

**City of Hamilton**  
**2018 Consolidated Financial Statements**  
**Analysis – July 2019**

**General**

The City of Hamilton’s 2018 consolidated financial statements have been prepared by management and staff of the City of Hamilton in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

These financial statements, Appendix “B” to Report FCS19048, are based on the full accrual basis of accounting under the CPA Public Sector Accounting Handbook sections PS1201 Financial Statement Presentation. The consolidated statement of financial position provides a summary of the City’s financial position as of the end of the year while the consolidated statement of operations provides a summary of the financial activity during the year.

Under the full accrual basis, expenditures related to the purchase and acquisition of tangible capital assets are reported as non-financial assets on the statement of financial position rather than as expenses in the statement of operations. Amounts received that relate to expenditures of future periods are recorded as deferred revenue and reported as liabilities on the statement of financial position.

Expenses are reported on the statement of operations by functional area. Expenses are also broken out by salaries and benefits, interest on long-term debt, materials and supplies, contracted services, rents and financial expenses, external transfers, and amortization of tangible capital assets over the useful life of the assets in the Schedule of Operations for Business Segments. Expenses include the change in liabilities for post-employment, retirement and pension benefits, contaminated sites, and solid waste landfill closure and post closure care costs.

In addition to taxation and investment income, reported revenues include government grants and development charges recognized in the period as well as tangible capital assets donated to the City.

The operating and capital budgets are prepared on the modified accrual basis of accounting. Proceeds from the issuance of long term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

The consolidated financial statements report the financial transactions and estimates made by management during 2018. The consolidated financial statements report the

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City's municipal operations including all departments, Hamilton Police Services, Hamilton Library, CityHousing, Hamilton Street Railway, Hamilton Business Improvement Areas and Government Business Enterprises (Hamilton Utilities Corporation, Hamilton Renewable Power Inc. and Hamilton Enterprises Holding Corporation), Flamborough Recreation Sub-Committees, Confederation Park and Hamilton Farmer's Market.

The Consolidated Financial Statements consist of:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations
- Consolidated Statement of Changes in Net Financial Assets
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

### Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position consists of financial assets, liabilities, non-financial assets and accumulated surplus.

#### Financial Assets

The City's total financial asset position increased in 2018 by \$86M to \$1.781B and is reported in the consolidated financial statements as:

	<u>2018</u> \$000's	<u>2017</u> \$000's
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 130,292	\$ 139,287
Taxes receivable	80,972	77,918
Accounts receivable	119,048	120,405
Other assets	1,418	1,327
Long term receivables	63,573	52,124
Portfolio investments	1,056,507	947,928
Investment in Government Business Enterprises	<u>329,237</u>	<u>356,098</u>
Total financial assets	<u>\$ 1,781,047</u>	<u>\$ 1,695,087</u>

Cash and cash equivalents \$130.3M (2018) \$139.3M (2017)

The total represents the balance in City's bank accounts, deposits held and CityHousing short term investments. The bank accounts include the City's operating bank, accounts payable bank, payroll bank, Ontario Works bank, and CityHousing Hamilton bank. The balance decreased in 2018 from 2017 as less money was held in the bank at year end.

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Taxes Receivable \$81M (2018) \$77.9M (2017)

Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes receivable represent 7.3% of current year's tax levies (2017 – 7.0%). The 2018 balance includes an allowance for doubtful accounts of \$2.9M (2017 - \$1.9M).

Accounts Receivable \$119M (2018) \$120.4M (2017)

Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2018 balance primarily consists of water and wastewater receivables (\$42.8M), general receivables & accruals (\$15.7M), HST receivables (\$9.4M), provincial and federal grants receivable (\$29.6M) and interest receivable (\$4.3M).

Long Term Receivables \$63.6M (2018) \$52.1M (2017)

Long term receivables represent the balance of loans and deferral agreements with agencies and organizations net of the provision for loans with concessionary terms. The long term receivables include:

	<u>2018</u> \$000's	<u>2017</u> \$000's
<b>Development charge deferral agreements</b>	\$37,253	\$26,987
<b>Mortgages receivable:</b>		
Downtown convert to rent program	13,043	11,422
Hamilton Utilities Corporation	6,804	7,128
Hamilton Renewable Power Inc.	278	808
Sheraton Hotel loan	868	977
Other City loan programs	3,987	3,802
<b>Loans to other agencies and organizations</b>	4,211	3,997
<b>Less: Provision for loans with concessionary terms</b>	<u>(2,871)</u>	<u>(2,997)</u>
	\$63,573	\$ 52,124

Portfolio Investments \$1.057B (2018) \$947.9M (2017)

Portfolio investments represent the City's holdings, as prescribed by the Municipal Act, in short and long term fixed income securities. The investments earn various interest rates with different premiums, discounts and maturities. Portfolio investments have a market value of \$1.055B.

Investment in Government Business Enterprises \$329.2M (2018) \$356.1M (2017)

Investment in Government Business Enterprises represents net equity of the consolidation of the City's subsidiary corporations, Hamilton Utilities Corporation (HUC), Hamilton Renewable Power Inc. (HRPI) and Hamilton Enterprises Holding Corporation (HEHCO). The consolidation of subsidiary corporations under the modified equity basis of accounting is required by the generally accepted accounting principles of the Public Sector Accounting Board (PSAB) of the

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Chartered Professional Accountants of Canada (CPA). This PSAB recommendation was instituted in 2000. This also affects the reporting of the accumulated surplus and net municipal position in the consolidated financial statements. Dividends received in 2018 consisted of \$11.4M from HUC and \$0.1M from HRPI (2017 - \$14.7M from HUC and \$0.06M from HRPI).

**Liabilities**

The City's total liabilities position increased in 2018 by \$86.5M to \$1.535B and is reported in the consolidated financial statements as:

	<u>2018</u> \$000's	<u>2017</u> \$000's
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 323,521	\$ 319,187
Deferred revenue - general	45,196	67,667
Deferred revenue - obligatory reserve funds	237,055	252,156
Long term liabilities – municipal operations	432,088	359,637
Long term liabilities – CityHousing Corporation	52,803	58,508
Employee future benefits and other obligations	373,177	367,587
Solid waste landfill liabilities	<u>71,559</u>	<u>24,174</u>
Total liabilities	\$ 1,535,399	\$ 1,448,916

**Accounts Payable and Accrued Liabilities**                      \$323.5M (2018)              \$319.2M (2017)  
Accounts payable and accrued liabilities represent obligations owing by the City to third parties and employees at year end. The balance primarily consists of amounts payable to vendors and contractors (\$142.2M), payroll accruals (\$27.5M), amounts for insurance claims (\$20.3M), security deposits (\$22.9M), and the present value of the City's commitment to the Randle Reef remediation project (\$2.8M).

**Deferred Revenue - General.**                                      \$45.2M (2018)              \$67.7M (2017)  
Deferred revenue represents amounts received that will be recorded as revenue in future years to match expenditures incurred for goods received and services performed. The balance includes federal and provincial government grants and subsidies (\$8.4M), future urban roads (\$13.7M), CityHousing (\$4.6M), general deferred (\$5.1M), and forestry (\$3.7M).

**Deferred Revenue – Obligatory Reserve Funds**              \$237.1M (2018)              \$252.2M (2017)  
Deferred revenue – Obligatory reserve funds represents amounts received that will be recorded as revenues in future years to match expenditures incurred for goods received and services performed. The balance includes:

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	<u>2018</u> \$000's	<u>2017</u> \$000's
Development charge reserve funds	\$128,146	\$158,996
Recreational land dedicated under the Planning Act	42,763	35,235
Gasoline tax revenue: Provincial	17,332	16,692
Federal	27,604	21,919
Building Permit Revenue	20,700	19,285
Other (Ivor Wynne)	-	29
Other (Main Street Revitalization)	<u>510</u>	<u>-</u>
	<u>\$237,055</u>	<u>\$252,156</u>

Development charge and special area reserve fund balances decreased in 2018. The decrease is made up of \$85.2 million in collections less transfers to finance capital projects of \$109.6 million and transfers to operating of \$10.1 million. During 2018 the City received and accrued federal gas tax transfers of \$33.1 million and provincial gas tax transfers of \$11.4 million. Federal gas tax was allocated for capital upgrades to roads and bridges for \$25 million and to transit for \$4 million. The provincial gas tax was allocated to transit related projects for \$0.1M and transit operating budget \$10.9M. During 2018 the City received parkland dedication fees of \$7.5 million and \$1.4 million was allocated to capital projects for future development of city parks. Approximately \$1.1 million of the surplus building permit revenue in 2018 was transferred to the building permit revenue reserve fund. "Other (Main Street Revitalization)" refers to a reserve established with one-time funding from the provincial government to support revitalization activities within Main street areas.

Long Term Liabilities – Municipal Operations                      \$432.1M (2018)      \$359.6M (2017)  
Long term liabilities – Municipal operations represents the outstanding principal for long term debt issued to finance capital expenditures and obligations for leased tangible capital assets. In 2018, the City made principal repayments on long term debt of \$37.7M (2017 - \$48.5M) and principal repayments on leased tangible capital assets of \$0.6M (2017 - \$0.6M). New debt was issued in 2018 for capital projects \$110.8M (2017 – \$0.00).

Long Term Liabilities – CityHousing Operations                      \$52.8M (2018)      \$58.5M (2017)  
Long term liabilities – CityHousing Operations represents the outstanding principal for loans and mortgages obtained to finance certain CityHousing capital expenditures and asset purchases. In 2018, CityHousing made principal repayments on long term debt of \$5.7M (2017 - \$5.6M).

CityHousing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$11.0M (2017 - \$14.0M) is not reported in the consolidated financial statements.

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Employee Future Benefits and Other Obligations      \$373.2M (2018)    \$367.6M (2017)

These estimates represent the liabilities associated with employee post-employment, retirement and pension benefits. The Generally Accepted Accounting Principles recognize the liabilities in the year in which the employees provide the services associated with the benefits.

The 2018 estimates are provided by independent actuaries from actuarial valuations performed for 2018 or performed for earlier years and extrapolated for 2018. The estimates use assumptions for inflationary increases of 2% to 2.25% annually, a discount rate of 3.5% to 5.4%, payroll increases of 3%, and increases in pension plan assets of 5.4%. Projections for retirement benefits assumed that drug costs would increase by 8.2% in 2017 with future annual increases grading down linearly by 0.20% to an ultimate rate of 4.0% and dental costs will increase by 4.0% annually. These liabilities are not reported net of any reserves already setup on the balance sheet in the Statement of Financial Position.

The employee future benefits and other obligations are summarized in the consolidated financial statements as:

	<u>2018</u> \$000's	<u>2017</u> \$000's
<b>Accrued Benefit Obligation</b>		
Sick leave benefit plan	\$ 57,470	\$ 55,982
Long term disability plan	27,869	26,687
Workplace safety and insurance board liabilities (WSIB)	93,436	88,537
Retirement benefits	151,311	146,547
Vacation benefits	26,906	27,478
Pension benefit plans	<u>9,917</u>	<u>9,132</u>
	366,909	354,363
Net unamortized actuarial gain (loss)	<u>6,268</u>	<u>13,224</u>
<b>Accrued Liability</b>	\$ 373,177	\$ 367,587
Less: Provisions in Reserves	<u>(66,073)</u>	<u>(66,002)</u>
<b>Unfunded Liability</b>	\$ 307,104	\$ 301,585

PSAB's disclosure requirements for employee benefits and other obligations are quite extensive. Notes 10 and 11 to the Consolidated Financial Statements provide the details of the actuarial valuations, the actuarial gains and losses, payments and expenses related to these liabilities.

Actuarial gains and losses, permitted in the PSAB accounting standards, result from changes in valuation assumptions used for the current valuations versus previous valuations. The net unamortized actuarial gain of \$6.3M represents a loss in long term disability of \$1.4M, a loss in retirement benefits of \$16.0M, a loss in WSIB liabilities of \$5.4M, a loss in sick leave obligations of \$4.8M and a gain in the pension plans of \$33.9M. These actuarial gains and losses will be spread over future periods and recognized as expenses under the category of salaries and benefits in the Statement of Operations.

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Provisions have been made in the reserves for \$66.1M (2017 - \$66.0M) to fund a portion of these liabilities. These liabilities are only 18.0% funded (2017 – 18.0%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of \$307.1M from reserves or taxation at this time. These unfunded liabilities can be funded in future years as amounts are expensed in the operating budget for actual payments.

### Solid Waste Landfill Liabilities

\$71.6 (2018)      \$24.2M (2017)

This amount represents the estimate of the liability for closure and post closure costs of the City’s twelve closed and one open landfill sites. The liability is calculated by discounting the future years’ expected cash outflows for the spending on eligible activities on the landfill sites. For liability calculation purposes the open landfill site has been divided into three phases. Phase 1 closed in 2018, phase 2 has begun accepting fill and is expected to close in 2046. Construction of Phase 3 has not been initiated. It is estimated that the site will reach full capacity and close in 2055. Expenses for the post-closure care of the open landfill site are estimated for 50 years after each phase is expected to close. The City’s expenses related to spending on capital projects and the change in the estimated liability are reflected in the Statement of Operations.

Waste diversion rates, waste initiatives such as the green cart program and composting, new waste technologies and ongoing assessments of the closed sites impact the landfill liabilities. The City’s waste diversion rate for 2018 was 29-30% (2017 – 43%).

Provisions have been made in a reserve of \$1.1M (2017 - \$1.1M) to fund a portion of this liability. There is no PSAB requirement to fund the liability at this time.

### Non-Financial Assets

The City’s total non-financial assets position increased in 2018 by \$247.1M to \$5.7B and is reported in the consolidated financial statements as:

	<u>2018</u> \$000's	<u>2017</u> \$000's
<b>Non-Financial Assets</b>		
Tangible capital assets	\$5,676,581	\$ 5,429,864
Inventories	15,174	12,556
Prepaid expenses	<u>8,425</u>	<u>10,709</u>
	\$ 5,700,180	\$ 5,453,129

## 2018 City of Hamilton Consolidated Financial Statements Analysis

Tangible Capital Assets (TCAs) \$5.7B (2018) \$5.4B (2017)

The City's general and infrastructure tangible capital assets include land, land improvements, buildings, vehicles, computer, other machinery and equipment, roads, bridges and structures, water and wastewater, facilities and underground infrastructure networks. The net book value of \$5.7B represents the cost of the tangible capital assets less accumulated amortization over the life of the assets. The TCA total includes amounts spent to the end of the year on tangible capital assets under construction.

A summary of the tangible capital assets valued as at Dec. 31, 2018 include:

		<u>2018</u> \$000's	<u>2017</u> \$000's
<b>General</b>			
Land	\$	357,211	\$ 333,818
Land improvements		157,312	152,325
Buildings		817,598	756,160
Vehicles		137,501	128,600
Computer hardware and software		13,572	11,821
Other		95,871	99,540
<b>Infrastructure</b>			
Roads		1,293,193	1,261,223
Bridges and structures		184,387	183,422
Water and wastewater facilities		398,743	403,647
Underground and other networks		<u>1,861,011</u>	<u>1,789,334</u>
<b>Net Book Value</b>		\$ 5,316,399	\$ 5,119,890
<b>Assets under construction</b>		<u>360,182</u>	<u>309,974</u>
<b>Total</b>	\$	<u>5,676,581</u>	<u>\$ 5,429,864</u>

The Schedule of Tangible Capital Assets in the Consolidated Financial Statements contains additional information on these non-financial assets. The replacement cost of assets valued as at Dec. 31, 2018 is estimated at \$21.5B.

Inventories	\$15.2M (2018)	\$12.6M (2017)
Prepaid expenses	\$8.4M (2018)	\$10.7M (2017)

Two other categories of non-financial assets are inventories of goods for use in the delivery of services and prepaid expenses for purchases made in 2018 for expenses to be incurred in 2019 and beyond.



## 2018 City of Hamilton Consolidated Financial Statements Analysis

### Accumulated Surplus

#### Net Municipal Financial Position

**\$5.946B (2018)**

**\$5.699B (2017)**

The City's accumulated surplus represents the net municipal financial position in PSAB's financial statement presentation requirements for 2018. The balance is comprised of the following:

	<u>2018</u> \$000's	<u>2017</u> \$000's
<b>Accumulated surplus (Net municipal financial position)</b>		
Operating surplus of BIA, Flamborough Recreation sub-committee, Confederation Park	\$ 1,933	\$ 1,652
Operating surplus – CityHousing	86,500	(154)
Capital surplus – Municipal	119,822	(37,423)
Capital surplus – CityHousing	17,072	9,286
Reserves and Reserve Funds	709,015	742,253
 Unfunded liabilities – Employee benefits	(348,832)	(343,679)
Unfunded liabilities – Landfill sites	(71,559)	(24,174)
 Investment in Government Business Enterprises	329,237	356,098
 Investment in tangible capital assets	<u>5,102,640</u>	<u>4,995,441</u>
 Total accumulated surplus	\$ 5,945,828	\$ 5,699,300

### Consolidated Statement of Operations

The Consolidated Statement of Operations represents the revenue and expenses under the PSAB format for financial statements introduced in 2009. The budget and actual revenues and expenses reported in the Consolidated Statement of Operations will not match amounts reported to Council for several reasons. The consolidated financial statements include revenues from donated capital assets, expenses from the amortization of tangible capital assets and change in unfunded liabilities which are not included in the budget. Proceeds from the issuance of long term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

These financial statements reflect the transfers to reserves of the City's municipal tax and rate operating budget surplus of \$24.8M as reported in report FCS18067.

The annual surplus in the Consolidated Statement of Operations of \$286.2M represents the excess of revenue over expenses for 2018 under PSAB's full accrual basis of accounting and, therefore, is a different surplus than the operating budget surplus reported to Council.

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**Revenue** increased by \$80.5M to \$2.05B in 2018 from \$1.97B in 2017 and is reported in the Consolidated Statement of Operations as:

	Budget <u>2018</u> \$000's	Actual <u>2018</u> \$000's	Actual <u>2017</u> \$000's
<b>Revenue</b>			
Taxation	\$ 886,430	\$ 888,229	\$ 876,880
Government grants and contributions	453,642	454,774	394,785
User charges	336,728	347,637	334,974
Developer contributions earned	122,105	119,703	50,313
Donated tangible capital assets	46,862	46,862	18,217
Investment and dividend income	43,705	31,101	28,070
Net income from Government Business Enterprises	-	24,285	134,914
Other	<u>106,222</u>	<u>137,476</u>	<u>131,383</u>
Total revenue	\$ <u>1,995,694</u>	\$ <u>2,050,067</u>	\$ <u>1,969,536</u>

The increase in taxation revenue includes the 2018 Operating Budget property tax increase of 1.28%.

Government grants and contributions revenue's increased by \$59.989M in 2018 from 2017. Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2018</u> \$ 000's	<u>2017</u> \$ 000's
General government	\$2,062	\$ 3,735
Protection services	8,743	7,990
Transportation services	58,980	43,248
Environmental services	27,356	5,845
Health services	57,898	56,550
Social and family services	245,885	242,234
Social housing (after consolidations)	48,728	31,910
Recreation and cultural services	3,397	1,398
Planning and development	<u>1,725</u>	<u>1,875</u>
Total Funding	\$ <u>454,774</u>	\$ <u>394,785</u>

User charges of \$347.6M primarily consist of water and wastewater revenues of \$210.8M (\$199.6M in 2017) and transit fares and fees of \$59.4M (\$58.3M in 2017). Other user fees are recorded in recreation & cultural services of \$23.3M (\$22.2M in 2017), Social and family services of \$16.3M (\$16.1M in 2017), Waste diversion & disposal of \$9.8M (\$12.5M in 2017), planning and development of \$12.2M (\$11.1M in 2017) and protection services of \$5.9M (\$5.5M in 2017).

Development charges and sub-dividers contributions of \$120M was recognized as revenue in 2018 while unearned revenue is recorded as deferred revenue on the Statement of Financial Position.

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Donated tangible capital assets of \$46.9M represent assets that were donated or contributed to the City by developers and recorded as revenue as per PSAB accounting standards.

Investment and dividend income consists of investment income of \$31.1M from City municipal and CityHousing operations from fixed income securities, bank balances and deposits.

Net income from Government Business Enterprises represents net income of \$24.3M from HUC, HRPI and HEHCO for 2018 (\$134.9M in 2017). This includes dividends to the City in 2018 of \$11.4M from HUC (\$14.7M in 2017) and \$0.1M from HRPI (\$0.06M in 2017). The other comprehensive income (loss) from Government Business Enterprises was a loss of \$39.7M in 2018 (2017 - \$11.4M loss) and represents the re-measurement gains and losses arising from HUC.

Other Revenue of \$137M represents revenue from licenses and permits of \$21.1M (\$20.5M in 2017), rents of \$44.3M (\$43.4M in 2017), fines and penalties of \$30.7M (\$28.6M in 2017) and other miscellaneous revenue of \$41.4M (\$38.9M in 2017).

**Expenses** increased by \$72.8M to \$1.764B in 2018 from \$1.691B in 2017 and are reported in the Consolidated Statement of Operations as:

	Budget <u>2018</u> \$000's	Actual <u>2018</u> \$000's	Actual <u>2017</u> \$000's
<b>Expenses</b>			
General government	\$ 75,146	\$ 80,025	\$ 70,733
Protection services	324,653	324,227	312,564
Transportation services	315,117	320,005	326,274
Environmental services	294,636	284,271	239,488
Health services	103,589	102,868	99,125
Social and family services	317,343	316,819	315,218
Social housing	117,717	105,893	105,141
Recreation and cultural services	175,281	172,965	169,029
Planning and development	<u>56,213</u>	<u>56,785</u>	<u>53,455</u>
Total expenses	<u>\$1,779,695</u>	<u>\$ 1,763,858</u>	<u>\$ 1,691,027</u>

Expenses are summarized by the functional categories above in the Statement of Operations and by object of expenses in the schedule of operations for business segments in the notes to the Consolidated Financial Statements. Expenses include salaries and benefits, interest on long term debt, material and supplies, contracted services, rents and financial expenses, external transfers, amortization of tangible capital assets and inter-functional transfers. Expenses include expenses in the operating budget programs and expenses from specific projects in the capital budget that are not tangible capital assets. Expenses exclude principal repayments on long term debt recorded as

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reductions of long term debt and capital expenditures recorded as acquisitions and construction of tangible capital assets.

Expenses are summarized in the following categories as:

	<u>2018</u> \$ millions	<u>2017</u> \$ millions
Salaries and benefits	\$ 780.1	\$ 755.4
Interest on long term debt	12.7	13.4
Materials and supplies	207.7	218.1
Contracted services	342.0	275.4
Rents and financial expenses	34.5	42.4
External transfers	190.5	194.2
Amortization	<u>196.4</u>	<u>192.1</u>
Total	<u>\$1,763.9</u>	<u>\$1,691.0</u>

Primary drivers for the increase in expenses relate to \$11.9M in non-tangible capital asset expenses from capital projects (materials and supplies, contracted services, external transfers), \$14.3M in salaries, benefits, pensions, increase in employee future benefits and other obligation \$5.6M, increase of \$4.3M related to amortization for the tangible capital assets, decrease in tax appeals, write-offs and rebates (\$14.0M), increase in solid waste landfill liabilities of \$47.4M.