

**Region of Waterloo**

**Corporate Services**

**Corporate Finance**

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**To:** Strategic Planning and Budget Committee

**Meeting Date:** December 11, 2024

**Report Title:** Municipal Budget Regulation

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**1. Recommendation**

That the Regional Municipality of Waterloo adopt report COR-CFN-24-027 dated December 11, 2024 titled “Municipal Budget Regulation” as required by Ontario Regulation 284/09.

**2. Purpose / Issue:**

To meet the requirements of O. Reg 284/09 under the Municipal Act.

**3. Strategic Plan:**

The annual budget aligns resources to the organization’s strategic vision and numerous initiatives set out in the Corporate Strategic Plan.

**4. Report Highlights:**

- The Municipal Act requires municipalities to prepare and adopt an annual budget. Accompanying regulations allow for amortization expenses, post-employment benefits expenses and solid waste landfill closure and post-closure expenses to be excluded from the annual budget.
- Before adopting a budget that excludes any of the expenses noted above, a municipality must prepare a report regarding the excluded expenses and adopt the report by resolution.
- This report fulfills the reporting requirement. The Region includes in its annual budget contributions to capital reserves (in lieu of and in excess of amortization) to provide funding for future asset renewal and replacement costs. The Region also includes in its annual budget the cost of employment benefit expenses and solid waste landfill closure and post-closure expenses (capital and operating), rather than the change in the amount of the future liability and asset retirement obligation which are reported as an expense in the annual financial statements.

## 5. Background:

### Legislative Provisions.

Section 289 of the Municipal Act (“the Act”) [see Appendix “A”] requires an upper-tier municipality to prepare and adopt a budget including estimates of all sums required during the year for the purposes of the upper-tier municipality. O. Reg 284/09 under the Act [see Appendix “B”] allows for the following items to be excluded from the annual budget: amortization expenses, post-employment benefits expenses and solid waste landfill closure and post-closure expenses.

The Act requires that municipalities prepare balanced budgets which include all of the annual expenses of the municipality. The Region, similar to most municipalities in Ontario, budgets on a modified accrual basis to determine the property tax levy and user rate requirements needed to fund the operations of the Region and its ten year capital program.

Before adopting a budget that excludes any of the expenses listed above, a municipality must prepare a report regarding the excluded expenses and adopt the report by resolution. Such report must contain an estimate of the change in the accumulated surplus of the municipality to the end of the year resulting from the exclusion of any of the expenses, and an analysis of the estimated impact of the exclusion of any of the expenses on the future tangible capital asset funding requirements.

### Amortization Expenses/Capital Funding.

The Public Sector Accounting Board (PSAB) requires the historical cost of tangible capital assets and the related annual amortization expense to be recorded in municipal audited financial statements. Amortization is the amount of a tangible capital asset which is consumed through use of that asset by a municipality during the year. For example, a road with an expected life of 50 years would have one-fiftieth of its historical cost recorded as amortization each year.

The historical cost of assets net of accumulated amortization (\$4.0 billion in 2023) is included in the Statement of Financial Position, while the annual amortization expense (\$161.9 million in 2023) is included in the Statement of Change in Net Debt and Statement of Cash Flows. The Region’s annual operating budget includes transfers to reserves to fund rehabilitation, replacement and expansion of assets as well as principal and interest repayments on debt issued to acquire assets. These amounts provide for the acquisition and replacement of assets as required, and in the Region’s case the combined amount exceeds the related annual amortization (which reflects the historical cost of assets).

As previously reported, additional budget contributions are required to fully fund asset lifecycle costs. The current level of property tax levy contributions to fund capital asset renewal falls short of contribution targets and the Region’s ten-year capital plan currently does not achieve pay-as-you-go funding for asset renewal and rehabilitation projects.

Further information will be provided through future Asset Management Plan and Policy updates.

### **Post-Employment Benefit Expenses.**

The Region's annual financial statements include a liability associated with employee future benefits. This liability has three components: post employment benefits, sick leave and Workplace Safety & Insurance Board (WSIB). These future liabilities are calculated on an actuarial basis annually for financial statement purposes in accordance with PSAB requirements. Post-employment benefit expenses refer to post employment benefits (health, dental, and life insurance) and vested sick leave. The liability for these benefits as of December 31, 2023 was \$51.7 million for the Region and \$200.3 million for the Waterloo regional Police Services (WRPS), while the 2022 net change in the future liability was \$2.5 million for the Region and \$7.5 million for WRPS. For annual budget purposes, the Region and the Police Services Board estimates the current year benefit cost and this amount is provided for in the annual operating budget. Additionally, in 2022 Police Services started setting aside funds in a reserve to fund the future benefit costs.

### **Landfill Closure and Post-Closure Expenses.**

Landfill closure and post-closure costs are incurred to close active landfill sites and to monitor and remediate any closed landfills in the future. The Region owns and operates one active landfill site and owns and monitors five closed landfill sites. Solid waste landfill closure and post-closure costs are funded through the Region's annual budget.

On January 1, 2023, the Region adopted Public Accounting Standard PS 3280 – Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and resulted in a withdrawal of Section PS 3270 – Solid Waste Landfill Closure and Post-Closure Liability. In accordance with the provisions of this new standard, the Region removed the landfill liability that had been recognized to date and recognized an asset retirement obligation on January 1, 2022. The liability represents the required closure and post-closure care for the one active and five closed landfill sites owned by the Region. To date, Ontario Regulation 284/09 has not been updated to reflect these changes.

In the Region's financial statements, asset retirement obligations associated with landfill closure total \$80.9 million for 2023, an increase of \$7.7 million from 2022. These amounts recognize the legal obligation associated with the retirement of a tangible capital asset and are not included in the annual budget. The Region includes in its annual budget the annual maintenance and monitoring expenses at closed landfill sites as well as any capital works.

## **6. Area Municipality Communication and Public/Stakeholder Engagement:**

Nil.

**7. Financial Implications:**

The following table illustrates the amounts budgeted and included in the financial statements for the above items in the 2023 fiscal year. The 2024 amounts for changes in the outstanding liability will be available when the 2024 financial statements are completed. For comparison purposes 2025 budget figures are also shown. The table illustrates that the amount of funding raised through the annual operating budget to fund non-growth and growth related capital projects (including repayment of debenture principal) exceeds the amortization expense used for financial statement purposes. This is expected as the amount required to fund asset replacements in the future would typically exceed amortization based on historical costs.

Expense (\$ thousands)	2023 Budget	2023 Financial Statements	Difference	2025 Budget
<b>1. Amortization/Capital funding</b>				
Transfers to Capital Reserves	\$159,707	n/a	-	\$191,377
Principal Repayments	\$56,845	n/a	-	\$56,907
Amortization	n/a	\$161,878	-	n/a
<b>Total Amortization/Capital funding</b>	<b>\$216,552</b>	<b>\$161,878</b>	<b>\$54,674</b>	<b>\$248,284</b>
<b>2. Post-Employment Benefits</b>				
Region (excluding WRPS)	\$3,875	\$2,537	-	\$4,702
Waterloo Regional Police Service	\$4,420	\$7,538	-	\$6,621
<b>Total Post-Employment Benefits</b>	<b>\$8,294</b>	<b>\$10,075</b>	<b>(\$1,781)</b>	<b>\$11,323</b>
<b>3. Landfill Closure and Post-Closure</b>				
Operating Budget Expenditures	\$2,374	n/a	-	\$2,441
Capital Budget Expenditures	\$9,167	n/a	-	\$5,506
Landfill Closure Asset Retirement Obligation	n/a	\$7,658	-	n/a
<b>Total Landfill Closure and Post-Closure</b>	<b>\$11,541</b>	<b>\$7,685</b>	<b>\$3,856</b>	<b>\$7,947</b>

**8. Conclusion / Next Steps:**

Nil.

**9. Attachments:**

Appendix A: Excerpt from Municipal Act.

Appendix B: Ontario Regulation 284/09, Budget Matters — Expenses.

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