

2014 Consolidated Operating and Capital Budget

The City of Greater Sudbury prepares and approves two budgets annually: an operating budget and a capital budget. Both budgets are prepared on a modified cash basis. To determine the City's total annual budget, a consolidated operating and capital budget has been prepared for the 2013 and 2014 approved budgets. In order to consolidate these budgets it is necessary to eliminate the capital expenses financed in the operating budget. This includes capital funded from the tax levy, user fees, and the contributions to reserves from operating in the year. The total consolidated budget for 2014 is \$524.9 Million which represents a decrease of 2.7% from 2013. This is largely due to the decrease in capital spending of approximately \$14 Million, as a result of timing of capital projects.

	2013 Approved Budgets		2014 Approved Budgets	
	Operating	Capital	Operating	Capital
Tax Levy	222,341,696	38,580,672	230,477,625	39,127,856
User Fees	101,182,230	25,935,812	105,476,702	28,354,528
Federal Grants & Subsidies	837,210	9,959,527	827,005	9,684,527
Provincial Grants & Subsidies	130,153,823	1,776,236	119,845,182	356,090
Contribution from Reserves and Capital	5,321,539	25,662,243	6,304,353	14,207,831
Other Revenues	39,937,671	6,964,596	39,503,364	3,250,000
Total	499,774,169	108,879,086	502,434,231	94,980,832
Less: Capital Funding Included in Operating Budget Above				
Capital Envelopes (Tax Levy)		(38,580,672)		(39,127,856)
Capital Envelopes (User Fees)		(25,935,812)		(28,354,528)
Contribution from Reserves and Reserve Funds		(4,619,193)		(5,039,923)
Total	499,774,169	39,743,409	502,434,231	22,458,525
Total Consolidated Budget (Modified Cash Basis)		539,517,578		524,892,756

Ontario Regulation 284/09 Reporting

The City's annual audited financial statements are prepared in accordance with general accepted accounting principles for local governments on a full accrual accounting basis. The accrual basis of accounting recognizes revenues as they are earned and measureable and expenditures or the cost of goods and services are recognized when acquired in the period whether or not payments have been made or invoices received.

The basis of budgeting differs from the basis of accounting in that Ontario Regulation 284/09 allows municipalities to exclude from the budget, amortization, post-employment benefits, and solid waste landfill closure and post-closure expenses, provided that the excluded expenses are reported to Council.

For financial statement purposes the equity of a municipality is defined as "accumulated surplus". Accumulated surplus consists mainly of:

- Equity in Tangible Capital Assets,
- Reserves and Reserve Funds,
- Capital Funds,
- Less Unfunded Liabilities such as Employee Future Benefits and Post Closure Landfill Sites

A conversion chart was prepared to identify the impact of the 2014 budget on the City's accumulated surplus after converting the 2014 budget and assumptions to the full accrual basis of accounting.

The following is a summary of the approved consolidated budget (modified cash basis) converted to the full accrual basis of accounting:

2014 Consolidated Budget (modified cash basis)	524,892,756	
Add:		Note
Post employment benefit expense	2,646,000	1
Landfill closure and post closure expense	222,000	2
Reserve, Reserve Funds and Obligatory Reserve Funds Adjustments	2,674,347	3
Recognize interest revenue on reserves and reserve funds	3,319,615	4
Less:		
Capital related adjustments	(29,220,779)	5
Consolidated Budget (accrual basis)	504,533,939	
Estimated Increase in Accumulated Surplus	20,358,817	

Note – all adjustments in above table are estimates.

The Public Sector Accounting Board's (PSAB) new financial reporting requirement incorporates the capitalization of tangible capital assets and amortization expenses in the financial statements for all municipalities in Canada. For budget purposes, Ontario Regulation 284/09 allows municipalities to exclude the expenses identified above from the budget. The City of Greater Sudbury's 2014 budget, like all past budgets, was completed on a funding basis where operating and capital budgets are balanced. Accordingly, on a funding basis, there is no projected impact to the City's accumulated surplus.

The adjustments above convert the 2014 budget from the funding basis of accounting to the accrual method of accounting and results in an estimated \$20.4 M increase to the City's accumulated surplus. Adjustments relate to: capital assets, reserve funds, long term liabilities and debt repayments.

Explanations of the significant adjustments in the table above are outlined below:

1. Post Employment Benefit Expense:

PSAB standards do not require liabilities associated with post-employment benefits to be fully funded by setting aside any portion of the accumulated surplus as reserves and reserve funds. The City's financial statements report liabilities and expenses relating to post-employment benefits while the City's budget includes estimated expenditures based on expected cash payments to be made during the year for retirement benefit plans, sick leave benefit plans, long-term disability plans, *Workplace Safety and Insurance Act* benefits, vacation agreements and retirement plans. The City has some reserves associated with these liabilities. The future payments for these liabilities and expenses for some transfers to reserves are included in the 2014 budget.

The estimated impact of post-employment benefits expense to the accumulated surplus is \$2.6 M in 2014.

2. Landfill Closure and Post Closure Expense:

The PSAB standards do not require liabilities associated with solid waste landfill closure and post-closure care activities to be fully funded by setting aside any portion of the accumulated surplus as reserves and reserve funds. The City's financial statements report liabilities for landfill closure and post-closure. The City does not maintain a reserve for these liabilities. Capital construction costs are included in the capital budget as they are known and planned to be incurred.

The estimated impact of solid waste landfill closure and post-closure expenses to the accumulated surplus is \$222 K in 2014.

3. Reserve, Reserve Funds and Obligatory Reserve Funds Adjustments:

The consolidated budget includes net transfers to and from reserves of (\$4.5 M) which are removed from the modified cash basis budget to an accrual based budget. In addition, estimated revenues that will be recognized from obligatory reserve funds are \$7.2 M.

This results in an estimated impact of \$2.7 M to the accumulated surplus in 2014.

4. Interest earned on reserve funds

The City earns interest on its reserve funds. This revenue is estimated recognized as revenue in the financial statements. The estimated impact to the accumulated surplus is \$3.3 M.

5. Capital Related Adjustments:

The adjustments related to Capital includes amortization expense, capital asset additions, operating expenses budgeted in capital but expensed in the current year, funding from future capital envelopes, and principal debt repayments.

The annual financial statements now include amortization expense on tangible capital assets as required by PSAB accounting standards. Although the City's 2014 Budget does not include amortization expense on tangible capital assets, provisions are made for contributions to capital and transfer to capital reserve funds to fund capital assets. The 2014 budget is based on planned capital expenditures for the year. The capital expenditures in 2014 at \$94.4 M are higher than the amortization expense of \$65 M as the replacement cost of the City's infrastructure is greater than the historical value of the assets.

There are operating expenses budgeted within the capital budget that will be expensed in the financial statements. This is offset by capital assets budgeted within the operating budget for a net estimated impact of \$6.9 M to the accumulated surplus.

The 2014 Capital Budget includes funding of \$3.25 M from future capital envelopes. Funding from the capital envelope is not revenue that is recognized in the financial statements.

External debt repayments of \$3.5 M are included within the operating budget however for PSAB purposes these are a reduction of the City's outstanding debt, and must be removed from expenses.

The 2014 estimated impact of all capital related adjustments above is \$29 M to the accumulated surplus.