds. The City's 2009 consolidated financial statements report total employee future benefit obligations of $33.0 million with related reserve funds of $7M and total landfill closure and post closure liabilities of $7M. Estimates for future costs with respect to these unfunded liabilities will continue to be included in the operating budget as actual expenditures are expected to be paid.

The Regulation also requires a reporting of the estimated impact of the exclusion of capital asset amortization expense on the future tangible capital asset funding requirements of the municipality. While the approved 2010 municipal and utility budgets did not include an estimate for amortization of capital assets, provisions were made for budgeted transfers to capital reserves to fund forecasted municipal capital asset renewal and replacement requirements. 2010 budgeted forecasts included transfers to the municipal capital reserve fund of $16M as well as transfers of $38M to other capital reserve funds with respect to specific programs funded by non-tax base revenues, including $21M of capital transfers budgeted within the utility operations.

While budgeted transfers to capital reserve funds are in excess of the estimates for annual capital asset amortization, it is important to note that amortization calculations are based on historical cost data and while this provides a reasonable cost measure of the portion of the asset that has been utilized in providing or supporting a service, it does not adequately reflect the costs required for asset rehabilitation and replacement which are based on current construction prices. As a result, a continuation of the city's 1% incremental capital levy is an important strategy in addressing capital infrastructure deficiencies and ensuring the longer-term sustainability of the municipality's capital infrastructure. Further information on the municipality's tangible capital asset spending requirements, funding requirements and capital financing policies will be presented as part of the 2011 capital budget process.
The table below summarizes the 2010 budget estimates which were not reflected in the budget as presented to Council:

<table>
<thead>
<tr>
<th>2010 Budget Amount</th>
<th>(In thousands of dollars)</th>
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<tbody>
<tr>
<td>Amortization of capital assets</td>
<td>$ (40,000)</td>
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<tr>
<td>Reserve fund expenditures for debt interest</td>
<td>(9,800)</td>
</tr>
<tr>
<td>Unfunded accruals for employee future benefit obligations</td>
<td>(2,000)</td>
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<tr>
<td>Unfunded accruals for landfill closure and post closure liabilities</td>
<td>(200)</td>
</tr>
<tr>
<td>Less transfers to reserves / reserve funds</td>
<td>54,500</td>
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<tr>
<td>Increase in budgeted operating surplus as a result of PSAB requirements</td>
<td>$ 2,500</td>
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This is a time sensitive report as the Regulation requires that a report about excluded expenses and their impact on the accumulated surplus be approved by Council and adopted by resolution within 60 days of completing the 2009 audited financial statements.

**EXISTING POLICY/BY LAW:**

By-Law No. 2010-21, A By-Law to Adopt the 2010 Operating Budget.

**NOTICE PROVISIONS:**

N/A

**ACCESSIBILITY CONSIDERATIONS:**

N/A

**FINANCIAL CONSIDERATIONS:**

N/A

**CONTACTS:**

Desiree Kennedy, City Treasurer    Ext. 2220
Stephen Dickey, Deputy Treasurer    Ext. 2370

**OTHER CITY OF KINGSTON STAFF CONSULTED:**

Lana Foulds, Financial Planning Coordinator    Ext. 2209

**EXHIBITS ATTACHED:**

N/A