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Region of Peel
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REPORT
General Committee

DATE: June 25, 2010

REPORT TITLE: **ADDITIONAL FINANCIAL DISCLOSURE REQUIREMENTS PURSUANT TO ONTARIO REGULATION 284/09**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

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RECOMMENDATION

That the report of the Chief Financial Officer and Commissioner of Corporate Services dated June 25, 2010 titled "Additional Financial Disclosure Requirements Pursuant To Ontario Regulation 284/09", be adopted.

REPORT HIGHLIGHTS

- The Region has made significant contributions to reserves including those for capital works, Workers' Safety and Insurance Board benefits, vested sick leave, councillors' retirement allowance and solid waste landfill closure and post – closure.
- Reserves are now included in a municipality's accumulated surplus
- As not all municipalities either budget directly or through reserve contributions for these expenses, Ontario Regulation 284/09 requires a report to Council if amortization, post employment benefits, and solid waste landfill closure and post-closure expenses are not directly budgeted for.
- Post-employment expenses for retiree benefits excluded from the budget will reduce the 2010 accumulated surplus by $800,000.
- Reserves and liabilities recognized to date are adequate to offset other post-employment expenses including Workers Safety and Insurance Board, vested sick leave and Councillors' Retirement Allowance.
- Reserves also offset the current liability for the solid waste landfill and post-closure.
- Budgeted contributions to capital reserves compared to amortization expenses excluded in the 2010 budget are higher for property tax supported programs and approximately 9.0 per cent lower for utility rate supported programs.
- In addition to amortization expenses based on historical costs, capital reserve contributions fund future replacement costs, enhancement to capital assets and growth capital additions for non-DC funded programs like waste management.
- Continued support is required for the "1 Per cent Solution" and "3 Per cent Solution" to ensure sustainability of the Region's capital infrastructure and avoid an infrastructure funding deficit.

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DISCUSSION

1. Background

The Region has historically made significant contributions to reserves for capital, benefits and landfill liabilities. Provincial legislation has changed municipal requirements for financial reporting starting in 2009 and budgeting starting 2010. For reporting purposes, the accumulated surplus now reflects tangible capital assets and reserve and reserve fund balances. For budget purposes, as per Ontario Regulation 284/09, a municipality may exclude from the budget, amortization expenses pertaining to tangible capital assets; post-employment benefits expenses; and solid waste landfill closure and post-closure expenses. As Council has adopted the 2010 budget, a report must be presented to Council providing the 2010 impact of the excluded expenses from the budget within 60 days after receiving its audited financial statements for 2009. For 2011 and subsequent years, the report is required before adopting the budget.

2. Analysis

Appendix 1 includes a detailed analysis of the estimate of the change in the accumulated surplus reported in the audited financial statements as a result of excluding from the 2010 budget expense for amortization, post employment benefits and solid waste landfill and post closure.

Amortization Expenses

It is expected that the current practice of excluding amortization expense from the budget will not have a negative impact on the accumulated surplus reported in the 2010 audited financial statements. Budgeted contributions to capital reserves are expected to exceed amortization expense ensuring the cost of assets used to deliver Regional services in 2010 are recouped from the tax levy and utility rates.

In addition to the future replacement of capital assets, contributions to capital reserves also fund enhancements and growth capital not funded from development charges like assets for waste management. In order for this continue, future budgets must incorporate the "1 Per cent Solution" and "3 Per cent Solution".

Post Employment Benefit Expenses

For post-employment expenses for retiree benefits, Peel Police budgets for most of the current year expense while the Region plans to do so in 2011. The budget shortfall for 2010 is $800,000. The current year liability has historically been expensed as part of year end surplus management. This accounts for 48.4% of the actuarial liability.

The balance of post-employment expenses such as WSIB benefits, vested sick leave and councillors' retirement allowance have either already been expensed and recognized as liabilities or are expected to draw upon reserve balances that now represent a portion of the accumulated surplus designated to fund these expenses.

Landfill Closure and Post-Closure Expenses

Dedicated landfill reserve balances, now also a portion of the accumulated surplus, are adequate to fund these expenses.

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CONCLUSION

With the exception of retiree benefits, expenses recognized as liabilities and reserves designated to offset liabilities are adequate to fund current year expenses for amortization, post-employment benefits and solid waste landfill closure and post-closure liabilities.

In addition to amortization expenses based on historical costs, capital reserves must fund future replacement costs, enhancements to capital assets and assets for the growth of programs not funded from development charges like waste management. For that reason, continued support is required for the "1 Per cent Solution" and "3 Per cent Solution" to ensure sustainability of the Region's capital infrastructure and avoid an infrastructure funding deficit.

The reporting requirements from Ontario Regulation 284/09 have been met.

Norma Trim
Chief Financial Officer
and Commissioner of Corporate Services

Approved for Submission:

D. Szwarc, Chief Administrative Officer

For further information regarding this report, please contact Dave Bingham at extension 4292 or via email at binghamd@peelregion.ca

c. Legislative Services

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1. Amortization of Tangible Capital Assets:

Amortization is an expense that allocates the cost of tangible capital assets over the period of time the assets are used to deliver services and programs to the businesses and residents of Peel. Amortization is an accounting concept based on historical or past cost and is excluded from the calculation of the tax levy and utility rates during the budget process. However, the Region does provide for contributions to capital reserves as part of its strategic plan to manage reserves and tangible capital assets. The contributions are more closely tied to future replacement cost of assets and can be used as a crude comparator with amortization expenses to determine if the reserves are adequately being funded to support future capital replacement and if amortization expense is being recovered from the property tax levy and utility rates.

The amortization expense in 2009 was $157.8 million with an estimate of $171.6 million for 2010. The budgeted contributions to capital reserves were $164.5 and $172.4 million for 2009 and 2010 respectively. Reserve contributions are based on amounts required to fund the existing capital plan. Corporate Asset Management will help us to determine if the appropriate repair and replacement budgets are in the plan. Current comparisons assumes historical and replacement cost are the same and no change in technology or standards is required.

	2010			2009		
$ Millions	Capital Reserve Budget	Amortization Expense	Over (Under) Recovery	Capital Reserve Budget	Amortization Expense	Over (Under) Recovery
Water	57.1	48.3	8.8	56.2	43.4	12.8
Wastewater	32.3	50.0	(17.7)	31.9	47.0	(15.1)
Total Utility Rate	89.4	98.3	(8.9)	88.1	90.4	(2.3)
Police	16.4	8.6	7.8	9.3	8.6	0.7
Other Property Tax *	66.6	64.7	1.9	67.1	58.8	8.3
Total Property Tax	83.0	73.3	9.7	76.4	67.4	9.0
Total Region	172.4	171.6	0.8	164.5	157.8	6.7

*Amortization expense includes $10.9 million in 2010 and $10.8 million in 2009 for Peel Housing Corporation.

Utility Rate Supported Programs

The budgeted capital reserve contributions are expected to be 8.9 million or 9.1 per cent lower than the amortization expense in 2010. The anticipated under-recovery of $17.7 million in Wastewater is expected to be partially offset by an over-recovery in Water which mirrors what occurred in 2009 when the under recovery in Wastewater was $15.1 million.

Property Tax Supported Programs

Peel Police

For 2010, budgeted contributions to capital reserves for Police are expected to exceed amortization expense by $7.8 million or 90.1 per cent.

Other Property Tax Supported Programs

For 2010 budgeted contributions to reserves are expected to exceed amortization expense by $1.9 million or 2.9 per cent.

Summary

Although there is a shortfall in Wastewater, the above table indicates that for Peel in total the annual amortization expense excluded from the budget is offset by the inclusion of budgeted contributions to capital reserves in the calculation of the tax levy and utility rates for 2009 and 2010. Therefore, excluding amortization from the budget process will not impact the accumulated surplus reported in the audited financial statements.

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However, for future budgets, continued support to increase contributions to both property tax rate and utility rate capital reserves is required. Corporate Asset Management analysis indicates that the 2008 replacement cost for the utility infrastructure alone to be over $14.0 billion. Continued support is needed to apply the "1 Per cent Solution" for tax rate capital reserves and the "3 Per cent Solution" to utility rate capital reserves to ensure the financial sustainability of asset replacement in the long term and avoid an infrastructure funding deficit in the future.

1. Post-employment Benefits

a) Retirement Benefits

Expenses for retirement benefits are the result of increases in the estimates for non-pension retirement liabilities for extending the benefits related to health care, dental, health spending and life insurance costs. With the exception of life insurance, and the health spending for Police, these benefits cease at the age of 65.

For 2010 the liability is expected to increase by $3.2 million to $44.7 million from $41.5 million reported in 2009. Interest earned is accrued annually on the funded balance of the liability similar to a reserve and is used to partially offset the expense in the current year. Approximately $20.1 million or 48.4 per cent of the liability was funded as at December 31, 2009.

Annually, increases in the liability are reported as expenses in the audited financial statements.

Retirement Benefits Expense						
	2010			2009		
$ Millions	Budget	Expected Actual	Over (Under) Recovery	Budget	Actual	Over (Under) Recovery
Police	2.4	2.7	(0.3)	2.6	2.7	(0.1)
Region	-	0.5	(0.5)	-	0.4	(0.4)
Total	2.4	3.2	(0.8)	2.6	3.1	(0.5)

Peel Police

In 2010 the liability is expected to increase to $38.8 million resulting in an anticipated expense of 2.7 million. The budget of $2.4 million creates a shortfall of $0.3 million which is expected to be funded as part of the year-end surplus management. Interest earned of $0.7 million on the funded liability is included in the budget to offset the expense. The 2009 year-end funded liability was $17.6 million or 48.8 per cent.

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In 2010 the liability is expected to increase to $5.9 million resulting in an anticipated expense of 0.5 million. The expense is currently not accounted for in the budget and therefore when coupled with the interest earned on the unfunded liability of $0.1 million creates a shortfall of $0.4 million, which is expected to be accounted for as part of year-end surplus management entries. The 2009 year-end funded liability was $2.6 million or 47.4 per cent.

Summary

Although not 100% funded, liabilities for retirement benefits are longer-term in nature not requiring immediate cash disbursements in the short-term to settle or discharge obligations. Analysis received after consulting with actuarial professional did not indicate the current funding practice or the percentage of the liabilities funded to be inadequate.

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For 2010, retirement benefit expenses not budgeted for are expected to reduce the accumulated surplus by $0.8 million in the audited financial statements.

b) Workers' Safety and Insurance Board (WSIB) Benefits Expense

Expenses for WSIB benefits are the result of increases in the estimated liability for future payments on workplace injury claims occurring prior to the end of the fiscal year.

In 2009 the liability increased from $14.8 to $15.6 million resulting in an expense of $0.8 million. Interest in the amount of $0.3 million was accrued on the $7.2 million funded portion of the liability to offset the expense. The net impact of $0.5 million was funded from other surpluses reported as part of year-end surplus management.

For 2010, the increase in the liability will not be known until an actuarial evaluation for the liability is completed later in the year.

Expenses and offsetting interest earned on funded balances not included in the budget will reduce the accumulated surplus reported in the audited financial statements. The anticipated net impact will resemble the $0.5 million from 2009.

Including a WSIB reserve of $11.5 million, the Region has approximately $18.7 million available to cover future WSIB liabilities or approximately 120 per cent of the 2009 liability.

c) Vested Sick Leave Liability - Police

The Police vested sick leave liability decreased by $5,706 to $231,522. Changes to the liability are attributed to the winding-down of the vested sick leave plan and therefore not included in the budget process. The reserve balance of $659,767 is more than adequate to fund remaining disbursements required to settle the obligation.

d) Councillors' Retirement Allowance

The reserve balance is adequate to fund disbursements required to settle the obligation.

2. Solid Waste Landfill Closure and Post - Closure Expense

Expenses for landfill sites are the result of increases in the estimated liabilities for the cost of future activities required to close landfill sites, and monitor and care for sites subsequent to their closure. The liability is determined by the net present value of future cash flows required to maintain the site.

In 2009 the $3.6 million increase in the liability from $19.8 to $23.4 million was absorbed as an expense in the accumulated surplus. Although the expenses were not included in the 2009 or 2010 budget, the Region retains Waste Management reserves in the amount of $24.7 million available to fund or offset 100% of the liability.

The liability is longer term and any disbursements expected to come due in the current year are accounted for in the Waste Management Capital Budget.

The increase in the liability is expected to be moderate since the 2009 drop in the discount rate (used to determine the future present value of future expenditures) is not expected to repeat in 2010. It therefore follows that the expense and impact on the accumulated surplus should be minimal.