Budget Exclusions Related to Regulation 284/09

On June 5, 2009, the Provincial Government of Ontario approved Bill 162 - *An Act Respecting the Budget Measures and Other Matters* and Schedule 18 *Municipal Act, 2001*. On July 31, 2009, Regulation 284/09 titled "*Budget Matters – Expenses*" was filed with the Ontario Registrar of Regulations.

Regulation 284/09 states that municipalities may exclude certain estimated expenses from their budget.

These excluded expenses relate to:

- Amortization expenses on tangible capital assets
- Post-employment benefits expenses
- Solid waste landfill closure and post-closure expenses

As per Public Sector Accounting Board (PSAB) standards, which follows the full accrual basis of accounting, these expenses are reported on in the City's annual financial statements. Although these expenses do not need to be budgeted for, there is a requirement under Ontario Regulation 284/09 to report on the excluded expenses before adopting a budget.

Below is summary of these excluded expenses:

TABLE 1
Excluded Expenses
(Amounts are representative of 2017 expenses and are reported in $millions)

1.	Amortization expenses on tangible capital assets	$192.1M
2.	Increase in post-employment benefits liability	10.8M
3.	Decrease in solid waste landfill closure and post closure liability	(0.3)M
	Total	$202.6M

The Table above outlines the expenses as reported in the City's audited 2017 financial statements. Expenses for 2018 and 2019 have not yet been determined and will be reported in the 2018 and 2019 financial statements respectively.

1. Amortization Expenses on Tangible Capital Assets

Amortization expenses on tangible capital assets were recorded in the 2017 financial statements of $192.1 million as required by PSAB standards. Amortization expenses represent the cost of tangible capital assets allocated to the financial period, based on the *original* cost of the assets when they were originally constructed or purchased.

Although the City's 2019 Budget does not include amortization expenses on tangible capital assets, provisions are made in the 2019 tax and rate Operating Budgets for transfers to capital of $169 million and transfers to capital reserves of $24.2 million resulting in an infrastructure funding surplus estimated at $1.1 million when compared to the amortization expenses. However, information provided as part of the 2019 capital budget workshops estimates the infrastructure repair deficit to be approximately $195 million, annually, in *today's* dollars. The City's tangible capital asset spending requirements, funding requirements and capital financing policies are presented annually during the budget process.

2. Post-Employment Benefits Expenses

The PSAB standards do not require liabilities associated with post-employment benefits to be fully funded by setting aside any portion as reserves and reserve funds. The City's 2017 consolidated financial statements report liabilities of $367.6 million and expenses increases of $10.8 million while the City's 2019 budget includes expenses for expected 2019 payments for retirement benefit plans, sick leave benefit plans, long-term disability plans, *Workplace Safety and Insurance Act* benefits, vacation agreements and non-OMERS pension plans.

As of the end of 2017, the City has reserves associated with these liabilities of $66.0 million which represent 18% funding for these liabilities. The future payments for these liabilities and expenditures for transfers to reserves will continue to be included in the operating budget as these unfunded liabilities are addressed.

3. Solid Waste Landfill Closure and Post-Closure Expenses

The PSAB standards do not require liabilities associated with solid waste landfill closure and post-closure care activities to be fully funded by setting aside any portion as reserves and reserve funds. The City's 2017 consolidated financial statements report liabilities of $24.2 million and reduction in expenses of $0.3 million for landfill closure and post-closure. As of the end of 2017, the City has reserves associated with these liabilities of $1.1 million which represent 4.5% funding for these liabilities.

To conform to the PSAB standard, future liabilities reported on the City's financial statements have been estimated. As actual work is planned and undertaken related to the City's closure and post-closure care, the associated costs will be included in the budget.