

**Region of Waterloo**

**Corporate Services**

**Corporate Finance**

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**To:** Strategic Planning and Budget Committee

**Meeting Date:** February 8, 2023

**Report Title:** Municipal Budget Regulation

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**1. Recommendation**

That the Regional Municipality of Waterloo adopt report COR-CFN-23-010 dated February 8, 2023 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 which is 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 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 in a year.

The historical cost of assets net of accumulated amortization (\$3.7 billion in 2021) is included in the Statement of Financial Position, while the annual amortization expense (\$141.5 million in 2021) is included in the Statement of Change in Net Debt and Statement of Cash Flows. The Region’s annual operating budget includes the following 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.

### **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, 2021 was \$47.4 million for the Region and \$181.9 million for the Waterloo regional Police Services (WRPS), while the 2021 net change in the future liability was \$1.8 million for the Region and \$14.6 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.

### **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 future liability is calculated each year for financial statement purposes, in accordance with PSAB requirements. The liability recorded on the Statement of Financial Position is the present value of the amount that is expected to be paid out in the future (\$75.7 million in 2021), and the net change in the future liability from year to year is included on the Statement of Cash Flows (a decrease of \$1.0 million in 2021). For budget purposes, 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 2021 fiscal year. The 2022 amounts for changes in the outstanding liability will be available when the 2022 financial statements are completed. For comparison purposes 2023 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)	2021 Budget	2021 Financial Statements	Difference	2023 Budget
<b>1. Amortization/Capital funding</b>				
Transfers to Capital Reserves	\$135,265	n/a	-	\$156,947
Principal Repayments	\$56,091	n/a	-	\$56,845
Amortization	n/a	\$141,456	-	n/a
<b>Total Amortization/Capital funding</b>	<b>\$191,355</b>	<b>\$141,456</b>	<b>\$49,899</b>	<b>\$213,792</b>
<b>2. Post-Employment Benefits</b>				
Region (excluding WRPS)	\$3,487	\$1,845	-	\$3,875
Waterloo Regional Police Service	\$5,420	\$14,615	-	\$4,420
<b>Total Post-Employment Benefits</b>	<b>\$8,907</b>	<b>\$16,460</b>	<b>(\$7,553)</b>	<b>\$8,294</b>
<b>3. Landfill Closure and Post-Closure</b>				
Operating Budget Expenditures	\$3,066	n/a	-	\$3,212
Capital Budget Expenditures	\$5,992	n/a	-	\$7,748
Closure & Post-Closure Liability	n/a	(\$950)	-	n/a
<b>Total Landfill Closure and Post-Closure</b>	<b>\$9,058</b>	<b>(\$950)</b>	<b>\$10,008</b>	<b>\$10,959</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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