TO:  Mayor and Members  Committee of the Whole  
WARD(S) AFFECTED: CITY WIDE  

COMMITTEE DATE: August 10, 2010  

SUBJECT/REPORT NO:  
Municipal Act Regulation 284/09 and Public Sector Accounting Board (PSAB) Standards (FCS10056) (City Wide)  

SUBMITTED BY:  
Antonio D. Tollis  
Treasurer  
Corporate Services Department  
PREPARED BY:  
Brian McMullen 905-546-2424 ext 4467  

SIGNATURE:  

RECOMMENDATION  
That report FCS10056 “Municipal Act Regulation 284/09 and Public Sector Accounting Board (PSAB) Standards” be approved.  

EXECUTIVE SUMMARY  

Regulation 284/09, attached as Appendix “A” to report FCS10056, states that municipal budgets may exclude from estimated expenses, amortization expenses on tangible capital assets, post-employment benefits expenses and solid waste landfill closure and post-closure expenses. In addition, 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 Consolidated Financial Statements.

Section 290 of the Municipal Act requires municipalities to prepare balanced budgets which include all of the expenditures and revenues for the taxation year. The adoption of the full accrual basis of accounting in the accounting standards in the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Board (PSAB) handbook by municipalities for the 2009 financial statements required the change to reporting of expenses instead of expenditures. Expenditures represent outlays of assets to purchase goods and services. Expenses represent the consumption of assets to provide goods, services and intangibles. Expenses include amortization of tangible capital assets over their useful lives, change in liabilities for post-employment benefits and change in liabilities for solid waste landfill closure and post-closure.

Alternatives for Consideration – Not Applicable

Financial:
The new accounting standards in the Public Sector Accounting Board Handbook, effective for 2009 financial statements, affect the City’s accumulated surplus as certain expenses are included in the financial statement that are not included in the budget.

These excluded expenses include:

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

Table 1 of report FCS10056 illustrates the impact on the City’s 2009 Accumulated Surplus, alternatively known as Municipal Financial Position, if these excluded expenses were not required by the PSAB standards.
TABLE 1: City of Hamilton 2009 Accumulated Surplus  
(Amounts are reported in $000’s)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Surplus per Financial Report</td>
<td></td>
</tr>
<tr>
<td>Accumulated Surplus at Jan 1st, 2009</td>
<td>$4,024,791</td>
</tr>
<tr>
<td>2009 Annual Surplus</td>
<td>54,684</td>
</tr>
<tr>
<td>Accumulated Surplus at Dec 31st, 2009</td>
<td>4,079,475</td>
</tr>
<tr>
<td>Adjustments</td>
<td></td>
</tr>
<tr>
<td>Amortization expenses on tangible capital assets</td>
<td>156,325</td>
</tr>
<tr>
<td>Post employment benefits</td>
<td>58,621</td>
</tr>
<tr>
<td>Solid waste landfill closure and post closure</td>
<td>(3,632)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>211,314</td>
</tr>
<tr>
<td>Adjusted Accumulated Surplus at Dec 31st, 2009</td>
<td>$4,290,789</td>
</tr>
</tbody>
</table>

1. **Amortization Expenses on Tangible Capital Assets**

Amortization expenses on tangible capital assets were recorded in the 2009 financial statements of $156.3 million as required by the new PSAB standards. Although the City’s 2010 Budget does not include amortization expenses on tangible capital assets estimated at $150 million, provisions were made in the 2009 Operating Budget for transfers to capital of $110 million and transfer to capital reserves of $14 million resulting in an infrastructure funding deficit estimated at $29 million. In addition, report FCS10047 “2009 Tangible Capital Assets” which was approved by Audit and Administration Committee at its meeting of June 2nd, 2010, provided information on the 2009 sustainable infrastructure spending deficit of $120.3 million. The City’s tangible capital asset spending requirements, funding requirements and capital financing policies will be presented during the 2011 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 of the accumulated surplus as reserves and reserve funds. The City’s 2009 consolidated financial statements report liabilities of $262.2 million and expenses of $58.6 million while the City’s budget includes expenses for expected 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. The City has reserves associated with these liabilities of $54.3 million which represent 21% funding for these liabilities. The future payments for these liabilities and expenditures for some 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 of the accumulated surplus as reserves and reserve funds. The City’s 2009 consolidated financial statements report liabilities of $27.0 million and reduction in expenses of $3.6 million for landfill closure and post-closure. The City does not maintain a reserve for these liabilities. Estimates for future contractual construction costs will continue to be included in the budget for these unfunded liabilities.

**Staffing:** There are no associated staffing implications.

**Legal:** There are no associated legal implications.

### HISTORICAL BACKGROUND (Chronology of events)


Regulation 284/09 requires a report be approved by Council and adopted by resolution within 60 days of completing the 2009 Consolidated Financial Statements about expenses excluded from the Budget. The Audit and Administration Committee at its meeting on June 2nd, 2010, and Council at its meeting of June 9th, 2010, approved report (FCS10042) “2009 City of Hamilton Financial Report and Audited Financial Statements”. Therefore, Council is required to adopt this report at their meeting in August 2010.

### POLICY IMPLICATIONS

Not applicable.

### RELEVANT CONSULTATION

Corporate Services Department – Financial Planning and Policy Division: 2010 Operating Budget and 2010 Capital Budget.
Analysis and rationale are provided in the Financial/Staffing/Legal Implications section.

Not applicable.


**Financial Sustainability**

- Address infrastructure deficiencies and unfunded liabilities

  Report FCS10056 provides information on infrastructure deficiencies, unfunded liabilities for post-employment benefits and unfunded liabilities for solid waste landfill closure and post-closure.

Appendix “A” - Municipal Act, 2001 - Regulation 284/09 Budget Matters.
Appendix “A” to report FCS10056
Page 1 of 1

Municipal Act, 2001
Loi de 2001 sur les municipalités

ONTARIO REGULATION 284/09
BUDGET MATTERS — EXPENSES

Consolidation Period: From July 31, 2009 to the e-Laws currency date.

No amendments.

This Regulation is made in English only.

Exclusion

1. In preparing the budget for a year, a municipality or local board may exclude from the estimated expenses described in paragraph 3 of subsection 289 (2) and in paragraph 3 of subsection 290 (2) of the Act all or a portion of the following:
   1. Amortization expenses.
   2. Post-employment benefits expenses.

Report

2. (1) For 2011 and subsequent years, the municipality or local board shall, before adopting a budget for the year that excludes any of the expenses listed in section 1,
   (a) prepare a report about the excluded expenses; and
   (b) adopt the report by resolution. O. Reg. 284/09, s. 2 (1).

   (2) If a municipality or local board plans to adopt or has adopted a budget for 2010 that excludes any of the expenses listed in section 1, the municipality or local board shall, within 60 days after receiving its audited financial statements for 2009,
   (a) prepare a report about the excluded expenses; and
   (b) adopt the report by resolution. O. Reg. 284/09, s. 2 (2).

Contents

3. A report under section 2 shall contain at least the following:
   1. An estimate of the change in the accumulated surplus of the municipality or local board to the end of the year resulting from the exclusion of any of the expenses listed in section 1.
   2. An analysis of the estimated impact of the exclusion of any of the expenses listed in section 1 on the future tangible capital asset funding requirements of the municipality or local board. O. Reg. 284/09, s. 3.

Review

4. The Ministry of Municipal Affairs and Housing shall initiate a review of this Regulation on or before December 31, 2012. O. Reg. 284/09, s. 4.

5. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS REGULATION). O. Reg. 284/09, s. 5.