The Corporation of the City of Stratford
Finance and Labour Relations Committee
Open Session
AGENDA

Date:	Monday, February 13, 2023
Time:	7:05 P.M.
Location:	Council Chamber, City Hall
Committee Present:	Councillor Hunter - Chair Presiding, Councillor McCabe - Vice Chair, Mayor Ritsma, Councillor Beatty, Councillor Biehn, Councillor Briscoe, Councillor Burbach, Councillor Henderson, Councillor Nijjar, Councillor Sebben, Councillor Wordofa
Staff Present:	Joan Thomson - Chief Administrative Officer, Tatiana Dafoe - City Clerk, Karmen Krueger - Director of Corporate Services, Kim McElroy - Director of Social Services, John Paradis - Fire Chief, Anne Kircos - Director of Human Resources, Taylor Crinklaw - Director of Infrastructure and Development Services, Chris Bantock - Deputy Clerk, Tim Wolfe - Director of Community Services

To watch the Committee meeting live, please click the following link:
https://video.isilive.ca/stratford/live.html
A video recording of the meeting will also be available through a link on the City's website https://calendar.stratford.ca/meetings following the meeting.

Pages

1. Call to Order

The Chair to call the Meeting to Order.

2. Disclosure of Pecuniary Interest and the General Nature Thereof

The *Municipal Conflict of Interest Act* requires any member of Council declaring a pecuniary interest and the general nature thereof, where the interest of a member of Council has not been disclosed by reason of the member's absence from the meeting, to disclose the interest at the first open meeting attended by the member of Council and otherwise comply with the *Act.*

Name, Item and General Nature of Pecuniary Interest

3. Sub-committee Minutes 4 - 12

Sub-committee minutes are attached for background regarding the discussion held at the January 17, 2023 Sub-committee meeting.

4. Delegations

None scheduled.

5. Report of Festival Hydro Inc. and Festival Hydro Services Inc.

5.1 Festival Hydro Financial Results 2022 Q3 (FIN23-007) 13 - 28

Staff Recommendations: THAT the Festival Hydro Inc. financial statements and commentary for the period ending September 30, 2022, be received for information;

AND THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

Motion by
Sub-committee Recommendation: THAT the Festival Hydro Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

Motion by
Sub-committee Recommendation: THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

6. Report of the Director of Corporate Services

6.1 Downtown Stratford Business Improvement Area 2023 Draft Budget (FIN23-006) 29 - 31

Staff Recommendations: THAT the 2023 budget of the Downtown Stratford Business Improvement Area be approved as submitted in the amount of $325,272.50;

THAT the sum of $299,472.50 shall be levied on properties located within the boundaries of the Downtown Stratford Business Improvement Area for the year 2023;

AND THAT staff be directed to bring the prepared by-law to a subsequent meeting for approval.

Motion by
Sub-committee Recommendations: THAT the 2023 budget of the Downtown Stratford Business Improvement Area be approved as submitted in the amount of $325,272.50;

THAT the sum of $299,472.50 shall be levied on properties located within the boundaries of the Downtown Stratford Business Improvement Area for the year 2023;

AND THAT staff be directed to bring the prepared by-law to a subsequent meeting for approval.

6.2 2023 Ont Reg 284/09 Excluded Expenses (FIN23-004) 32 - 35

Staff Recommendation: THAT the report titled, "Ontario Regulation 284/09 – Excluded Expenses" (FIN23-004), be adopted.

Motion by
Sub-committee Recommendation: THAT the report titled, "Ontario Regulation 284/09 – Excluded Expenses" (FIN23-004), be adopted.

6.3 Asset Retirement Obligations (ARO) (FIN23-005) 36 - 46

Staff Recommendations: THAT the draft Asset Retirement Obligation Policy attached to Report FIN23-005, be approved;

AND THAT staff be authorized to establish a new Asset Retirement Obligation Reserve Fund if/as required, and this new reserve fund be added to F.1.13 Reserve and Reserve Fund Policy.

Motion by
Sub-committee Recommendations: THAT the draft Asset Retirement Obligation Policy attached to Report FIN23-005, be approved;

AND THAT staff be authorized to establish a new Asset Retirement Obligation Reserve Fund if/as required, and this new reserve fund be added to F.1.13 Reserve and Reserve Fund Policy.

7. Adjournment

Meeting Start Time:
Meeting End Time:

Motion by
Committee Decision: THAT the Finance and Labour Relations Committee meeting adjourn.

The Corporation of the City of Stratford
Finance and Labour Relations Sub-committee
MINUTES

Date:	January 17, 2023
Time:	4:30 P.M.
Location:	Electronic Meeting
Sub-committee Present:	Councillor Hunter - Chair Presiding, Councillor McCabe - Vice Chair, Councillor Beatty, Councillor Burbach
Regrets:	Councillor Nijjar
Staff Present:	Karmen Krueger - Director of Corporate Services, Tatiana Dafoe - City Clerk, Jodi Akins - Council Clerk Secretary
Also present:	Alyson Conrad - Festival Hydro, Jeff Graham - Festival Hydro, Jamie Pritchard - Downtown Stratford BIA, Shawn Malvern - Downtown Stratford BIA

1. Call to Order

The Chair called the meeting to Order.

Councillor Nijjar provided regrets for this meeting.

2. Disclosure of Pecuniary Interest and the General Nature Thereof

The *Municipal Conflict of Interest Act* requires any member of Council declaring a pecuniary interest and the general nature thereof, where the interest of a member of Council has not been disclosed by reason of the member's absence from the meeting, to disclose the interest at the first open meeting attended by the member of Council and otherwise comply with the *Act.*

Name, Item and General Nature of Pecuniary Interest
No disclosures of pecuniary interest were made by a Member at the January 17, 2023, Finance and Labour Relations Sub-committee meeting.

3. Delegations

None scheduled.

4. Report of Festival Hydro Inc. and Festival Hydro Services Inc.

4.1 Festival Hydro Financial Results 2022 Q3 (FIN23-007)

Staff Recommendations: THAT the Festival Hydro Inc. financial statements and commentary for the period ending September 30, 2022, be received for information;

AND THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

Motion by Councillor Beatty
Sub-committee Decision: THAT the presentation by Alison Conrad and Jeff Graham of Festival Hydro regarding the Q3 financial results be heard.

Carried

Sub-committee Discussion: Alyson Conrad, Chief Financial Officer (CFO) of Festival Hydro, provided the following highlights on the third quarter for Festival Hydro Inc. and noted that the year end financials and first quarter of 2023 will be presented at the next Sub-committee meeting:

- net income as of September 30, 2022, being $1.745 million, $333,000 above budget;
- accounts receivable balances being higher than September 2021 and are all current balances;
- they have been making improvements on arrears balances throughout 2022 and ensuring customers are keeping up to date with their accounts;
- as November 15, 2022, they are in a winter moratorium and cannot disconnect residential or small commercial customers for non-payment;

- there being a spike in arrears during the winter moratorium period;
- there being large fluctuations in regulatory assets such as the cost of power from the Independent Electricity System Operator (IESO) throughout 2022;
- the fluctuations being 0 cents per kilowatt hour for some months and for others it being 10 cents;
- fluctuations not impacting the bottom line but do impact cash flow;
- with respect to the Income Statement, distribution revenue being $204,000 above budget;
- Festival Hydro coming closer to budget for distribution revenue by the end of year and milder temperatures in the fall impacting energy use by customers;
- controllable costs being $333,000 less than budget due to less maintenance and reactive work;
- controllable costs being consistently under budget through the end of Q3;
- net income picking up in last few months of the year and those expenses being driven by staffing levels as vacancies impact billing, collecting and meter reading;
- the Vice President of IT position being vacant in the first half of the year, and that position being vacant again by the end of December;
- Interest rates increased on their line of credit.

It was questioned why accounts receivables have increased. The CFO stated that rates are higher than they were last year, although it is not necessarily Festival Hydro rates, but the increase in power rates from the IESO. General consumption was also up. The CFO noted there was a decrease in consumption in 2020 and 2021 and it is starting to return to normal.

With respect to budgeting for the swings in cost of power, the CFO confirmed it is difficult to budget for. She has been in the industry for 10 years and this the first time she has seen these types of swing in prices.

They ensure they have enough credit available and catch up in the months when the cost is lower.

It was clarified that "RPP" stands for "Regulated Price Plan". There are residential and small commercial customers who are on a time of use plan in which rates are fluctuating in the background, but they do not see those fluctuations on their bills.

Motion by Councillor Burbach

Sub-committee Recommendations: THAT the Festival Hydro Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

Carried

With respect to Festival Hydro Services Inc., the CFO provided the following highlights:

- Festival Hydro Services Inc. operates as Rhyzome Networks and the names are sometimes used interchangeably;
- net income for the period being $53,000 which is $14,000 higher than budget but $54,000 lower than 2021;
- reasons for budgeting less in 2022 than the previous year being they went through substantial strategy setting in 2021 and 2022 to look for additional sources of revenue and they also lost a customer that decreased revenue;
- the balance sheet being generally close to budget each quarter;
- expenses being run through Festival Hydro Inc. and are trued up every month as expenses and receivables are brought in;
- capital assets were at 75% of the Q3 budget;
- stabilizing and strengthening projects being completed in 2022 to reduce down times;
- some funds being spent on fiber capital and a small amount on Wi-Fi capital;
- in the past, their being significant costs on Wightman network expansion, but in 2021 and 2022 those costs having dropped;

- with respect to the income statement, revenue being $62,000 lower than budget in Q3;
- IT services billed out for Festival Hydro being billed through Rhyzome;
- staffing vacancies resulting in a decrease in revenue, but also a corresponding decrease in operating expenses;
- there being a full staff complement at mid year and a full staff complement continuing;
- IT staff retention being challenging;
- there being a decrease in costs due to bowl attachment rates which are set by the Ontario Energy Board; and
- $34.76 being the rate charged for 2022, which was lower than 2021 at $44.50.

Clarification was requested on the budget line for business development expenses. The CFO advised that budget line includes labour and associated labour costs. She plans to rename that account in the year end financial statements to separate actual business development activities from general labour expenses.

Motion by Councillor Beatty
Sub-committee Recommendation: THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

Carried

5. Report of the Director of Corporate Services

5.1 Downtown Stratford Business Improvement Area 2023 Draft Budget (FIN23-006)

Staff Recommendations: THAT the 2023 budget of the Downtown Stratford Business Improvement Area be approved as submitted in the amount of $325,272.50;

THAT the sum of $299,472.50 shall be levied on properties located within the boundaries of the Downtown Stratford Business Improvement Area for the year 2023;

AND THAT staff be directed to bring the prepared by-law to a subsequent meeting for approval.

Sub-committee Discussion: The Director of Corporate Services provided a high level overview of the report, noting the BIA budget is subject to Council approval.

Referring to a PowerPoint presentation, Jamie Pritchard, General Manager of the Downtown Stratford Business Improvement Area (BIA), advised that the BIA will be 50 years old in 2023. Highlights of 2022 activities were provided as follows:

- 30 new businesses opened in the BIA in 2022;
- 2022 was busy with lots of marketing to promote initiatives such as Lights On, Car-Free Fridays, the opening of the Connection Centre and the return of the Festival Theatre;
- new branding being introduced in 2022 with a new logo and a new website;
- communication to the membership occurring through a member's section on the website, a member only Facebook page, email blasts, and a monthly newsletter;
- Winter Wander-Land weekend details being provided;
- beautification efforts included a mural by Kellan Hatanaka, bicycle repair stations and the animation of store fronts with high school students' interpretation of snowflakes;
- the Advocacy and Education group developed equity, diversity and inclusion training for members, and are in the process of developing an Equity, Inclusion, Diversity and Anti-Racism policy;
- two major goals for 2023 being the introduction of an electronic Downtown Dollars shopping card and the completion of a strategic plan.

Shawn Malvern, Treasurer of the BIA Board of Directors (BIA Board), stated that the 2023 proposed budget was approved by the BIA Board. Highlights of the proposed budget were provided as follows:

- there being no increase to the tax levy percent;

- with respect to revenue, the BIA receiving interest on investments and some grant money that will flow through to this budget year;
- expenses being in line with last year, although staffing fees have gone up with cost of living adjustments;
- the City providing back office support and there being some expenses related to office operations;
- funds being included in the budget for the strategic plan;
- Costs for advocacy and education having slightly increased;
- liability insurance having increased, along with the Directors' insurance;
- the anticipated levy refund having been increased to account for any closing businesses; and
- directory sign maintenance being dropped as a lot of work was completed in 2022.

Mr. Malvern advised it was important to staff and the BIA Board to not increase they tax levy as they know that small businesses are struggling.

It was questioned how Winter Wander-land performed compared to its previous incarnation of a winter marketplace. The General Manager stated that the decision to change the format was related to the number of markets already occurring in same time frame, as well as concerns in the past of selling items in the market that local retailers are also selling.

The BIA was thanked for all their hard work in supporting the downtown businesses and animating the downtown square. Support for the roll-out of the electronic Downtown Dollar shopping card was also noted.

Motion by Councillor Burbach
Sub-committee Recommendations: THAT the 2023 budget of the Downtown Stratford Business Improvement Area be approved as submitted in the amount of $325,272.50;

THAT the sum of $299,472.50 shall be levied on properties located within the boundaries of the Downtown Stratford Business Improvement Area for the year 2023;

AND THAT staff be directed to bring the prepared by-law to a subsequent meeting for approval.

Carried

5.2 2023 Ont Reg 284/09 Excluded Expenses (FIN23-004)

Staff Recommendation: THAT the report titled, "Ontario Regulation 284/09 – Excluded Expenses" (FIN23-004), be adopted.

Sub-committee Discussion: The Director of Corporate Services provided an overview of the staff report. The Director advised it is a regulatory compliance report required to meet the legislative requirements of Ontario Regulation 284/09. The report outlines the differences between the cash expenses the City reports and the Public Sector Accounting Board (PSAB) requirements to record non-cash expenses for amortization expenses on tangible capital assets, post-employment benefits expenses and solid waste landfill closure and post-closure expenses. The staff report outlines the impact those expenses have on the financial statements. In future years, asset retirement obligation expenses may be added.

The adjustments staff will make at the end of the year are captured in the report. If these were included in the tax levy, it would translate to $10-12 million annually. Staff are not intending to recommend that route and will continue to budget on a modified cash basis.

Motion by Councillor McCabe
Sub-committee Recommendation: THAT the report titled, "Ontario Regulation 284/09 – Excluded Expenses" (FIN23-004), be adopted.

Carried

5.3 Asset Retirement Obligations (ARO) (FIN23-005)

Staff Recommendations: THAT the draft Asset Retirement Obligation Policy attached to Report FIN23-005, be approved;

AND THAT staff be authorized to establish a new Asset Retirement Obligation Reserve Fund if/as required, and this new reserve fund be added to F.1.13 Reserve and Reserve Fund Policy.

Sub-committee Discussion: The Director of Corporate Services provided an overview of the staff report. This policy arose as a derivative of the landfill post-closure costs regulation and the City is now required to identify any costs associated with retiring assets. This includes environmental retirement costs such as disposal of asbestos or assets that need to be returned to their natural state when no longer in use.

The report is to bring forward the draft policy for consideration by Council. Staff will be continuing work to identify any future liabilities. These liabilities will be measured and included in the City's financial statements beginning in the 2023 fiscal year.

Motion by Councillor McCabe
Sub-committee Recommendations: THAT the draft Asset Retirement Obligation Policy attached to Report FIN23-005, be approved;

AND THAT staff be authorized to establish a new Asset Retirement Obligation Reserve Fund if/as required, and this new reserve fund be added to F.1.13 Reserve and Reserve Fund Policy.

Carried

6. Advisory Committee/Outside Board Minutes

There were no Advisory Committee/Outside Board minutes to be provided to Sub-committee.

7. Next Sub-committee Meeting

The next Finance and Labour Relations Sub-committee meeting is February 21, 2023 at 4:30 p.m.

8. Adjournment

Motion by Councillor Burbach
Sub-committee Decision: THAT the Finance and Labour Relations Sub-committee meeting adjourn.

Carried

Meeting Start Time: 4:30 P.M.
Meeting End Time: 5:10 P.M.

MANAGEMENT REPORT

Date: January 17, 2023
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services
Report #: FIN23-007
Attachments: 1. FHI Financial Results to September 30, 2022;
2. FHSI Financial Results to September 30, 2022

Title: Financial Results, Statements and Commentary for Festival Hydro Inc. (FHI) and Festival Hydro Services Inc. (FHSI), for the period ending September 30, 2022

Objective: To receive an update on Festival Hydro activities for the period ending September 30, 2022.

Background: City Council is updated regularly on the financial and operating activities of Festival Hydro.

Analysis: As noted in the attached statements. Representatives from Festival Hydro have been invited to attend as a delegation to present the attached reports.

Financial Implications:

Financial impact to current year operating budget:

The reports are being provided for information so there are no significant financial impacts to note.

The City receives quarterly interest payments of $282,750 for the loan. To September 30, 2022, two quarterly interest payments were received = $565,500 and no dividends for 2022 to date. Budgeted revenues for interest and dividends for 2022 were estimated at $1,658,900.

Alignment with Strategic Priorities:

Developing our Resources
Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Alignment with One Planet Principles:

Culture and Community
Nurturing local identity and heritage, empowering communities, and promoting a culture of sustainable living.

Staff Recommendations: THAT the Festival Hydro Inc. financial statements and commentary for the period ending September 30, 2022, be received for information;

AND THAT the Festival Hydro Services Inc. financial statements and commentary for the period ending September 30, 2022, be received for information.

Prepared by:	Karmen Krueger, CPA, CA, Director of Corporate Services
Recommended by:	Karmen Krueger, CPA, CA, Director of Corporate Services Joan Thomson, Chief Administrative Officer

Festival Hydro INC.

Financial Statements

Prepared For:

The Finance & Labour Relations

Committee

January 2023

To: The Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHI Financial Results – For the period ended September 30, 2022

Net income for the period is $1.745M, which is $333K above the YTD budget. Detailed commentary on the balance sheet and statement of operations are noted below:

BALANCE SHEET COMMENTARY:

Accounts Receivable – The accounts receivable balance is $651K more than it was in September of 2021. This variance is the result of the following:

- Electric receivables are $145K higher than September 2021, the majority of this being current balance i.e., not in arrears. Arrears balances have decreased by $26K compared to September 2021.
- Water and sewer receivables are $19K higher than September 2021, similarly this is mostly current balances as arrears have decreased by $31K.
- Miscellaneous receivables have increased in the quarter due to large receivable balances from construction and City work completed through the summer and Q3.

Electric receivables that are in arrears are being diligently reviewed and acted on by the customer service team as we prepare for the next Winter disconnection moratorium which will start on November 15. We generally see arrears increase through the disconnection period so we attempt to be in the best state prior to that start date.

Due from FHSI – The balance in this account decreased from June 30, 2022, balance by $95K. The change is due to ongoing work being completed by FHSI staff for FHI as well as a HST refund of $29K.

Unbilled Revenue – This balance is $113K lower than the balance in June of 2022. The main difference between June and September was a due to a decrease in global adjustment rates through the period.

Regulatory Assets – The regulatory asset balance has decreased by $2.6M since June 2022 and is driven virtually all by IESO cost of power amounts. $800K relates to Global Adjustment (GA) Variance. Non-RPP customers are billed on the first estimate which was 8.29 cents in June and 4.01 cents in September. These rates also impact the cost of power variances for RPP customers which changed by approximately $2M since June 2022; these are cleared through our monthly settlement process.

A/P and Accrued Liabilities – This balance has increased by $1.1M from the June 2022 balance. The majority of this variance relates to a higher accrued HST payable by $725K, in Q2 we accrued for a large HST refund that was not received until the beginning of July. This is not typical timing for payments or refunds of HST. The remaining increase is a mixture of general accounts payable and the accrued IESO.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The distribution revenue to the end of Q3 2022 is $204K above budget. The majority of this increase is due to the actual IRM inflationary increase that was built into rates is higher than what was included in the budget in October.

Other Revenue – Other revenue is running $14K above budget at the end of Q3. We were higher than budget on scrap metal but below budget on late payment charges and streetlight maintenance which offset a portion of the increase.

Controllable Costs - Total controllable costs are $333K less than budget to the end of Q3.

Operating and Maintenance expenses are down overall by $28K compared to the budget. The main variance is due to less maintenance or reactive work up to the end of Q3. Through the summer months, more labour is charge to capital work due to the cyclical nature of work in the year. Also, reactive work can be difficult to budget. There was less charged to overhead and stations and more work needed in underground compared to budget.

Billing, Collecting and Meter Reading expenses are down $87K compared to the budget. This is mainly due to FHI's dedicated IT staff leaving in May and a long-term leave in customer service. This position has been backfilled. In addition, postage is below budget; per unit cost increases were anticipated in the year but were not realized. We made a vendor change for express notices that significantly decreased the cost.

Administration expenses are down overall by $218K. The majority of this balance is due to the vacancy of the VP of IT position for the first half of the year and incentive plans that were budgeted but not implemented. There are also several costs that will hit Q4 as the services and events occur.

Interest expense costs have increased compared to budget by $50K mainly because of the line of credit interest rate increasing in Q3. This trend will continue to the end of the year.

CASH FLOW COMMENTARY

As per the cash flow statement, the September 30 cash balance increased by $1.7M since June 2022. We have been seeing large swings in IESO invoices throughout the year varying from $10.2M to $1.7M. The summer months were more consistent around $5.3M. Hopefully we will continue to see a consistent payment for the remainder of the year however the inconsistencies could cause a negative cash balance at the end of December compared to budget. We are continuing to monitor the cash flow changes.

LOAN COVENANT RATIOS

The Loan Covenant liquidity ratios and debt to equity ratios as prescribed by our lender, RBC, are being met.

Presented for information purposes.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
ASSETS			
Current Assets			
Accounts Receivable	7,706,505	8,517,199	8,357,624
Inventory	379,711	163,445	468,422
Prepaid Expenses	173,732	357,282	250,483
Due from FHSI	418,025	332,803	201,894
Corporate PILS Recoverable	128,437	356,057	405,962
Unbilled Revenue	5,044,070	5,230,771	5,442,859
	13,850,481	**14,957,557**	**15,127,244**
Property, Plant & Equipment	55,843,885	57,113,909	57,193,434
Other Assets			
Intangible Assets	1,801,404	1,734,841	1,810,613
Future payments in lieu of income taxes	(947,981)	(3,109,920)	(3,109,920)
Regulatory Assets	2,180,324	4,597,210	4,010,827
TOTAL ASSETS	**72,728,113**	**75,293,597**	**75,032,199**

	YTD as at Sep 30, 2021	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
LIABILITIES			
Current Liabilites			
Bank Indebtedness	730,025	15,768	1,111,759
Accounts Payable & Accrued Liabilities	10,234,085	10,920,398	9,534,506
Current Portion of Consumer Deposits	1,061,799	1,169,541	936,528
Current Portion of Long Term Loans	119,999	707,717	179,712
Dividends Declared	—	500,556	—
Promissory Note	15,600,000	15,600,000	15,600,000
	27,745,908	**28,913,981**	**27,362,505**
Other Liabilites			
Unrealized loss on interest rate swap	1,585,033	938,948	938,948
Deferred Revenue	2,226,794	2,648,087	2,607,528
Employee Future Benefits	1,492,917	1,361,643	1,361,643
Long Term Debt			
Consumer Deposits over one year	—	594,311	—
RBC Loan - LT Portion	10,366,000	10,540,477	10,540,477
Infrastructure Ontario Loan - LT Portion	—	—	—
TOTAL LIABILITIES	**43,416,652**	**44,997,447**	**42,811,100**
EQUITY			
Share Capital - Common	9,468,388	9,468,388	9,468,388
Share Capital - Preferred	6,100,000	6,100,000	6,100,000
Retained Earnings	14,181,416	15,085,499	17,010,448
Accumulated Other Comprehensive Income	(438,343)	(357,737)	(357,737)
TOTAL EQUITY	**29,311,461**	**30,296,150**	**32,221,099**
TOTAL LIABILITIES AND EQUITY	**72,728,113**	**75,293,597**	**75,032,199**

FESTIVAL HYDRO INC.

Income Statement

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Sep 30, 2022	YTD Budget at Sep 30, 2022	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
REVENUE					
Service Revenue	54,091,480	56,970,163	64,917,843	(7,947,680)	(12%)
Cost of Power	45,370,865	47,670,713	55,822,050	(8,151,337)	(15%)
GROSS MARGIN (DISTRIBUTION REVENUE)	**8,720,615**	**9,299,450**	**9,095,793**	**203,657**	**2%**
Other Operating Revenue	831,750	843,849	829,892	13,957	2%
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	110,347	121,441	143,629	(22,188)	(15%)
Distribution Lines & Services Overhead	1,160,131	1,270,979	1,325,171	(54,192)	(4%)
U/G Distribution Lines & Services	188,163	174,003	157,623	16,380	10%
Distribution Transformers	81,527	59,273	59,217	56	0%
Distribution Meters	198,541	349,795	320,709	29,086	9%
Customer Premises	164,398	130,039	127,303	2,736	2%
TOTAL OPERATING AND MAINTENANCE	**1,903,107**	**2,105,530**	**2,133,652**	**(28,122)**	**(1%)**
ADMINISTRATION					
Billing, Collecting & Meter Reading	985,324	984,841	1,071,599	(86,757)	(8%)
Administration	1,802,175	1,976,352	2,194,098	(217,745)	(10%)
TOTAL ADMINISTRATION	**2,787,498**	**2,961,194**	**3,265,696**	**(304,503)**	**(9%)**
Allocated Depreciation	(91,644)	(94,522)	(94,522)	—	—
TOTAL CONTROLLABLE COST	**4,598,961**	**4,972,202**	**5,304,826**	**(332,624)**	**(6%)**
NET INCOME BEFORE DEP'N, INTEREST & TAX	**4,953,403**	**5,171,097**	**4,620,859**	**550,238**	**12%**
Depreciation	1,793,162	1,919,507	1,919,507	—	—
Interest Expense	1,233,496	1,207,822	1,158,105	49,717	4%
Interest Income	(24,791)	(52,346)	(24,750)	(27,596)	111%
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	**1,951,536**	**2,096,114**	**1,567,997**	**528,117**	**34%**
Current Tax	436,706	351,000	156,000	195,000	125%
NET INCOME BEFORE SWAP & ICM	**1,514,830**	**1,745,114**	**1,411,997**	**333,117**	**24%**
Unrealized Gain/Loss on Swap	—	—	—	—	—
Marketable Security - recorded as OCI	—	—	—	—	—
NET INCOME	**1,514,830**	**1,745,114**	**1,411,997**	**333,117**	**24%**

FESTIVAL HYDRO INC.

Cash Flow Statement

For the period ending September 30, 2022

	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
Cash from Operations		
Net Income	3,195,240	1,745,114
Depreciation	2,412,000	1,919,507
Amortization of deferred revenue in other revenue	(65,645)	(40,559)
Unrealized loss on interest rate swap	(646,085)	—
Decrease/(Increase) in Receivables	(1,111,618)	159,576
Decrease/(Increase) in Inventory	9,168	(304,977)
Decrease/(Increase) in Prepaids	32,568	106,798
Decrease/(Increase) in Due from FHSI	294,268	130,910
Decrease/(Increase) in PILS	(178,120)	(49,905)
Decrease/(Increase) in Unbilled Revenues	1,140,450	(212,088)
Decrease/(Increase) in Future Tax (offsetting entry in payal	2,161,939	—
Decrease/(Increase) in Regulatory Assets	(3,330,007)	586,383
Increase/(Decrease) in Payables	1,322,917	(1,385,892)
Increase/(Decrease) in Deposits	269,859	(827,325)
Increase/(Decrease) in Employee Future Benefits	(131,274)	—
Contributed Capital	486,469	247,183
Net Cash Provided	**5,862,129**	**2,074,724**
Cash from Financing		
Loan Repayments	529,445	528,005
Cash Used - Capital Expenditures	3,865,723	2,321,988
Cash Used - TS expansion	—	—
TS Expansion Construction Loan Proceeds	—	—
Cash Used - Dividends paid current year	390,330	695,721
Cash Used - Dividends declared in prior year	115,211	—
Net Cash Used	**4,900,709**	**3,545,714**
Increase (Decrease) in Cash Position	**961,420**	**(1,470,990)**
Bank Indebtedness, Beg of Period	**(977,188)**	**(15,769)**
Bank Indebtedness, End of Period	**(15,769)**	**(1,486,759)**

Bank and Line of Credit Analysis	**2021**	**2022**
High balance (YTD)	3,245,015	3,383,301
Low Balance (YTD)	(4,904,523)	(8,463,958)
Overdraft interest (annualized)	24,449	47,241
Interest rate (avg annual for period)	**2.45%**	**5.25%**
Average overdraft balance	**997,918**	**899,828**

Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.47	Less than 0.65
Debt to Equity Test	28:72	Less than 75:25
Debt Service Ratio	2.55	Not less than 1.30X

FESTIVAL HYDRO INC.

Statement of Capital

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Sep 30, 2022	YTD Budget at Sep 30, 2022	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	682,607	785,372	668,648	116,724	(23%)
Underground Conductor and Devices	505,268	236,733	824,256	(587,523)	(61%)
Distribution Transformers	316,205	255,213	146,306	108,906	74%
Services	254,683	260,215	146,306	113,908	(100%)
Distribution Meters	34,393	156,634	290,362	(133,727)	(46%)
SCADA/Distribution Automation	11,409	20,143	41,250	(21,107)	(51%)
Tools and Miscellaneous Equipment	11,867	11,190	22,500	(11,310)	(50%)
TOTAL DISTRIBUTION	**1,816,432**	**1,725,500**	**2,139,629**	**(414,129)**	**(19%)**
OTHER CAPITAL					
Land and Buildings	345,703	190,369	206,019	(15,650)	(8%)
Transformer Station	77,513	16,080	104,250	(88,170)	(85%)
Vehicles and Trailers	11,590	63,625	157,500	(93,875)	(60%)
Computer Hardware and Software	281,058	326,414	340,725	(14,311)	(4%)
TOTAL OTHER CAPITAL	**715,863**	**596,488**	**808,494**	**(212,006)**	**(26%)**
TOTAL CAPITAL	**2,532,295**	**2,321,988**	**2,948,123**	**(626,135)**	**(21%)**

Festival Hydro Services Inc.

Financial Statements

Prepared For:

The Finance & Labour Relations

Committee

January 2023

To: The Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHSI Financial Results – For the period ended September 30, 2022

The net income for the period was $53K which is $14K higher than budget but $54K lower than at this point last year. Detailed commentary on the balance sheet and income statement activity are noted below:

Balance Sheet Commentary:

A/R & Prepaids – This balance is slightly lower than Q2 by $6K. This is lower due to a portion prepaid amount of joint use expenses being recognized in the period.

Outstanding accounts receivable balances are generally held in Festival Hydro as they hit the intercompany account and revenues when they are billed, not when they are collected. They are being monitored through the monitoring of the miscellaneous AR aging in Festival Hydro. We will continue to monitor the aged miscellaneous AR balances regularly to ensure Rhyzome receivables are not impacting Festival's cash flows increasingly.

Capital Asset Additions – Additions to the end of September 2022 are $89K, or 75% of Q3 budget. This includes $59K in computer hardware additions, $24K on Fibre and $6K on WIFI related projects. Details on the capital spend to date are as noted below:

Computer Hardware: Total spend for FHSI on hardware YTD is $59K of which $52K was spent on our new server project. We had budgeted $55K for this project. These are the main network servers as the previous servers (4) were nearing end of life from an age perspective and were at risk of failure. A couple of the old servers may be repurposed for a sandbox environment and potentially as a backup server. There was also a purchase of rack extenders for the data centre totalling $3.5K.

Fibre Capital: Total spend on fibre capital YTD is $24K, $8K was spent on AdTran spare parts. This allows for quick access to critical parts in case of component failures on the primary Stratford fibre device and therefore significantly decreases lengthy outage time risks. $11K was spent on the AdTran migration in St. Mary's. There have been limited costs related to Wightman network expansion.

WI-FI Capital: Total YTD spend on WIFI related activity is $6K. This was spent to prepare for the St. Mary's Wi-Fi upgrade project that was delayed from 2021. This project is currently on hold.

Due to Festival Hydro Inc. – The balance in this account decreased from June 30, 2022, balance by $95K. The change is due to ongoing work being completed by FHSI staff for FHI as well as a HST refund of $29K.

Deferred Revenue – This balance has decreased from the June 2022 balance as a portion of the balance has been recognized into revenue for Q3 2022. No new contributions have been received in the year.

Income Statement Commentary:

Revenues – Revenues are $62K lower than budget in Q3. Consulting revenue is down from budget by $51K because of labour challenges in the first two quarters. A full staff compliment is in place as of the beginning of Q3. This decrease is partially offset by the increase in LIT revenue by $24K. This revenue line is down from prior year due to the change in the Wightman contract however higher than budgeted revenues have remained consistent throughout the year. We are also behind budget for fibre, Wi-Fi and co-locate revenues by $34K due to slower growth than projected.

Operating Expenses – Operating expenses are below budget by $76K at the end of Q3 but higher than Q3 2021 by $43K. While we did not have a full staff compliment in the first half of 2022, we have improved compared to the prior year which is why the business development expenses are lower than budget but higher than prior year. There are also decreases in fibre and Wi-Fi expenses compared to budget as the pole attachment rate determined by the OEB dropped from $44.50 in 2021 to $34.76.

Cash Flow Commentary:

The cash balance has increased to $21K from the $18K June 2022 balance. As discussed above, net income is ahead of budget. The variances in cash from year end and Q2 are due to the net change in receivables and payables loan repayments, capital purchases and working capital items.

FESTIVAL HYDRO SERVICES INC.

Balance Sheet

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
ASSETS			
Current Assets			
Cash	44,500	9,016	20,824
Accounts Receivable & Prepaids	80,780	62,215	57,840
Income Tax Receivable/(Payable)	—	(62,500)	(7,299)
Other Assets	—	—	—
Inventory	7,773	7,617	7,617
Total Current Assets	**133,053**	**16,347**	**78,981**
Fixed Assets			
Gross Book Value	5,442,441	5,362,691	5,451,735
Accumulated Depreciation	(2,283,160)	(2,254,559)	(2,536,415)
Net Book Value	**3,159,281**	**3,108,132**	**2,915,321**
Other Assets			
Investment in QR Fibre Co.	—	—	—
Investment Tax Credit Receivable	6,000	6,000	—
TOTAL ASSETS	**3,298,335**	**3,130,479**	**2,994,302**

	YTD as at Sep 30, 2021	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
LIABILITIES			
Current Liabilites			
Accounts Payable	63,667	33,211	32,269
Due to Festival Hydro Inc.	418,025	332,803	201,894
Current Portion of LTD	10,427	42,508	10,627
Promissory Note	372,000	372,000	372,000
Total Current Liabilities	**864,119**	**780,522**	**616,789**
Other Liabilites			
Deferred Revenue	619,573	597,465	543,857
Deferred Tax Liabilities	238,000	212,000	243,000
Long Term Debt			
RBC Financing	—	—	—
POP Loan Long Term Portion	363,813	321,305	321,305
TOTAL LIABILITIES	**2,085,505**	**1,911,292**	**1,724,952**
EQUITY			
Share Capital	249,236	249,236	249,236
Retained Earnings	963,594	969,952	1,020,115
TOTAL EQUITY	**1,212,829**	**1,219,187**	**1,269,350**
TOTAL LIABILITIES AND EQUITY	**3,298,335**	**3,130,479**	**2,994,302**

FESTIVAL HYDRO SERVICES INC.

Statement of Operations

For the period ending September 30, 2022

	YTD as at Sep 30, 2021	YTD as at Sep 30, 2022	YTD Budget at Sep 30, 2022	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
REVENUE					
Sentinel Lights Rental	7,834	7,702	8,250	(548)	(7%)
Dark Fibre Rental	314,386	310,922	318,750	(7,828)	(2%)
WiFi Revenue	204,725	195,690	212,250	(16,560)	(8%)
LIT Revenue	217,361	194,579	171,000	23,579	14%
Consulting Revenue	165,363	192,586	243,750	(51,164)	(21%)
Services	—	—	—	—	—
Co-Locate Revenue	91,324	91,324	101,250	(9,926)	(10%)
Other Revenue - Miscellaneous	3,542	3,605	3,525	80	2%
TOTAL REVENUE	**1,004,535**	**996,409**	**1,058,775**	**(62,367)**	**(6%)**
EXPENSES					
Sentinel Lights	943	1,662	3,494	(1,832)	(52%)
Fibre Optics	99,150	94,861	107,472	(12,611)	(12%)
WiFi	103,031	102,981	116,861	(13,879)	(12%)
Business Development	302,501	334,240	386,506	(52,266)	(14%)
Administration Costs	61,363	68,599	74,371	(5,773)	(8%)
Outside Services	19,092	27,093	16,541	10,552	64%
Change in Fair Value of Stock Options	—	—	—	—	—
Donations	—	—	—	—	—
TOTAL EXPENSES	**586,080**	**629,436**	**705,245**	**(75,810)**	**(11%)**
NET INCOME BEFORE DEP'N. & INTEREST	**418,455**	**366,973**	**353,530**	**13,443**	**4%**
Depreciation	274,811	281,892	281,892	0	0%
Interest Expense	37,559	32,293	32,865	(572)	(2%)
Interest Income	(131)	161	—	161	—
NET INCOME(LOSS) FOR PERIOD BEFORE TAXES	**106,216**	**52,626**	**38,773**	**13,854**	**36%**
Current Tax	—	—	—	—	—
Future Tax	—	—	—	—	—
Total Taxes	—	—	—	—	—
NET INCOME(LOSS) FOR THE PERIOD	**106,216**	**52,626**	**38,773**	**13,854**	**36%**

Wightman Revenue:	YTD as at Sep 30, 2022
Dark Fibre Rental	4,500
ISP Revenue	86,772
FTTH Revenue	59,293
Rental of Server Building	15,750
Total	**166,315**

FESTIVAL HYDRO SERVICES INC.

Cash Flow Statement

For the period ending September 30, 2022

	YTD as at Dec 31, 2021	YTD as at Sep 30, 2022
Cash from Operations		
Net Income	172,110	52,626
Future tax provision	(57,000)	—
Current tax provision (ITC portion)	34,000	(20,701)
Depreciation	362,439	281,892
Amortization of contributed capital	(72,698)	(53,321)
Amortization of deferred revenue	(17,437)	(287)
Accretion of interest	—	—
Investment in QR Fibre Co.	—	—
Net Change in Receivables/Payables	(1,388)	3,433
Net Cash Provided	**420,026**	**263,642**
Cash from Financing		
Capital expenditures - Festival	(84,563)	(89,044)
Contributed capital received DSRC - AVIN	—	—
Loan - Wightman	(41,707)	(31,881)
Loan - RBC	—	—
Loan from/(repayment to) Festival	(294,268)	(130,910)
Net Cash Used	**(420,539)**	**(251,835)**
Increase (Decrease) in Cash Position	**(513)**	**11,807**
Cash Beg of Period	**9,529**	**9,016**
Cash End of Period	**9,016**	**20,824**

FESTIVAL HYDRO SERVICES INC.

Statement of Capital

For the period ending September 30, 2022

	YTD as at Sep 30, 2022	YTD Budget at Sep 30, 2022	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
CAPITAL				
Office Furniture & Equipment	—	—	—	—
Computer Equipment - Hardware	58,363	78,622	(20,260)	(26%)
Computer Software	—	2,982	(2,982)	(100%)
Sentinel Lighting Rental Units	—	—	—	—
Buildings	911	—	911	—
Fibre Capital	23,807	30,750	(6,943)	(23%)
WiFi Capital	5,964	5,749	215	4%
TOTAL CAPITAL	**89,044**	**118,103**	**(29,059)**	**(25%)**

MANAGEMENT REPORT

Date: January 17, 2023
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services
Report #: FIN23-006
Attachments: Downtown Stratford BIA 2023 Draft Budget

Title: Downtown Stratford Business Improvement Area 2023 Draft Budget

Objective: To approve the 2023 draft operating budget of the Downtown Stratford Business Improvement Area (BIA).

Background: The Municipal Act, 2001, s. 204 authorizes a municipality to establish a Business Improvement Area to be governed by a board of management.

The Municipal Act, 2001, s. 205 requires that the board of management *shall prepare a proposed budget for each fiscal year by the date and in the form required by the municipality and that the board of management shall submit the budget to council by the date and in the form required by the municipality and the municipality may approve it in whole or in part but may not add expenditures to it.*

The 2023 draft budget for the BIA is attached for review.

Analysis: Representatives from Downtown Stratford BIA will be attending the meeting electronically to review the budget and answer questions.

It is worth noting that the City provides accounting services (payables, receivables, cash deposits, bank reconciliations, payment of audit fees and financial statement preparation) to the BIA at no charge.

Financial Implications:

Financial impact to current year operating budget:
There is no financial impact for The Corporation of the City of Stratford, other than the in-kind provision of services/dedication of finance staff time to perform all financial transactions and bookkeeping, as the approved amount is added to the assessed property in the business improvement catchment area as a special charge when 2023 tax rates are established.

Alignment with Strategic Priorities:

Strengthening our Plans, Strategies and Partnerships
Partnering with the community to make plans for our collective priorities in arts, culture, heritage and more. Communicating clearly with the public around our plans and activities.

Alignment with One Planet Principles:

Equity and Local Economy
Creating safe, equitable places to live and work which support local prosperity and international fair trade.

Culture and Community
Nurturing local identity and heritage, empowering communities and promoting a culture of sustainable living.

Staff Recommendations: THAT the 2023 budget of the Downtown Stratford Business Improvement Area be approved as submitted in the amount of $325,272.50;

THAT the sum of $299,472.50 shall be levied on properties located within the boundaries of the Downtown Stratford Business Improvement Area for the year 2023;

AND THAT staff be directed to bring the prepared by-law to a subsequent meeting for approval.

Prepared by:	Karmen Krueger, CPA, CA, Director of Corporate Services
Recommended by:	Karmen Krueger, CPA, CA, Director of Corporate Services
	Joan Thomson, Chief Administrative Officer

DOWNTOWN STRATFORD

	Proposed Budget
REVENUES	
Tax Levy	$299,472.50
Interest on Accounts	$1,800.00
HST Rebate	$14,000.00
Community Collaboration	$10,000.00
Grant Revenue – Project/City Grant	$0.00
Miscellaneous Revenue	$0.00
TOTAL REVENUES	$325,272.50
EXPENSES	
Operating	
CC Support Fees - Admin, Animation, Members	$145,950.00
Office Operations	$6,000.00
Strategic Plan	$5,000.00
Advocacy and Education	$12,000.00
Insurance	$2,600.00
AGM / Membership	$1,000.00
Phone	$1,050.00
Anticipated Levy Refund	$8,772.50
Animation, Marketing and Beautification	
Community Engagement	$6,000.00
Holiday Animation	$25,000.00
Directory Sign Maintenance	$500.00
Promotion	$21,400.00
Digital Gift Certificates	$5,000.00
Website Maintenance & Hosting	$5,000.00
STA contribution	$35,000.00
Beautification	$35,000.00
Destination Animation Fund	$10,000.00
TOTAL EXPENSE	$325,272.50
NET INCOME/EXPENSES CURRENT YR	$0.00

MANAGEMENT REPORT

Date: January 17, 2023
To: Finance & Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report #: FIN23-004
Attachments: None

Title: Ontario Regulation 284/09 – Excluded Expenses

Objective: To meet the legislative requirements of Ontario Regulation 284/09 for financial reporting and provide the Sub-committee, Committee and Council with information regarding expenses excluded from the budgeting process.

Background: In 2009, the Public Sector Accounting Board (PSAB) introduced revisions to the accounting standards whereby municipalities were required to move to a full accrual basis of financial statement reporting. The most significant change was with the accounting for capital assets whereby now assets are expensed (amortized) over the estimated life of the asset.

The new standards did not require that budgets be prepared on the same basis. Therefore, like most municipalities, the City of Stratford continues to budget on a modified cash basis to determine the annual tax levy. This is acceptable, as long as Council adopts a resolution to this effect.

Ontario Regulation 284/09 permits municipalities to exclude certain full accrual expenses from their estimated expenditures when setting its budget and tax rates.

The City of Stratford's 2023 draft budget excluded:

I. Amortization expenses on tangible capital assets
II. Post-employment benefits expenses
III. Solid waste landfill closure and post-closure expenses.

If the budget does not include these expenses, a report to Council is required outlining the impact to the financial statements.

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.

In addition to the items covered in the O. Reg, the following items are also excluded from the PSAB full accrual budget, but reporting on these items is not required as these items are deemed to be taken from the municipality's surplus.

- Principal paid on debt
- Transfers to reserve accounts
- Transfers from reserve accounts
- Acquisition costs of tangible capital assets

These exclusions are why the internal financial reports and budget process differ, sometimes significantly, from the audited financial statements, that are prepared in accordance with PSAB guidelines.

Analysis:

Amortization Expenses on Tangible Capital Assets:

An estimated amortization expense for the City of $8,817,210 was not included in the 2023 budget. This figure excludes any amortization estimates for the fully consolidated entities too.

This estimate was based on the 2020-2022 average and considers the acquisition of new assets in 2023 and the half-year rule depreciation. This annual expense would reduce the City's accumulated surplus for the purposes of this regulation, noting that investments back into the capital program do offset some of this impact.

It is worth noting, that while the City doesn't budget for amortization, which gets added during the year-end processes, it *does* budget for capital transfers to reserves and reserve funds, estimated at $13 million in 2023. These amounts are removed from the City's prepared statements during the year-end processes.

The intent of amortization is to capture the usage of existing assets, while the transfers to reserves and reserve funds' intent is to capture the future cost of replacement of the assets.

Practically, the amount of the annual usage of the current assets will typically be less than the annual amount required as transfers to the reserve funds for their replacement.

Post-Employment Benefits Liabilities

The City is obligated to report as a liability an estimate for future employee benefits, unused sick leave payments, and WSIB benefits.

Each year, an actuarial consultant reviews the accrued banks (the liability) and workforce demographics of the City, and forecasts future benefit obligations.

The City annually contributes funds into a reserve for these future expenses, and at 31st December 2022 the balance in the Sick & Severance Reserve was approx. $5,994,090.

If the City were to fully fund the entirety of post-employment benefits obligations, the budget would have to increase significantly, to fund the approximate $10 million obligation. This is adjusted each year based on actual payments and expected remaining service lifetime but there is still a shortfall in these accrued reserve funds.

The City does include an expense in their year-end adjustments to reflect the difference between what the annual contributions are and the actual expense. The planned contribution to the reserve in 2023 included in the draft budget was $350,000 while the expense recorded will likely be greater than this, resulting in a use of these reserves.

Solid Waste Landfill Closure and Post-Closure Expenses:

The City is obligated to report as a liability the estimated future cost of landfill closure and post closure expenses.

The latest estimate of this liability is $2,094,297. This amount has been increasing steadily over the past five years (was $918,524 in 2014). The liability will continue to increase as landfill capacity is progressively used, we get closer to full capacity and the post closure costs keep rising.

The 2023 unbudgeted expense is estimated to be $139,900 based on historical experience.

Based on a landfill study completed in 2021, the City has begun to contribute funds to a reserve for future landfill costs. The 2022 amount set aside through levy contributions was $28,400, 2023 is $85,000 and this will increase in future years based on the Waste study consultant’s recommendations to shrink this gap.

Impact on Future Tangible Capital Asset Funding Requirements

It is important to note again that amortization expense is not an accurate representation of the City’s “Infrastructure Deficit”.

Amortization expense is a non-cash accounting entry that is recorded based on the historical cost of an asset when it was originally purchased, constructed, or put into service.

Amortization expense is recorded in our financial statements over the expected useful life of the asset with the intent to ‘spread’ the costs of an asset over its useful life.

Many of the City’s infrastructure assets are already fully amortized and beyond their useful lives so there is no ongoing depreciation expense recorded.

The basis for amortization as historical cost tends to be only a fraction of the replacement cost, particularly in times of significant inflation. Therefore, it is a weak indicator of the amount needed to be set aside for asset replacement.

The City's comprehensive asset management plan is the best source for quantifying future capital funding needs and measuring the infrastructure deficit in today's dollars. It is intended as a living document, and updated as assets are sold and replaced, and decisions are made affecting future replacements.

Financial Implications:

Financial impact to current year operating budget:
There is no direct financial impact with this report as it does not affect the cash operating surplus/deficit. The intent of the report is to describe the conversion of the approved cash-based budget to a PSAB full accrual budget format, which complies with legislated requirements.

Under the PSAB reporting guidelines, the impact of representing a full accrual basis of budgeting would be a net annual decrease to the City's accumulated surplus of more than $12 million and would very significantly impact the levy annually.

Link to asset management plan and strategy:
Should the City by choice or through legislation move further towards preparing the budget on a full accrual-based method, then this will impact how we levy for these types of known future liabilities, including capital asset replacements. This could occur in the future but is not anticipated at this time. For now, the modified basis currently being used, is adequate and appropriate. It ensures that reserves are in existence and being built, but are not excessive for these future estimates.

Alignment with Strategic Priorities:

Strengthening our Plans, Strategies and Partnerships
Partnering with the community to make plans for our collective priorities in arts, culture, heritage and more. Communicating clearly with the public around our plans and activities.

Alignment with One Planet Principles:

Not applicable: This report is being prepared as required by Ontario Regulation 284/09 so there is no connection to the One Planet principles.

Staff Recommendation: THAT the report titled, "Ontario Regulation 284/09 – Excluded Expenses" (FIN23-004), be adopted.

Prepared by:	Karmen Krueger, CPA, CA, Director of Corporate Services
Recommended by:	Karmen Krueger, CPA, CA, Director of Corporate Services Joan Thomson, Chief Administrative Officer

MANAGEMENT REPORT

Date: January 17, 2023
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services
Report #: FIN23-005
Attachments: 1. Draft Asset Retirement Obligation Policy
2. Draft Workplan Implementation PS 3280 - ARO

Title: Asset Retirement Obligations (ARO)

Objective: The purpose of the Asset Retirement Obligations (ARO) Report is to outline the implications of this new standard and present a draft policy. The policy will provide a framework to outline the accounting treatment for ARO so that users of the financial report can discern information about these assets, and their end of life obligations. Councils are legislatively required to adopt such a policy.

Background: Recent changes to reporting standards by the Public Sector Accounting Board (PSAB) require municipalities to identify, measure, and report certain costs associated with asset retirement.

Municipalities must prepare an Asset Retirement Obligation Policy that establishes guidelines to ensure compliance with the new standard PSAB PS 3280 – Asset Retirement Obligations. The Treasurer has developed a draft Asset Retirement Obligation Policy for Sub-committee, Committee and Council consideration which has been attached to this report as Appendix A.

The Treasurer will work with Department Heads throughout the year to review all assets owned and controlled by the City against the Asset Retirement Obligation Policy requirements to identify future liabilities. A work plan detailing the activities that must occur has been attached to this report as Appendix B.

The identified liabilities will be measured and included in the City's financial statements beginning in the 2023 fiscal year.

An ARO arises when there is a legal obligation to retire tangible capital assets. Asset retirement is defined as removing a capital asset from service and includes sale transactions, asset abandonment and asset disposal. These costs may include, but are not regularly limited to, decommissioning, dismantling, and remediation of a tangible capital asset and meeting any legislative mandates around environmental cleanup and/or restoring assets to their original condition.

This exercise has already been undertaken for landfills, specifically under PSAB 3270 Solid Waste Landfill Closure standard, so the City's financial statements already capture these costs and liabilities. The intent of PSAB 3280 - Asset Retirement Obligations is to replace PSAB 3270 and enhance the assets that recognition of retirement obligations to include other assets such as those noted herein.

The exercise of identifying, assessing, and estimating an ARO will require a considerable effort across the City organization and may ultimately require the use of professional consultants. This project will be a significant undertaking for the Finance Division but will also involve the other City divisions as well. It will result in additional work to maintain compliance with the new standard ongoing into the future.
Staff have already attended several online training webinars and Finance staff in the neighbouring municipalities in Perth County met to share practices and worked collaboratively to develop this policy.

Analysis: The City's financial statements reflect balances and disclosures aligned with public sector accounting standards addressing general liabilities, landfill liabilities, contractual obligations, contaminated sites and contingent liabilities. The new measure extends these requirements to include liabilities related to the retirement of existing assets. The standard outlines that recognizing the total cost of an asset should consist of the expenses incurred to retire that asset in the future. An ARO exists when there is a legal obligation to incur retirement costs concerning an asset. Some examples of when a legal obligation may exist:

- Assets that require compliance with standards and regulations that, if sold, disposed of or no longer in use, would require remediation, such as asbestos in buildings and in-ground piping, fuel storage tank removals, wells, fire water holding tanks, septic beds and others.

- Leases that require removal of leasehold improvements at the end of the lease.

- Land covenants needing removing equipment or cleaning up hazardous materials (more comprehensive listings to be determined with reviews of Ministry of the Environment, Conservation and Parks (MECP), Ministry of Natural Resources and Forestry (MNRF), and other legislation, beginning with specific attention to those subject to penalty or fine for failure to comply)

- Assets that need to be returned to their natural state when assets are no longer in use.

Common assets include buildings with asbestos; storage tank removal; removal of radiologically contaminated medical equipment (x-rays or MRI's); wastewater or sewage treatment facilities; reclamation, closure and post- closure obligations associated with mining activities; closure and post-closure obligations associated with landfills; and reforestation of land subject to a timber lease.

Once an ARO liability is estimated, liability and asset of equal value are recorded on the Statement of Financial Position/Balance Sheet. The initial asset in most cases will already be captured as part of our Tangible Capital Asset registry, and these are part of the Accumulated Surplus. This effectively increases the carrying cost of the existing asset at the same time as registering the liability. Once an asset is no longer in use, then the liability for the ARO will be expensed when the asset is disposed. Estimates will include all costs directly related to the asset retirement activities but will be limited to those legally enforceable. An estimate is made today for some point in the future, at which time the liability will be extinguished. The future value is then discounted through a discount rate.

Each year there will be an accrued expense in the Statement of Operations/Income Statement to increase the liability over time as the asset approaches its end of life. This recognizes the expense while the asset is in use and results in the liability growing to equal the estimated costs on the date of retirement of the asset. Similar to amortization, this is a non-cash expense item and does not directly drive budgeted revenues. However, there is a cost to be incurred in the asset's ending life, for example, with removing asbestos, which will need to be considered and how it will be funded.

Because the City of Stratford financial statements include consolidated public sector entities (Festival Hydro Inc, Festival Hydro Services Inc, Spruce Lodge and Huron Perth Public Health, the Golf Course, Perth Stratford Housing Corporation and SeedCo/ InvestStratford), this standard will also apply to these entities. Ensuring that these entities appropriately capture asset retirement obligations will also create additional assurance work by staff as well as the auditors.

A new Asset Retirement Obligation Policy was co-developed with the municipalities in Perth to establish the steps to be followed: recognition, subsequent measurement, and staff responsibilities. The draft policy is attached for consideration.

Next steps are outlined on the drafted workplan attached.

Financial Implications:

Financial impact to 2023 and future operating budgets:
It is not anticipated that there will be a significant impact on the City’s financial position as a result of recognizing asset retirement obligations. A future report will be prepared for Sub-committee, Committee and Council to outline the assets which have retirement obligations and the estimated costs of the retirement costs. Consideration should be given to creating an Asset Retirement Obligation Reserve to accumulate the necessary funds to cover retirement costs, similarly to that recently established for landfill closure and post-closure costs.

Link to asset management plan and strategy:
The City's software used for managing the asset registry (CityWide/Public Sector Digest) does contain a component that will assist with keeping track of the ARO requirements which will make reporting and reviewing once initially established simpler than recreating or managing strictly in Excel or some other system.

As outlined in this report, the total costs of asset ownership and management will increase as the costs of retirement are captured for those identified in the standard.

Alignment with Strategic Priorities:

Developing our Resources
Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Alignment with One Planet Principles:

Not applicable: This report and outcomes are legislative and administrative in nature and do not align with One Planet principles.

Staff Recommendations: THAT the draft Asset Retirement Obligation Policy attached to Report FIN23-005, be approved;

AND THAT staff be authorized to establish a new Asset Retirement Obligation Reserve Fund if/as required, and this new reserve fund be added to F.1.13 Reserve and Reserve Fund Policy.

Prepared by:	Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Recommended by:	Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer Joan Thomson, Chief Administrative Officer

APPENDIX A

Stratford ONTARIO CANADA Dramatically Different!

DRAFT

The Corporation of the City of Stratford
Policy Manual

Policy Number:	F.1.21
Policy Section:	Financial and Fiscal
Department:	Corporate Services
Date Adopted:	January xx, 2023
Date Amended:	
Scheduled for Review:	January xx, 2028
Date of Last Review:	
Policy Type:	Council-adopted Policy

Asset Retirement Obligation Policy

Policy Statement:

A policy governing the recording of Asset Retirement Obligations (AROs) under Public Sector Accounting Board (PSAB) section 3280.

Purpose:

To document processes by which asset retirement obligations will be recognized, measured, updated, and integrated into existing processes, and related roles and responsibilities so that users of the financial reporting can discern information about these assets, and their end of life obligations. The principal issues in accounting for AROs is the recognition and measurement of these obligations.

Scope:

This Policy applies to all departments, branches, boards and agencies falling within the reporting entity of the City of Stratford, that possess asset retirement obligations including:

- Assets with legal title held by the City of Stratford
- Assets controlled by the City of Stratford
- Assets reported in any entities that are consolidated with the City for financial statement purposes

- Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

The entities that are currently consolidated with the City of Stratford currently include:

Festival Hydro Inc., Festival Hydro Services Inc., Spruce Lodge and Huron Perth Public Health, Perth Stratford Housing Corporation and SEED Co./investStratford, and assets owned by the City for the Golf Course.

Scope of applicability (decision tree) is attached to this Policy as Appendix A.

Legislative Authority:

Municipal Act, 2001, Subsections 294 (1), A municipality shall, for each fiscal year, prepare annual financial statements for the municipality in accordance with generally accepted accounting principles for local governments as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. 2006, c. 32, Sched. A, s. 123; 2017, c. 10, Sched. 1, s. 38.

Definitions:

Accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

Asset retirement activities include all activities related to an asset retirement obligation. These may include, but are not limited to:

- decommissioning or dismantling a tangible capital asset that was acquired, constructed, developed, or leased;
- remediation of contamination of a tangible capital asset created by its normal use;
- post-retirement activities such as monitoring; and
- constructing other tangible capital assets to perform post-retirement activities.

Asset retirement cost is the estimated amount required to retire a tangible capital asset.

Asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.

Productive use means the tangible capital asset is held for use in the production or supply of goods and services, for rental to others, for administrative purposes, or for the development, construction, maintenance, or repair of other tangible capital assets.

Retirement of a tangible capital asset is the permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment or disposal in some other manner but not its temporary idling.

Administration and Accountability:

All Departments (Directors) are required to:

- Communicate with the Treasurer on retirement obligations, and any changes in asset condition or retirement timelines;
- Assist in the preparation of cost estimates for retirement obligations; and
- Inform Finance of any legal or contractual obligations at inception of any such obligation.

Treasurer to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation.

Treasurer is responsible for the development of and adherence to policies for the accounting and reporting of asset retirement obligations in accordance with Public Sector Accounting Board section 3280. This includes responsibility for:

- Reporting asset retirement obligations in the financial statements of the City and other statutory financial documents,
- Monitoring the application of this Policy,
- Managing processes within the accounting systems, and
- Investigating issues and working with asset owners to resolve issues.

All Departments (Directors), with adherence to the Official Plan, are responsible for providing cost-effective projections of asset retirement obligations, by consulting with engineers, technicians, and other personnel familiar with the assets and conditional assessments, collecting the relevant information required to minimize service cost, and providing the information to the Corporate Services/Finance Department for processing.

Reporting Requirements:

The Treasurer shall, for each fiscal year, prepare annual financial statements for Stratford in accordance with Generally Accepted Accounting Principles (GAAP) for municipalities as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. This includes the reporting of ARO in the annual financial statements in accordance with PSAB PS 3280.

There are no additional reporting requirements at the time of the development of this policy.

Guiding Principles:

Existing laws and regulations require public sector entities to take specific actions to retire certain tangible capital assets at the end of their useful lives. This includes activities such as removal of asbestos, and retirement of landfills. Other obligations to retire tangible capital assets may arise from contracts or court judgments, or lease arrangements.

The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by the City of Stratford, will be recognized as liability in the books of the City, in accordance with PS3280 which the City will adopt in its financial statement reporting effective January 1, 2023.

Asset retirement obligations result from acquisition, construction, development or normal use of the asset. These obligations are predictable, likely to occur and unavoidable. Asset retirement obligations are separate and distinct from contaminated site liabilities. The liability for contaminated sites is normally resulting from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

Recognition:

A liability should be recognized when, as at the financial reporting date:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

The estimate of the liability would be based on requirements in existing agreements, contracts, legislation or legally enforceable obligations, and technology expected to be used in asset retirement activities.

The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operation, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset.

Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly attributable to the asset retirement activity.

Upon initial recognition of a liability for an asset retirement obligation, the City will recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) by the same amount as the liability. Where the obligation relates to an asset which is no longer in service, and not providing economic benefit, or to an item not recorded by the City as an asset, the obligation is expensed upon recognition.

The capitalization thresholds applicable to the different asset categories will also be applied to the asset retirement obligations to be recognized within each of those asset categories.

Subsequent Measurement:

The asset retirement costs will be allocated to accretion expense in a rational and systemic manner (straight-line method) over the useful life of the tangible capital asset or a component of the asset.

On an annual basis, the existing asset retirement obligations will be assessed for any changes in expected cost, term to retirement, or any other changes that may impact the estimated obligation. In addition, any new obligations identified will also be assessed.

Presentation and Disclosure:

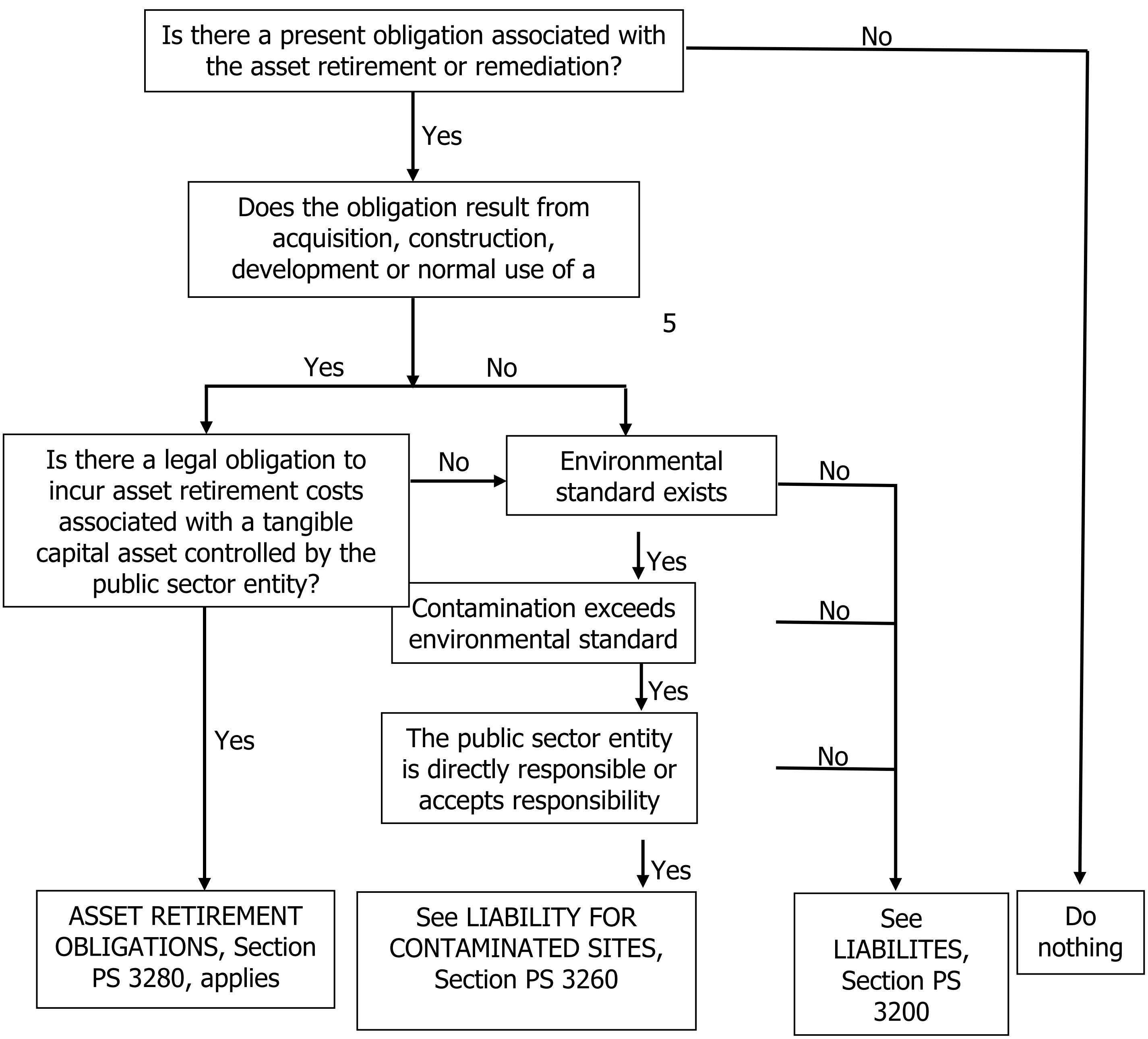
The liability for asset retirement obligations will be disclosed.

Policy Review:

This policy will be reviewed every five years, or upon direction of Council, or if staff identify an issue requiring addressing.

Appendix A

Decision Tree – Scope of applicability



APPENDIX B

CITY OF STRATFORD
Proposed Work Plan and Timeline
PS3280 Asset Retirement Obligations Implementation

	2022		2023											
	November	December	January	February	March	April	May	June	July	August	September	October	November	December
Phase 1 - Asset Retirement Obligations Policy Development														
Meeting with Finance staff from Perth County Municipalities to develop draft Asset Retirement Obligations Policy.														
Finalize Stratford Asset Retirement Obligation Council Report, Policy, and Work Plan.														
Present draft Asset Retirement Obligations Policy and Work Plans to Council for approval.														
Phase 2 - Asset Retirement Obligations Identification														
Project Kick Off with Department Heads to enhance project awareness.														
In conjunction with Department Heads, review asset ledgers and develop inventory of assets with retirement obligations. External consultations may be necessary.														
In conjunction with Department heads, review agreements, contracts, legislation, regulations, and by-laws to identify retirement obligations.														
In conjunction with Finance staff for consolidated entities, discuss whether retirement obligations exist in accordance with Asset Retirement Obligations Policy.														
Phase 3 - Measurement of Asset Retirement Obligations														
In conjunction with Department Heads, develop a best estimate of the liability for an ARO for each tangible capital asset.														
Determine the appropriate discount rate when applying a present value technique.														
Obtain asset retirement obligation costs from consolidated entities.														
Summarize the financial statement impact, if any, for in-scope retirement obligations.														
Update assets with associated asset retirement obligations in asset management software.														
Phase 4 - Reporting														
Prepare a report for Council to present financial statement impact of asset retirement obligations that must be recognized.														
Record identified and qualifying liabilities in 2023 consolidated financial statements.														
Draft note disclosure related to retirement obligations (including potential obligations) in the 2022 consolidated financial statements.														