Newmarket

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2018 Budget Reconciliation
Information Report

Report Number: 2018-25

Department(s): Financial Services

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In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Executive Summary

The 2018 Council approved budget, including the infrastructure levy, has a revenue amount of $157,236,277 and an expenditure total of $211,306,212. The adjusted budget, per the Consolidated Statement of Operations, has a revenue amount of $158,236,277 and a reduced expenditure amount of $127,378,143 due to the inclusion of budgeted amortization expense, post-employment benefit expense and the exclusion of budgeted tangible capital assets capitalized. These adjustments make the budget Public Sector Accounting Board (PSAB) compliant.

Purpose

The purpose of this report is to provide Council with a reconciliation of the Council approved 2018 budget as it compares to the budget that will be reported in the 2018 financial statements.

Background

Beginning in 2009, accounting standards and reporting requirements changed dramatically; most significantly with the introduction of tangible capital asset accounting. The new accounting standards, however, do not require budgets to be prepared on the same basis. The Town of Newmarket, like most municipalities, continues to prepare budgets on the traditional cash basis. A key outcome of the annual budget is a tax rate which Council is asked to approve. This tax rate is based on a “cash basis” of accounting for the most part, and therefore does not include all of the PSAB requirements around accrual accounting and accounting for “non-financial assets and liabilities.”

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09) that allows a municipality to exclude from their estimated expenses, costs related to amortization expense, post-employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report on the impact of these excluded costs.

Discussion

The Council approved 2018 Budget and associated levy excluded the following:

1. The budget did not include expenses for the amortization of its tangible capital assets in the amount of $16.6 million, as amortization is a non-cash expense. The budget does however, include $16.8 million in contributions to the asset replacement funds.
2. Based on an actuarial review as at the end of 2015, the 2018 expense for post-retirement benefits was estimated to be $523,603, of which $274,029 was included in the budget.
3. No solid waste landfill closure and post-closure costs have been included, as the Town does not have responsibility for any landfill sites.

In preparing the budget for 2018, the Town included an amount of $106.1 million in capital expenditures, including $28.9 million for the Mulock Farm estate and $51.4 million in carryovers. Of this amount, $100.8 million has been identified as being tangible capital assets. Financial Services Report 2018-14, 2017 Capital Carryovers indicated a $50 million blanket unallocated deferral for the 2018 capital budget. For cash flow purposes, it is assumed that only $46 million (including $26 million for the Mulock Farm estate) will be spent in 2018. This is consistent with and based on the trend of previous years' capital spending.

The attachment illustrates what the 2018 budget will look like in the Town's consolidated financial statements in the Public Sector Accounting Board (PSAB) 3150 format.

<u>Post-Employment Benefits</u>

Employee Future Benefits are health and dental benefits that are provided to early retirees, future retirees, and employees currently on long-term disability. An actuarial valuation was carried out as at December 31, 2015 using a discount rate of 3.25%. It was determined that at the end of 2017, the liability for employee future benefits was $5.9 million, of which $0.65 million (11.0%) has been funded. Although there is no legislative requirement to fund this liability – it may be handled on a "pay-as-you-go" basis – the Town continues to be fiscally prudent. The liability is expected to grow to $6.1 million in 2018 (10.1% funded). An actuarial review will be undertaken at the end of 2018.

Amortization Expenses

Amortization, commonly referred to as depreciation, theoretically represents the annual use of the Town's assets. Although amortization expenses should not be used to determine the impairment of an asset, it is a good tool to predict the future annual financial commitments required for asset rehabilitation. The amounts and calculations for amortization expenses are in accordance with our tangible capital asset (TCA) policy.

Conclusion

The adjustments to the Council approved 2018 budget include projected amortization expense, post-employment benefit expense, and budgeted tangible capital assets, capitalized. These adjustments make the budget PSAB compliant.

Business Plan and Strategic Plan Linkages

There is no relationship to the strategic plan as this is a compliance report under the Municipal Act, 2001.

Consultation

Not applicable.

Human Resource Considerations

None.

Budget Impact

This report is for information purposes only and, as such, will have no direct impact on taxes, fees and charges or the use of reserves. There is no impact on the future tangible capital asset funding requirements of the municipality, as a result of the exclusion of any of the estimated expenses.

The original 2018 budget approved by Council included a deficit for the year of $55.4 million (due to the draw on reserves and reserve funds to fund the capital projects). With the inclusion of the PSAB reporting requirements, the budget would result in a surplus of $30.9 million.

Attachments

2018 Budget Reconciliation

Contact

For more information on this report, contact Mike Mayes, Director of Financial Services/Treasurer at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca

Approval

Mike Mayes, CPA, CGA, DPA
Director, Financial Services/Treasurer

Esther Armchuk, LL.B
Commissioner, Corporate Services

2018 Budget Reconciliation

The budget approved by Council differs from the budget in the Consolidated Statements. The differences are mainly due to PSAB reporting requirements.

		Revenues	Expenses
Council approved budget for 2018:			
Operating fund - December 4, 2017		$ 127,408,654	$ 127,408,654
Plus: Supplementary budget, March 5, 2018		$ 1,560,000	$ 1,560,000
Less: Principal payment on long-term debt		$ -	$ (3,597,517)
Less: Transfers to / from other funds		$ (7,807,513)	$ (20,249,754)
Capital - New - December 4, 2017		$ 25,933,120	$ 25,933,120
Plus: Supplementary budget, March 5, 2018		$ 28,850,000	$ 28,850,000
Plus: Capital - Carryovers		$ 51,401,709	$ 51,401,709
Less: Transfers from other funds		$ (45,884,769)	$ -
Less: Debenture issuance proceeds		$ (26,000,000)	$ -
Reserves and Reserve funds - June 18, 2018		$ 21,730,830	$ 53,398,282
Less: Transfers to / from other funds		$ (19,955,754)	$ (53,398,282)
TOTAL COUNCIL APPROVED BUDGET	(1)	$ 157,236,277	$ 211,306,212
Less: Projection of Tangible Capital Assets Capitalized	(2)		(100,788,058)
Plus: Budgeted amortization expense	(3)		16,610,416
Plus: Post-employment benefit expenses	(4)		249,574
Plus: Income from Newmarket Hydro Holdings Inc.	(5)	1,000,000	
Adjusted Budget per Consolidated Statement of Operations		$ 158,236,277	$ 127,378,143

Note:

(1) Council approves balanced budgets with the exception of Reserves and Reserve Funds. The difference between Revenue and Expenses is the net transfer to or from other funds.

(2) This figure represents the total expenditures in the Capital Budget for Tangible Capital Assets. Disposals are not considered to be material and are therefore excluded.

(3) This figure is the estimated amortization for the current year's budgeted Tangible Capital Asset additions and adding it to the previous year's actual amortization expense.

(4) This is estimated based on the 2015 actuarial evaluation.