

# Staff Report



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To	<b>City Council</b>
Service Area	Corporate Services
Date	Tuesday, December 1, 2020
Subject	<b>Budget Impacts per Ontario Regulations 284/09 and Budget - Public Sector Accounting Standards Reconciliation</b>

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## Recommendation

That the Budget Impacts per Ontario Regulation 284/09 and Budget - Public Sector Accounting Standards Reconciliation be approved.

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## Executive Summary

### Purpose of Report

To provide a reconciliation between the 2021 City of Guelph budget and the Public Sector Accounting Standards (PSAS) budget in accordance with Ontario Regulation 284/09. The PSAS budget will form the basis of the presentation of the budget for the audited financial statements.

### Key Findings

This report is required annually by legislation.

Ontario Regulation 284/09 requires a report be presented to Council outlining the impact of amortization of tangible capital assets (TCA), post-employment benefit costs and landfill post-closure costs if they are not included in the City's budget. There is also a requirement to report the approved budget on the same basis as the audited financial statements. The audited financial statements are prepared in accordance with PSAS, which must exclude debt principal payments, reserve and reserve fund transfers and other capital-related expenditures from the Statement of Operations. The PSAS adjusted 2021 budget is included in this report as Attachment-1. The reconciliation shows both the required adjustments under Ontario Regulation 284/09, as well as the additional adjustments for full accrual accounting, resulting in a 2021 estimated surplus of \$153,819,413 (2020 - \$84,982,767) for audited financial statement purposes.

### Financial Implications

There are no direct financial implications associated with this report. The intent of this report is to estimate the 2021 PSAS compliant budget based on the 2021 draft budget that is before Council for approval.

## **Report**

In 2009, the Public Sector Accounting Board (PSAB) made significant changes to its reporting requirements, the most notable being the adoption of Section PS 3150 of the CPA Canada Handbook, which requires the recognition of TCA and amortization expense in the audited financial statements.

Prior to 2009, capital assets were accounted for as expenses in the year of purchase. Starting in 2009, all municipalities were required to follow the new financial reporting standards for the preparation of audited financial statements, but they could continue to prepare budgets that excluded amortization expenses, post-employment benefits expenses, and solid waste landfill closure and post-closure expenses.

One of the objectives of the budget is determining the amount of property tax required to fund operating and capital expenditures; to include non-cash expenditures such as amortization in the budget would inflate the total expenses and complicate the tax rate calculation.

In order to bridge the information gap on budget amounts being presented for budget purposes versus financial reporting purposes, Ontario Regulation 284/09 requires municipalities to prepare a report about the expenses excluded from the budget, and Council to adopt the report by a resolution.

The City of Guelph does not budget for the full annual impact of amortization, post-employment benefit costs and landfill post-closure costs, rather these costs have long-term reserve and reserve fund strategies to build funding over time. This report informs Council of the full impact if these costs had been included in the 2021 budget. In addition to the items required to be reported under Regulation 284/09, staff has included additional non-cash expenses required under PSAS that will influence the City's annual surplus or deficit reported on the audited financial statements to provide a more accurate estimate.

### **PSAS Accounting Requirements**

The PSAB sets financial accounting and reporting standards for municipalities and other levels of government. These standards require the City to record revenues and expenses on an accrual basis. This means that revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred. The budget is presented on an accrual basis in alignment with financial reporting requirements.

However, there are a number of transactions that are presented differently on the audited financial statements compared with the City budget, including: debt principal repayments, capital asset acquisitions, transfers to and from reserve funds, and internal charges and recoveries among City departments, which must be eliminated from the Statement of Operations, as these are not considered revenues or expenses under PSAS. The year-end surplus or deficit in the audited financial statements must be reported after recognizing all these PSAS accounting impacts.

### **Reconciliation Summary**

The 2021 City of Guelph Operating Budget vs. (Unconsolidated) Public Sector Accounting Standards Reconciliation, Attachment-1 shows the reconciliation of the City's 2021 draft budget to the budget restated in accordance with PSAS and presents the estimated PSAS budgeted accumulated surplus at year-end.

This reconciliation shows both the required adjustments under Ontario Regulation 284/09, as well as the additional amendments for PSAS accrual accounting resulting in a 2021 estimated surplus of \$153,819,413 (2020 - \$84,982,767). The main contributors to the change year-over-year include increased transfers from reserve and reserve funds of \$56 million and an increase in capital expenditures of \$112 million.

Any changes Council makes to the recommended 2021 budgets will be reflected in the attachment after budget approval. There is no requirement for staff to bring back an updated report to Council with these changes.

## **Revenues**

### **Decrease to Revenues for Financial Statement Purposes**

The 2021 budgeted transfers from reserve and reserve funds is estimated to be \$146,850,000 and represents the amount to be transferred from reserves to fund expenditures, the majority of which relate to capital project costs. Such transfers are not considered as revenue under PSAS, as these funds are recorded as revenue at the time they are received as part of tax, user fee, or grant revenues.

### **Increase to Revenues for Financial Statement Purposes**

Contributed subdivision assets are non-cash accounting revenues recognized when the City takes ownership of new subdivision infrastructure within the City limits. They are not included in budgeted revenue but they are considered as revenue for audited financial statement purposes. The City budgets for the costs of maintenance and replacement of assets in the year when the service is required. The estimated figure for contributed subdivision assets in 2021 is \$7,027,500, which is an increase to revenue.

## **Expenses**

### **Decrease to Expenses for Financial Statement Purposes**

Transfers to reserve and reserve funds are the budgeted contributions to fund future expenditures included in the City's operating budget. These are not considered expenses under PSAS because transfers represent reallocation of funds internally and are not actual payments to external entities. Expenses are recorded when goods and services are received by the City. The total transfers to reserve and reserve funds for 2021 is estimated at \$83,900,000.

Capital expenses are amounts budgeted to be spent on capital projects in the City's capital budget. Capital acquisition costs are not considered expenses under PSAS as they are capitalized on the balance sheet as taxable capital assets and expensed over the useful life of the assets through amortization expense. The total estimated capital expenses for 2021 is \$252,670,406.

Debt principal payments are included in the City's operating budget in order to raise the tax revenue required to pay the principal portion of the current year's debt obligations. The total estimated debt principal payments for 2021 is \$12,647,060. These payments are not considered an expense under PSAS, as the debt principal is recorded as a reduction of the City's long-term debt liability on the audited financial statements.

The City budgets for the current year costs related to the closure of its landfill site in 2003. Under PSAS, the City recognizes a liability in the financial statements,

which amounts to the present value of costs related to monitoring the closed landfill site for 30 years from the date of closure. Each year there is a cost or recovery recorded in the audited financial statements related to the liability as assumptions on the estimates change and the City gets closer to meeting its 30-year monitoring requirement. Since the change in assumptions and the time value of money is a non-cash item in the current year, it is unbudgeted, and the impact is included in the schedule attached. The 2021 estimate for the change in the landfill post-closure liability cost is a decrease of \$617,000, which will result in a recovery being recorded in the audited Statement of Operations.

The liability for contaminated sites works the same way as the landfill post-closure liability, and results in a non-cash expense or recovery on the audited financial statements. The City, in conformance with PSAS, set up a liability in 2015 that accounted for the present value of the total expected costs associated with the City's contaminated sites. The budget includes the annual remediation costs expected that relate to contaminated sites within the budget year and the long-term reserve transfers to cover the City's cost for contaminated sites over time. The 2021 estimate for the change in the contaminated sites liability is a decrease of \$1,905,000, which will result in a recovery being recorded in the audited Statement of Operations.

### **Increase to Expenses for Financial Statement Purposes**

The Tax Increment Based Grant program (TIBG) is included as a transfer to reserves in the City's operating budget in order to set aside the funds required to cover the long-term obligations expected under the program. Under PSAS, a liability must be recorded when the grant is finalized after property reassessment, resulting in a non-cash expense being included in the audited financial statements in that year. The 2021 estimate for the change in the TIBG liability is an increase of \$1,097,553, which will result in an expense being recorded in the audited Statement of Operations.

Post-employment benefit costs are benefits to be paid to employees after early retirement up to the age of 65. These include medical and dental benefits for eligible retirees and other retirement benefits earned during employment. Additionally, the City has Workplace Safety and Insurance Board (WSIB) expenditures that are administered on a self-insured basis. The City must account for future WSIB expenditures related to current employees. Post-employment benefit costs payable in the future are partially included in the City's budgets. The City budgets an annual transfer to reserves to set aside funding for the payment of a portion of these costs over the long-term and to fund the expected in-year cost of these benefits. The estimated impact of the increase in liability related to these benefits in 2021 is \$4,000,000.

The 2021 tangible capital asset amortization expense is estimated to be \$53,000,000. Amortization is an accounting treatment that recognizes the cost of assets over their useful lives rather than in the year the asset was purchased.

### **Financial Implications**

There are no direct financial implications associated with this report. The intent of this report is to estimate the reconciliation of the 2021 proposed budget to a PSAS compliant budget used in the preparation of the audited financial statements.

## **Consultations**

Engineering department for preliminary estimated assumptions related to contaminated sites and landfill post-closure liabilities.

## **Strategic Plan Alignment**

This report aligns with the City's Working Together for our Future pillar to ensure compliance with regulations and transparent financial communications to Council and the community.

## **Attachments**

Attachment-1 2021 City of Guelph Operating Budget to (Unconsolidated) Public Sector Accounting Standards Reconciliation

## **Departmental Approval**

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