Information:


Regulation 284/09, attached as Appendix “A” to Report FCS13045, 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.

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.

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 FCS13045 illustrates the impact on the City’s 2012 Accumulated Surplus, alternatively known as Municipal Financial Position, if these excluded expenses were not required by the PSAB standards.

### Table 1: City of Hamilton 2012 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, 2012</td>
<td>$4,680,979</td>
</tr>
<tr>
<td>2012 Annual Surplus</td>
<td>130,840</td>
</tr>
<tr>
<td>Accumulated Surplus at Dec 31st, 2012</td>
<td>4,811,819</td>
</tr>
<tr>
<td>Adjustments</td>
<td></td>
</tr>
<tr>
<td>Amortization expenses on tangible capital assets</td>
<td>168,134</td>
</tr>
<tr>
<td>Post-employment benefits</td>
<td>18,521</td>
</tr>
<tr>
<td>Solid waste landfill closure and post closure</td>
<td>(1,390)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>185,265</td>
</tr>
<tr>
<td>Adjusted Accumulated Surplus at Dec 31st, 2012</td>
<td>$4,997,084</td>
</tr>
</tbody>
</table>

1. Amortization Expenses on Tangible Capital Assets

Amortization expenses on tangible capital assets were recorded in the 2012 financial statements of $168.1 million as required by the new PSAB standards. Amortization expenses represent the cost of tangible capital assets allocated to the 2012 financial period, based on the original cost of the assets when they were constructed or purchased. Although the City’s 2012 Budget did not include amortization expenses on tangible capital assets, provisions were made in the 2012 Operating Budget for transfers to capital of $114 million and transfer to capital reserves of $16 million resulting in an infrastructure funding deficit estimated at $38 million when compared to
the amortization expenses. However, information provided as part of the 2013 tax supported capital budget workshops estimates the infrastructure repair deficit to be approximately $195 million 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 of the accumulated surplus as reserves and reserve funds. The City’s 2012 consolidated financial statements report liabilities of $307.5 million and expenses of $18.5 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 $65.0 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 2012 consolidated financial statements report liabilities of $32.0 million and reduction in expenses of $1.4 million for landfill closure and post-closure. The City has reserves associated with these liabilities of $853,000 which represent 2.7% funding for these liabilities. Estimates for future contractual construction costs will continue to be included in the budget for these unfunded liabilities.
BUDGET MATTERS — EXPENSES

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.
   3. Solid waste landfill closure and post-closure 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.

   (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.

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.

Review

4. The Ministry of Municipal Affairs and Housing shall initiate a review of this Regulation on or before December 31, 2012.

Commencement

5. This Regulation is deemed to have come into force on January 1, 2009.