



The Corporation of the
TOWN OF THESSALON

REPORT

REPORT TO: Mayor and Members of Council

REPORT FROM: Municipal Treasurer

DATE: June 18, 2018

REPORT NO.: 2018-0001

RE: Excluded Expenses as Required by Ontario
Regulation 284/09

RECOMMENDATION:

That the Town of Thessalon approves the report for excluded expenses outlined in report 2018-0001 as required by Municipal Act, 2001, Ontario Regulation 284/09.

BACKGROUND:

Ontario Regulation 284/09 (O. Reg. 284/09) is a regulation added in 2010 to the Municipal Act, 2001, S.O. 2001, c. 25, as amended (the Municipal Act). This regulation allows municipalities to exclude from the annual budget estimated expenses for all or a portion of the following:

- 1) Amortization expenses
- 2) Post-employment benefits expenses
- 3) Solid waste landfill and post-closure expenses

If a municipality has adopted a budget for 2018 that excluded any of the expenses listed above, a transitional rule allows the municipality within 60 days of receiving its audited financial statements for 2017 to:

- a) Prepare a report about the excluded expenses
- b) Adopt the report by resolution

DISCUSSION:

Starting with the 2009 year end, accounting standards and reporting requirements have changed dramatically; most significantly with the introduction of tangible capital asset accounting as required by the Public Sector Accounting Board (PSAB). The new accounting standards, however, do not require budgets to be prepared on the same basis. The Town of Thessalon continues to prepare budgets on the traditional cash basis.

The annual budget of a municipality is an important exercise, one that plans for current and future activities and acquisitions. A key outcome of the annual budget is a tax rate, which Council is asked to approve. This tax rate is determined on a cash basis and is not required to include the PSAB requirements of accrual accounting and accounting for non-financial assets and liabilities such as amortization expenses, post-employment benefits, and solid waste landfill and post-closure expenses.

Amortization Expenses

The 2017 amortization expense reported on the consolidated financial statements totaled \$553,468. Theoretically this amount represents the annual use of Town assets. Taking into account new assets coming into service in 2018 along with the existing asset base, amortization projections are expected to exceed \$580,000 for 2018.

The Town of Thessalon does not budget for amortization expenses; however, the Town does budget to provide to reserve(s). In the 2017 budget a total of \$185,553, was transferred into the Infrastructure Reserve.

By definition, amortization expense is the attribution of capital cost over the useful life of the asset. However, amortization is also a good tool to predict the future annual financial commitment of asset replacements. Given this fact, it is reasonable to expect that as the Town's asset inventory and associated amortization expenses continue to grow, deficits may occur. As such, the consideration of a dedicated capital levy in future years may be needed to ensure that the Town's tangible capital assets are being replaced in a timely manner without large fluctuations in the tax rate or the issuance of debt.

Post-employment benefits expenses

Post-employment expenses for employees, upon retirement after having served more than five (5) consecutive full-time years of employment, shall be entitled to a retirement allowance equal to one-half (1/2) the number of sick days standing to their credit, and in any event not to exceed three (3) months earnings at their current basic rate of pay.

The Town does annually budget for the current year's costs of post-employment benefits by allocating 50% of accumulated sick days for the employees that are able to retire within a five (5) year time frame to a reserve for sick leave.

Solid waste landfill and post-closure expenses

Solid waste landfill and post-closure expenses is costs associated with the future closure of our landfill site.

The Town does annually budget for the current year's costs of solid waste landfill and post-closure expenses by allocating a pre-determined amount to a reserve for Rose Lake post closure.

FINANCIAL IMPACT:

There is no financial impact to this report. To include amortization expenses in the 2018 budget would have required additional funding of approximately \$580,000, which would have meant an increase to required dollars of 43.49%.

Respectfully submitted,

Debbie Rydall
Municipal Treasurer

Be it resolved that Council approve Report No. 2018-0001 from the Municipal Treasurer for excluded expenses as required by the Municipal Act, 2001, Ontario Regulation 284/09.