



## STAFF REPORT INFORMATION ONLY

### Additional City of Toronto Act Reporting Requirements As a Result of Recording of Tangible Capital Assets

<b>Date:</b>	August 3, 2010
<b>To:</b>	Budget Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2010\Internal Services\Acc\Bc10016Acc (AFS12710)

#### SUMMARY

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This report provides information required under the City of Toronto Act, 2006 regarding accounting expenses which have been excluded from budgeted expenses for the 2010 budget.

#### Financial Impact

There are no financial implications as a result of this report.

#### ISSUE BACKGROUND

Ontario Regulation 286/09: Budget Matters - Expenses requires that the City shall, within 60 days after receiving its audited financial statements for 2009, prepare a report about amortization, post-employment benefits and solid waste landfill closure & post-closure expenses, if excluded from the 2010 budget. For future years, this report is required to be prepared prior to adoption of the budget.

For 2009, municipal accounting changed substantially – adopting full accrual accounting, and recording the city's tangible capital assets for the first time, as documented in the City's consolidated financial statements. This accounting change had material impacts on the City's revenues and expenses, and will result in annual surpluses, as the City's large capital investments are no longer expensed in the financial statements. Although a new expense – 'amortization' is recognized, this expense is generally much lower than capital assets purchased, as amortization is based on the historical cost of the City's assets. The Province recognized that the former Section 228 in the City of Toronto Act, 2006 with its requirement for balanced budgets, and required disposition of any surplus or

deficit, would need to be amended to reflect these changes. At the same time, the section had not been updated to reflect additional standards imposed by the Public Sector Accounting Board in the last ten years, specifically the recording of landfill closure and post-closure liabilities, and employee future benefit liabilities.

## **COMMENTS**

The City has not recognized the excluded items in its 2010 budget. The following estimates the impact of the change in accumulated surplus from these excluded items, and estimates the impact on future infrastructure funding.

Estimates may be substantially different from the resultant actual amounts as they relate to future events. In particular, the liability estimates may change substantially based on many factors, the most significant of which is the discount rate, which must reflect interest rates as at December 31.

### Amortization expense

Amortization expense represents the allocation of tangible capital assets' historical cost over their estimated useful lives. As the City's assets have estimated useful lives of up to 70 years, there is generally a very large difference between historical cost and replacement cost. Therefore, although amortization costs will indicate a cost of assets used, this would only provide a portion of funding required for asset replacements. Amortization expense for City Operations [which includes the Police Services Board but excludes the other Agency, Boards and Commissions (ABCs)], for 2009 was \$310,923,000 (2008 - \$297,210,000). The tangible capital asset addition for City Operations for 2009 was \$583,863,000, and tangible capital asset additions for 2010 are estimated at \$500,000,000 with estimated amortization for 2010 of \$300,000,000.

### Post-employment benefits expense

Post-employment benefits represent benefits that employees have earned through their service to-date, which will be paid out in the future. These benefits consist of: vested sick leave, Workplace Safety and Insurance Board, health, dental, life insurance and long-term disability, and pension benefits. Actuarial calculations are performed every three years. The City Operations portion of the employee future benefit liability as at December 31, 2009 is \$2,113,900,000 (2008 - \$2,023,800,000). The amount expensed during the year for City Operations was \$132,300,000 (2008 - \$136,800,000). The increase in employee future benefit liability for 2009 for City Operations was \$90,100,000 and the estimated increase in employee benefits liabilities for 2010 is approximately \$78,000,000.

### Landfill closure and post-closure costs

Landfill closure and post-closure costs represent the costs that must be incurred to close active landfills and to monitor and remediate any issue with inactive / closed landfills. The City has 161 closed landfills, and one active landfill. During the year, due to the large reduction in the liability, landfill closure and post-closure costs totalled negative \$12,946,000 (2008 – positive \$16,300,000). The City's landfill closure liability is \$123,343,000, (2008 - \$139,341,000) a decrease of \$16 million over 2008, due to lower estimates of costs to remediate and monitor closed landfills. The increase in the landfill closure and post-closure costs in 2010 is estimated at \$5,000,000.

The forecasted impacts on accumulated surplus to the end of 2010 from inclusion of these estimated expenses are as follows:

	\$ 000's	\$ 000's
City accumulated surplus, unconsolidated Dec 31, 2009		8,600,000
Use of surplus or reserves in 2010 budget	(343,000)	
Impact of tangible capital assets:		
Anticipated asset purchases	500,000	
Amortization	(300,000)	
Impact of employee future benefits:		
Estimated increase in employee benefits liability	(78,000)	
Impact of landfill closure and post-closure:		
Estimated increase in landfill post-closure costs	(5,000)	
Impact of financing:		
Debt principal repayments budgeted	250,000	
Surplus for Accounting Purposes		24,000
Estimated accumulated surplus, unconsolidated Dec 31, 2010		8,624,000

Exclusion of the expenses for budget purposes does not result in an impact to future tangible capital asset funding requirements, as the existing capital planning process takes into account long-term requirements and funding sources.

For 2011 and subsequent years, as required by the Ontario Regulation 286/09 under Section 2(1), the City will prepare a report about excluded expenses before adopting the budget for the year.

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## **SIGNATURE**

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## **ATTACHMENT**

Appendix A: Ontario Regulation 286/09