

MANAGEMENT REPORT

Date: January 21, 2025
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report Number: FIN25-006
Attachments: None

Title: Ontario Regulation 284/09 – Excluded Expenses

Objective: To meet the legislative requirements of Ontario Regulation 284/09 for financial reporting and provide Council with information regarding expenses excluded from the budgeting process.

Background: In 2009, the Public Sector Accounting Board (PSAB) changed accounting standards for municipalities, requiring full accrual reporting. However, City of Stratford still budgets on a modified cash basis, excluding certain expenses. The 2025 draft budget excludes 'non-cash' items including amortization, post-employment benefits, and landfill post-closure expenses. A report to Council must outline the impact on financial statements, including changes to accumulated surplus and future capital asset funding requirements.

The report shall include:

1. an estimate of the change in the accumulated surplus of the municipality resulting from the exclusion of any of these expenses and
2. an analysis of the estimated impact of the exclusion of any of the expenses on the future tangible capital asset funding requirements.

In addition to the items covered in the O. Reg, the following items are also excluded from the PSAB full accrual budget, but reporting on these items is not required as these items are deemed to be taken from the municipality's surplus.

- Principal paid on debt
- Transfers to reserve accounts
- Transfers from reserve accounts
- Acquisition costs of tangible capital assets

These exclusions are why the internal financial reports and budget process differ, sometimes significantly, from the audited financial statements, that are prepared in accordance with PSAB guidelines.

Analysis:

Amortization Expenses on Tangible Capital Assets:

The 2025 budget excluded an estimated \$10 million for amortization. Despite not budgeting for amortization, capital transfers of \$17 million offset the impact of this item, resulting in an adjusted surplus increase of approximately \$7 million.

Post-Employment Benefits Liabilities

The City, facing a \$7 million post-employment benefits obligation, deferred any additional contributions in the 2025 budget. The City doesn't fully fund this liability, leading to potential annual swings without a reserve to stabilize these fluctuations.

Solid Waste Landfill Closure and Post-Closure Expenses:

This is an estimated liability of \$3.7 million. The City contributes to a reserve for future landfill costs, but there's an unfunded gap of about \$2.9 million.

Impact on Future Tangible Capital Asset Funding Requirements

It is important to note again that amortization expense is not an accurate representation of the City's "Infrastructure Deficit".

The City's comprehensive asset management plan is the best source for quantifying future capital funding needs and measuring the infrastructure deficit in today's dollars. It is intended as a living document, and updated as assets are sold and replaced, and decisions are made affecting future replacements.

In summary, transitioning to a full PSAB-adjusted budget would increase the City's annual surplus by approximately \$18 million under PSAB reporting guidelines. This surplus is used for cash flowing principal debt repayments and cash contributions (transfers) to the reserve fund bank account, which are not captured in PSAB reporting. While adjustments are required for compliance with PSAB reporting, the modified cash basis that is currently used is much simpler for the average person to understand as it represents true cash requirements.

Financial Implications:

Financial impact to current year and future year operating budgets:

The report has no direct impact on the cash operating surplus/deficit.

Link to asset management plan and strategy:

The current modified budgeting is adequate, ensuring reserves accumulate, keeping the levy balanced with general cash operations.

Alignment with Strategic Priorities:

Not applicable: This report does not align with one of the Strategic Priorities as it is provided for compliance purposes with O. Reg 284/09.

Alignment with One Planet Principles:

Not applicable: This report is being prepared for information and compliance purposes so there is no connection to the One Planet principles.

Staff Recommendation: THAT the report dated January 21, 2025, from the Director of Corporate Services regarding legislative requirements of Ontario Regulation 284/09, and the impact of excluded expenses from the City's 2025 budget, be received for information.

Prepared by: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer

Recommended by: Joan Thomson, Chief Administrative Officer