

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; and,
- 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 in the City’s annual financial statements. Although these expenses do not need to be accounted for in the budget, there is a requirement under Ontario Regulation 284/09 to report on the excluded expenses before adopting a budget.

On February 25, 2024, the City of Hamilton experienced a cybersecurity incident that affected some of the City’s IT systems. The incident is a result of a ransomware attack. While the City is working to restoring the IT systems, some pieces are still in the recovery process and are not usable at this time. As such, expenses for 2023 and 2024 have not yet been determined and will be reported in the 2023 and 2024 financial statements, respectively. The below information is based on 2022 data.

Table 1 is a summary of these excluded expenses:

TABLE 1
Excluded Expenses

(Amounts are representative of 2022 expenses in \$ millions)

1. Amortization expenses on tangible capital assets	\$227.9 M
2. Increase in post-employment benefits liability	14.8 M
3. Increase in solid waste landfill closure and post closure liability	<u>5.2 M</u>
Total	\$247.9 M

Table 1 outlines the expenses as reported in the City's audited 2022 financial statements.

1. Amortization Expenses on Tangible Capital Assets

Amortization expenses of \$227.9 M on tangible capital assets were reported in the 2022 financial statements 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 2025 Budget does not include amortization expenses on tangible capital assets, capital investments are made in the 2025 tax and rate Operating Budgets for transfers directly to the capital fund and transfers to capital reserves. 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 2022 consolidated financial statements report liabilities of \$411.5 M and expense increases of \$14.8 M, while the City's 2024 budget includes expenses for expected 2024 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 2022, the City has reserves associated with these liabilities of \$92.7 M which represents 22.5% of the total requirement. The future payments for these liabilities and expenditures for transfers to reserves will continue to be included in the operating budget as these 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 2022 consolidated financial statements report liabilities of \$83.5 M and increase in expenses of \$5.2 M for landfill closure and post-closure. As of the end of 2022, the City has reserves associated with these liabilities of \$1.3 M which represents 1.6% of the total requirement.

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.