Mike Mayes, Director
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June 2, 2015

CORPORATE SERVICES REPORT - FINANCIAL SERVICES – 2015-32

TO: Mayor Tony Van Bynen and Members of Council
Committee of the Whole

SUBJECT: 2015 Budget Reconciliation

ORIGIN: Senior Financial Analyst

RECOMMENDATION

THAT Corporate Services Report – Financial Services – 2015-32 dated June 2, 2015 be received and the budget reconciliation for expenses excluded from the 2015 budget be adopted as required by Ontario Regulation 284/09 passed under the *Municipal Act, 2001*.

COMMENTS

Purpose

The purpose of this report is to provide Council with a reconciliation of the Council-approved 2015 budget as it compares to the budget that will be reported in the 2015 financial statements; and to adopt the estimates for amortization and the provision for post-retirement benefits.

Budget Impact

This report is for information purposes and has no direct impact on the operating or capital budgets.

Summary

The 2015 Council approved budget, including the infrastructure levy, has a revenue amount of $122,591,480 and an expenditure total of $147,586,053. The adjusted budget, per the Consolidated Statement of Operations, has the same revenue amount and a reduced expenditure amount of $110,901,094 due to the inclusion of budgeted amortization expense, post-employment benefit expense and the exclusion of budgeted tangible capital assets capitalized. These adjustments make the budget PSAB compliant.

Background

Starting with the 2009 year end, accounting standards and reporting requirements have changed dramatically; most significantly with the introduction of tangible capital asset accounting. The new accounting standards, however, do not require budgets to be prepared on the same basis. The Town of Newmarket, like most municipalities, continues to prepare budgets on the traditional cash basis. A key outcome of the annual budget is a tax rate which Council is asked to approve. This tax rate is based on a "cash basis" of accounting for the most part, and therefore does not include all of the PSAB requirements around accrual accounting and accounting for "non-financial assets and liabilities."

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09) that allowed a municipality to exclude from their estimated expenses, costs related to amortization expense, post- employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report on the impact of these excluded costs.

The Town's 2015 Budget and associated levy excluded the following:

1. The budget did not include expenses for the amortization of its tangible capital assets in the amount of $16.4 million, as amortization is a non-cash expense. The budget does however, include $15.0 million in contributions to the asset replacement funds.
2. Based on an actuarial review as at the end of 2012, the 2012-2014 average annual expense for post-retirement benefits was estimated to be $392,000. This amount was used as an estimate for 2015 post-retirement benefits and was not included in the budget.
3. No solid waste landfill closure and post-closure costs have been included, as the Town does not have responsibility for landfill sites.

In preparing the budget for 2015, the Town included an amount of $57.5 million in capital expenditures. Of this amount, $53.5 million has been identified as being tangible capital assets. For cash flow purposes, it is assumed that only 1/3rd of this amount will be spent in 2015. This is consistent with the trend of previous years.

The attachment illustrates what the 2015 budget would look like in the Town's consolidated financial statements in the Public Sector Accounting Board (PSAB) 3150 format.

Post-Employment Benefits

Employee Future Benefits are health and dental benefits that are provided to early retirees, future retirees, and employees currently on long-term disability. An actuarial valuation was carried out as at December 31, 2012 using a discount rate of 3.75%. It was determined that at the end of 2014, the liability for employee future benefits was $4.7 million, of which $1.4 million (29.8%) has been funded. Although there is no legislative requirement to fund this liability – it may be handled on a "pay-as-you-go" basis – the Town continues to be fiscally prudent. The liability is expected to grow to $5.1 million in 2015 (27.5% funded). An actuarial review will be implemented at the end of 2015.

Amortization Expenses

Amortization, commonly referred to as depreciation, theoretically represents the annual use of the Town's assets. Although amortization expenses should not be used to determine the impairment of an asset, it is a good tool to predict the future annual financial commitment required for asset rehabilitation. The amounts and calculations for amortization expenses are in accordance with our tangible capital asset (TCA) policy.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

There is no relationship to the strategic plan as this is a compliance report under the *Municipal Act, 2001*.

BUDGET IMPACT

This report is for information purposes only and, as such, will have no direct impact on taxes, fees and charges or the use of reserves. There is no impact on the future tangible capital asset funding requirements of the municipality, as a result of the exclusion of any of the estimated expenses.

The original 2015 budget approved by Council included a deficit for the year of $25.0 million (due to the draw on reserves and reserve funds to fund the capital program). With the inclusion of the PSAB reporting requirements, the budget would result in a surplus of $11.7 million.

CONTACT

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Attachment

- 2015 Budget Reconciliation (1 pg.)

2015 Operating Budget

Budget Reconciliation

The budget approved by Council differs from the budget in the Consolidated Statements. The differences are mainly due to PSAB 3150 reporting requirements.

		Revenues	Expenses
Council approved budget for 2015:			
Operating fund - April 20, 2015		$ 112,127,407	$ 112,127,407
Less: Principal payment on long-term debt		$ -	$ (2,927,071)
Less: Transfers to / from other funds		$ (8,111,331)	$ (19,079,764)
Capital - New - April 20, 2015		$ 29,333,475	$ 29,333,475
Plus: Capital - Carryovers		$ 28,132,006	$ 28,132,006
Less: Transfers from other funds		$ (40,425,164)	$ -
Reserves and Reserve funds - May 25, 2015		$ 20,247,854	$ 48,187,495
Less: Transfers to / from other funds		$ (18,712,767)	$ (48,187,495)
TOTAL COUNCIL APPROVED BUDGET	**(1)**	**$ 122,591,480**	**$ 147,586,053**
Less: Tangible Capital Assets Capitalized	**(2)**	-	(53,459,526)
Plus: Budgeted amortization expense	**(3)**	-	16,382,567
Plus: Post-employment benefit expenses	**(4)**	-	392,000
Adjusted Budget per Consolidated Statement of Operations		**$ 122,591,480**	**$ 110,901,094**

(1) Council approves balanced budgets with the exception of Reserves and Reserve Funds. The difference between Revenue and Expenses is the net transfer to or from other funds.

(2) This figure represents the total expenditures in the Capital Budget for Tangible Capital Assets. Disposals are not considered to be material and are therefore excluded.

(3) This figure is the estimated amortization for the current year's budgeted Tangible Capital Asset additions and adding it to the previous year's actual amortization expense.

(4) This is estimated based on the 2012 actuarial evaluation.