

**REPORT OF THE DIRECTOR OF FINANCE & TREASURER
RE. 2024 BUDGET – ONTARIO REGULATION 284/09
FOR THE CONSIDERATION OF COUNCIL**

OBJECTIVE

To provide information pursuant to Ontario regulation 284/09.

RECOMMENDATION

That the report 2024 Budget – Ontario Regulation 284/09 from the Director of Finance & Treasurer be adopted by resolution.

BACKGROUND

Ontario Regulation 284/09 permits Municipalities to exclude certain expenses from their estimated expenditures when setting its budget and tax rates. The permitted exclusions include all or part of (1) amortization expense, (2) post-employment benefits expense and (3) landfill closure and post-closure expenses.

If the budget does not include these expenses, a report to Council is required. The report shall include (1) an estimate of the change in the accumulated surplus of the municipality resulting from the exclusion of any of these expenses and (2) an analysis of the estimated impact of the exclusion of any of the expenses on the future tangible capital asset funding requirements.

ANALYSIS

Attached are two schedules - Schedule A: General Municipal Budget and Schedule B: User Pay Budget, for 5 years, 2019 to 2024 inclusive. The User Pay figures are presented separately because the Safe Drinking Water Act addresses cost recovery of municipal systems.

AMORTIZATION EXPENSE AND CURRENT CAPITAL EXPENDITURES:

The City's average annual amortization expense is approximately \$2.3 million. The average investment in capital from levied and user pay (transfers to capital reserves) is approximately \$4.8 million. The average difference between these is approximately \$1.6 million. That is, if the City were to fully fund amortization as a current expense, the tax levy would have to be increased by \$2.5 million per year.

The Water and Sewer Plants average annual amortization expense is approximately \$400,000. The average investment in Plants capital is approximately \$300,000 and the difference is approximately \$100,000.

POST-EMPLOYMENT BENEFITS EXPENSE:

The City provides health & dental benefits to retirees who meet policy criteria. Every three years, an actuarial consultant reviews the benefits package and the workforce demographics, and forecasts future benefit obligations. The operating budget covers current costs, but no provision is set aside to cover future costs. If the City were fund post-employment benefits obligations based on the past five years' forecasts, the budget would have to include an additional \$2.05 Million.

COST OF ASSET REPLACEMENT:

It is important to note that the difference between annual amortization expense and the City's capital investment as represented by the annual budget is not an accurate reflection of the "Infrastructure Deficit".

Amortization is an accounting entry that is recorded based on the historical cost of an asset when it was purchased or originally constructed, and is expensed in our financial statements over the expected useful life of the asset. Many of the City's infrastructure assets are completely amortized (a net book value of zero) and beyond their useful lives; therefore, there is no write-down recorded.

Historical cost tends to be only a fraction of today's replacement cost, so by not setting aside even amortization costs in the years that assets were depreciating, the City was not acknowledging the need to finance replacement costs as those assets reach the end of their useful life.

Waiting until the end of an assets useful life and then attempting to pay the entire cost in one year on a cash basis is problematic when infrastructure costs can reach the millions of dollars. Borrowing is always a capital financing option, but that places the cost of asset replacement on future taxpayers, not the taxpayers who used the asset during its useful life.

The 2024 capital budget has acknowledged this (infrastructure) funding deficit and reserves analysis is updated regularly to address the City's future capital replacement needs.

FINANCIAL IMPACT

No impact.

LINKS TO STRATEGIC PLAN

Strong Municipal Corporate Administration and Governance

SUMMARY

Ontario Regulation 284/09 requires that a report be prepared for Council and that Council adopts the report by resolution.