

Fair Value Concepts

Understanding the True Costs of Your Community's Future

2024 LGLA Forum

Outline

- Why Asset Management
- What should you be asking your CFO
- Accounting Surplus: A Financial Statement Fallacy
- Historical Cost vs Fair Value
- Proactive Funding model

Why Asset Management

- Legislated purpose of municipalities and Regional District:
“providing for stewardship of the public assets of its community”
— LGA 185(c); CC 7(c)
- Ensure capital services remain sustainable

Why Asset Management

- Infrastructure is almost all we do and almost all we pay for

2021 Oak Bay Budget

Operating Budget	\$41.9M	67%
Capital Budget	\$21.1M	33%
Total	\$63.0M	100%

Why Asset Management

- Infrastructure is almost all we do and almost all we pay for

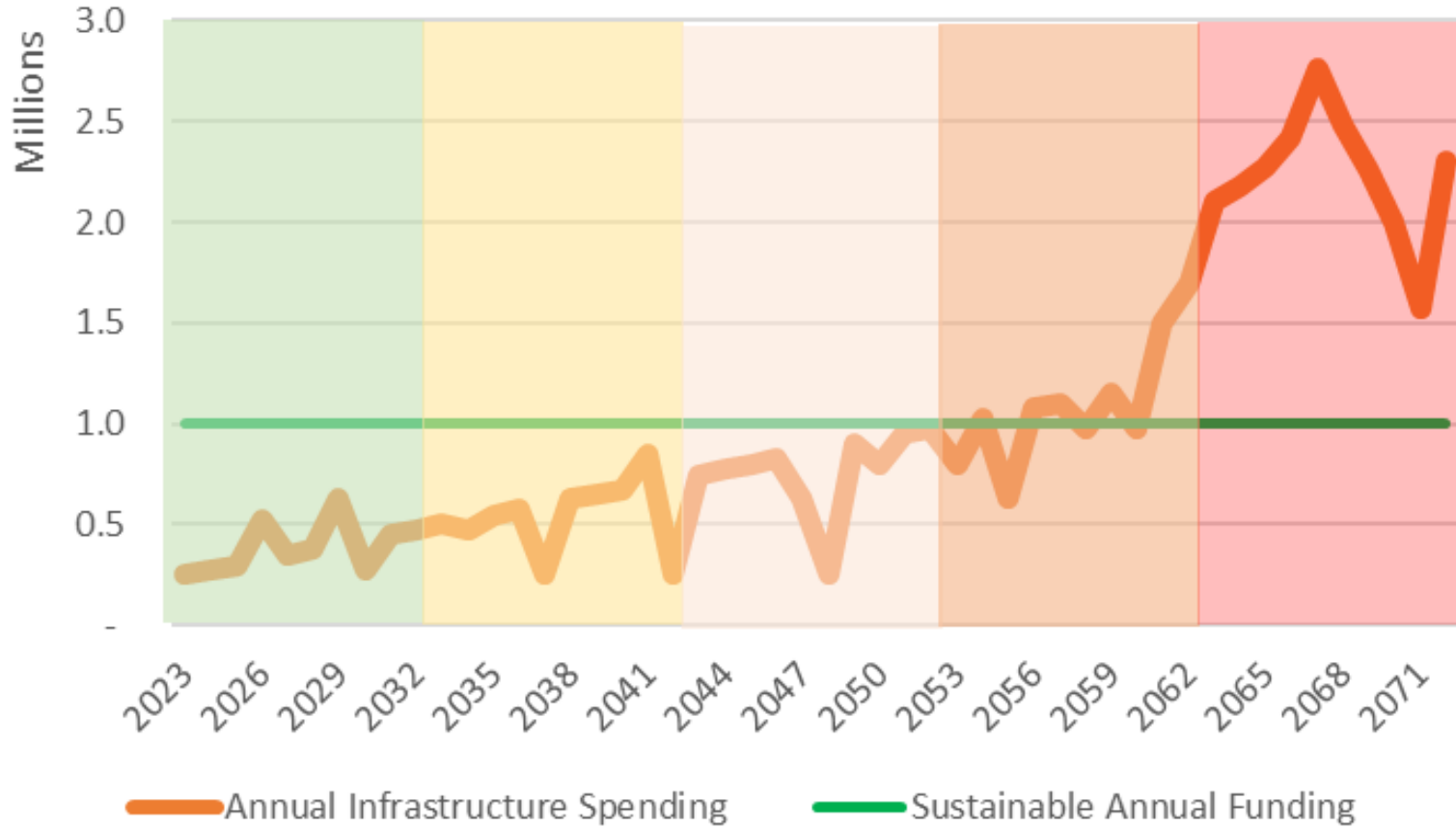
2021 Oak Bay Budget

Budget used for providing operating services	\$13.8M	22%
Budget for maintaining, operating, or replacing capital	\$49.2M	78%
Total	\$63.0M	100%

What should you be asking your CFO?

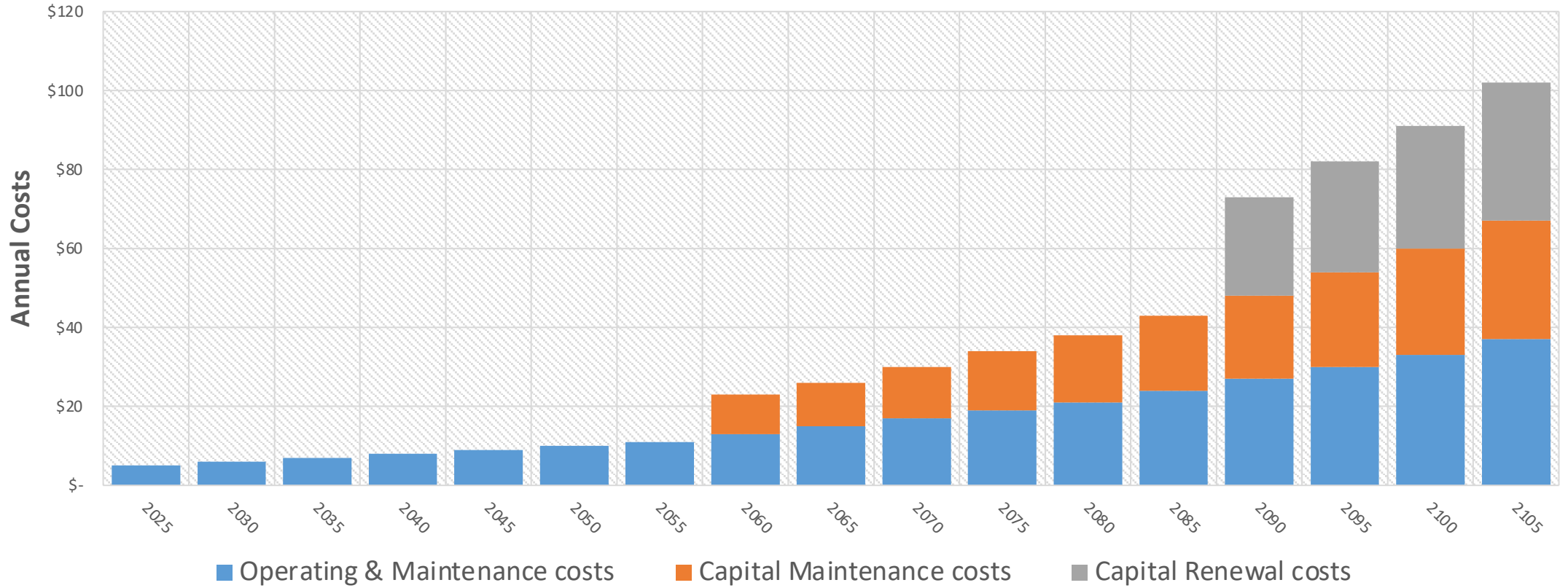
1. How much will it cost to replace our assets?
2. Do we have enough money to replace our assets?
3. When are we going to going to replace our assets?

Sustainable Funding Model

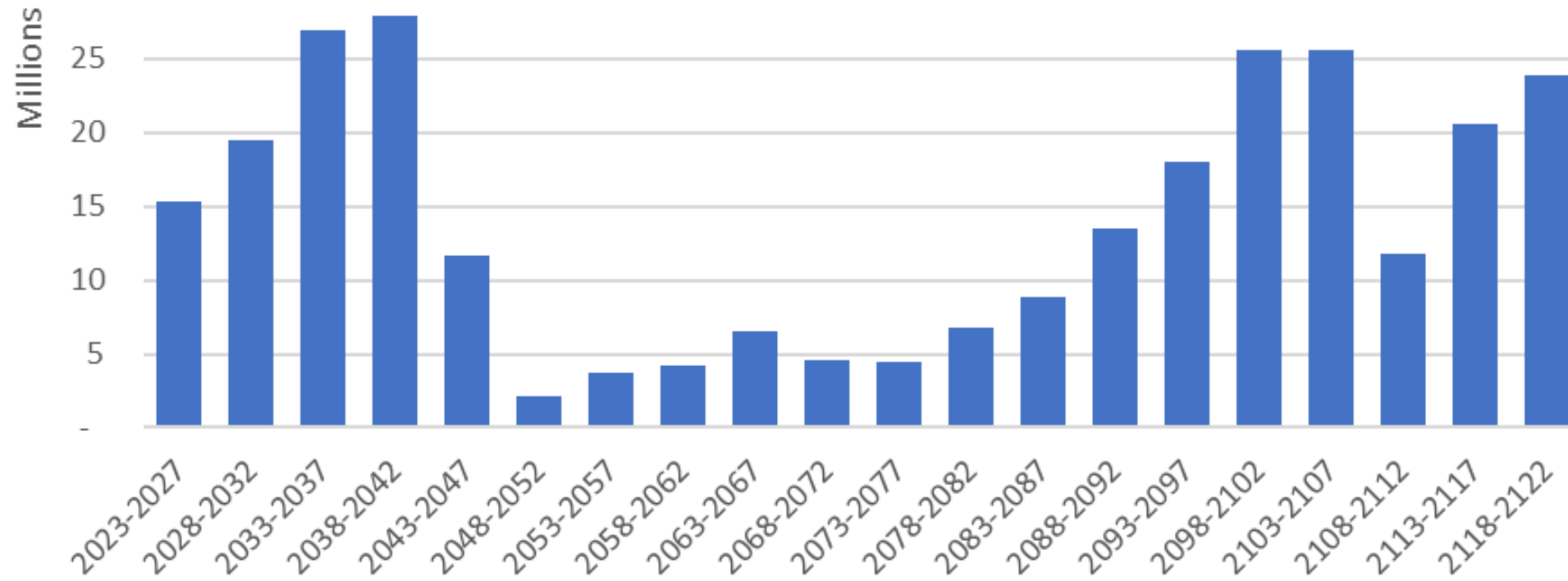


Years 1-10 Average	\$390k
Years 11-20 Average	\$540k
Years 21-30 Average	\$765k
Years 31-40 Average	\$1,092k
Years 41-50 Average	\$2,230k
50-year Sustainable	\$1,004k

Growing Lifecycle Costs



Forecasted Water Infrastructure Replacement Spending 2023-2122 (\$281.5M)



Accounting Surplus: A Financial Statement Fallacy

“taxpayers should be aware that...in 2021 the 13 municipalities on the South Island had a combined \$222.7-million annual surplus”

- Grumpy Taxpayer\$ of Greater Victoria, “Racking up Bigger Surpluses”, February 17, 2023

Technically they were correct – munis had an “accounting” surplus of 222.7M

Budgetary vs Accounting Surplus

	2023 Budget
Revenues	63.1M
Expenditures	(53.9)M
Accounting Surplus	9.2M
Capital Expenditures	(9.0)M
Debt Principal	(0.2)M
Budgetary Surplus	-

Budgetary vs Accounting Surplus

- You need an “accounting surplus” to be able to pay for capital (or transfer funds to a reserve for future capital)
- An “accounting surplus” doesn’t mean you’re over taxing – it means you’re paying for capital

Budgetary vs Accounting Surplus

	2022 Budget	2022 Actual
Revenues	53.6M	56.4M
Expenditures	(49.7)M	(45.4)M
Accounting Surplus	3.9M	8.2M
Capital Expenditures	(16.1)M	(5.3)M
Transfer from (to) reserve	12.4M	(1.5)M
Debt Principal	(0.2)M	(0.2)M
Budgetary Surplus	-M	1.2M

Financial Statements & Replacement Cost

- PSAS requires TCA to be recorded at cost
 - Depreciation expense is at cost
- International Public Sector Accounting Standards permit fair value accounting for Property, Plant, and Equipment
- International Financial Reporting Standards permit fair value accounting for Property, Plant, and Equipment
- If Canadian standards were harmonized most LGs would report **annual deficits** (Oak Bay example)

Historical Cost vs. Fair Value

	2022 Actual (Historical Cost)	2022 Hypothetical Actual (Fair Value)
Revenue	56.4M	56.4M
Expenses		
Operating	(45.4M)	(45.4M)
Amortization	(2.8M)	(12.2M)
Accounting Surplus (Deficit)	8.2M	(1.2M)

Financial Statements & Replacement Cost

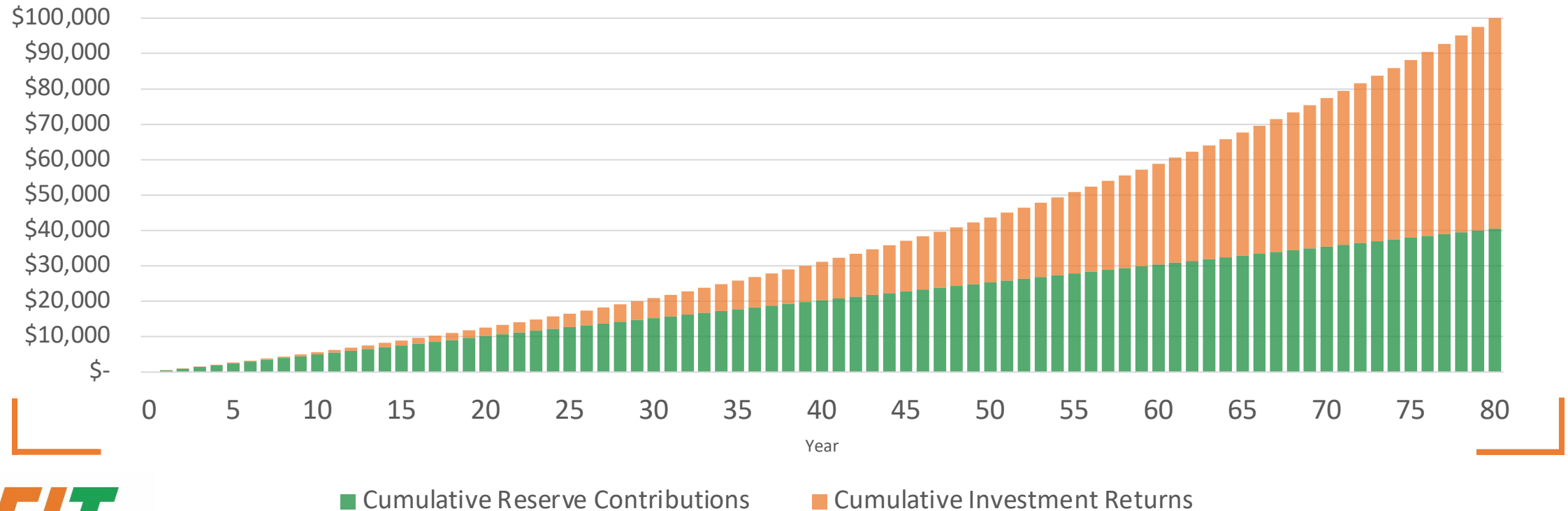
- In Fair Value Accounting – a surplus means you’re producing enough revenue to pay for current replacement costs of infrastructure
- In Historical Cost Accounting – a surplus means you’re producing enough revenue to pay for historical cost of infrastructure
 - Pretty irrelevant for future decisions

Historical Cost vs. Fair Value

	Historical	Fair Value
Land	2.8M	149.1M
Land Improvements	1.7M	6.7M
Building	17.3M	80.7M
Machinery and Equipment	6.9M	15.7M
Roads, Drains, Sewer and Water	40.8M	648.1M
TOTAL	69.5M	900.3M

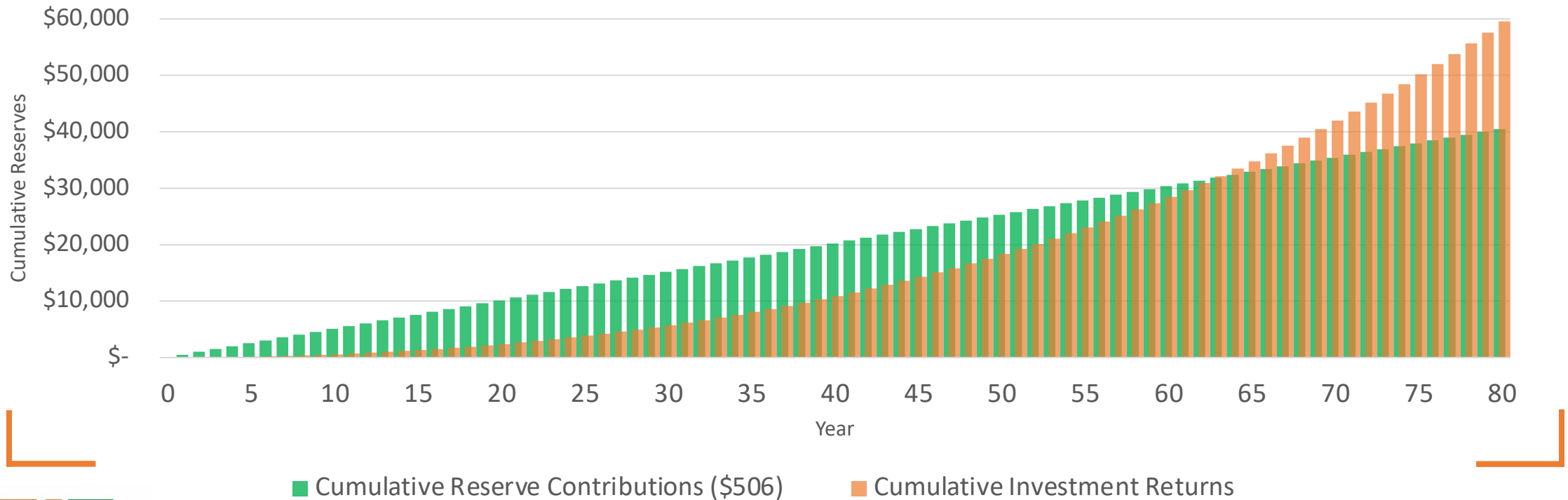
Leveraging Investment Returns

Sustainable Funding
Reserve Contributions & Investment Returns
2% Return, 80 Year Life, 100k Replacement Cost



Leveraging Investment Returns

Sustainable Funding
Reserve Contributions & Investment Returns
2% Return, 80 Year Life, 100K Replacement Cost



Governance Summary

- Asset Management is most of what you do
- Ask your CFO how much it will cost to replace your assets
- Ask your CFO how well you are funding expected replacement costs
- An Accounting surplus is necessary to pay for capital
- Reserve balances attract investment returns which hedge against inflation