



## **Asset Retirement Obligation**

**To:** Finance, Budget and Enrolment Committee

**Date:** 9 December, 2021

**Report No.:** 12-21-4218

### **Strategic Directions**

- Allocate Human and Financial Resources Strategically to Support Student Needs

### **Recommendation**

It is recommended that the Asset Retirement Obligation report be received.

### **Context**

The Ministry of Education 2021:SB11 Memorandum released on June 4, 2021 provided direction around the implementation of a new asset retirement obligation (ARO) accounting standard – under Public Sector Accounting Board (PSAB) standard PS3280 – Asset Retirement Obligations. This standard will be effective beginning on or after April 1, 2022.

School Boards are required to implement this standard by reporting to the Ministry their ARO opening balance as of September 1, 2020 by November 15, 2021. TDSB received an extension and provided the submission on November 30, 2021. School boards must also reflect the ARO balances in their September 1, 2022 to August 31, 2023 financial statements, for submission to the Ministry by November 15, 2023.

### **Asset Retirement Obligation Liabilities**

This new standard addresses the reporting of legal obligations associated with the retirement of tangible capital assets, both in productive use and not in productive use. This includes liabilities relating to asbestos removal, restoration of leased premises to the same condition as they were in before the lease, and other liabilities relating to decommissioning fuel tanks, septic tanks, drinking water wells, monitoring wells and

portables. A list of items that potentially result in ARO for school boards is provided in Appendix A.

Upon recognition of the liability for an ARO associated with tangible capital assets in productive use, school boards are to increase the carrying amount of the related asset by the same amount of the ARO liability, and amortize the liability, or charge an ARO amortization expense annually, for the remaining service life of the asset. AROs for assets that are no longer in productive use must be expensed upon recognition of the liability.

Staff have provided a category breakdown of the estimated asset retirement obligation liabilities as of September 1, 2020 based on the costing methodology provided by the Ministry and TDSB's facilities services database of the environment assessments of each site. The total ARO liability amount is \$951.4M. Below is the opening balance breakdown by ARO category type:

**Asset Retirement Obligation Balance as of September 1, 2020:**

| <b>Property Type</b>    | <b>ARO Type</b>          | <b>Number of Buildings or Premises Assessed</b> | <b>ARO (\$)</b>    |
|-------------------------|--------------------------|---|--------------------|
| <b>Owned buildings:</b> | Asbestos                 | 547   | 938,337,296        |
|                         | Fuel tanks               | 168   | 3,543,400          |
|                         | Monitoring wells         | 16  | 204,336            |
|                         | Drinking water wells     | 1   | 11,000             |
|                         | Fire water holding tanks | 1   | 12,530             |
|                         | Septic tanks/beds        | 5   | 154,971            |
| <b>Portables:</b>       | Asbestos & other         | 528   | 9,060,228          |
| <b>Leased premises:</b> | Restoration requirement  | 31  | 30,000             |
| <b>Total</b>            |                          | <b>1,297</b>                                    | <b>951,353,761</b> |

The Ministry provided two costing model options to measure the ARO liability:

1. Costing Model # 1 applies to school properties that have survey data available for all sites, regarding square footage of the asbestos abatement, and the square footage is applied against the Ministry's per unit costing for each item category (e.g. cement pipes, floor tiles, ceiling tiles, etc.)

2. Costing Model # 2 applies to school properties that do not have survey data available for all sites regarding asbestos abatement. They are to extrapolate the data based on sites that have survey data available.

Since TDSB has a central database capturing survey data for all sites, Costing model #1 was used for the valuation exercise, based on assessments conducted on the sites from 2011 to 2019.

\$938.3M of the total ARO balance represents estimated asbestos abatement costs. It is important to note that most of this amount relates to areas that are presumed to have presence of asbestos, based on surrounding areas assessed and the age of the building, instead of conclusive evidence of asbestos through environmental assessments. Some assumptions were made as part of this valuation exercise, due to limitations around the areas tested in each building.

The costing model includes a contractor amount based on average unit costs provided by the Ministry and quantities specified by the Boards, a 35% overhead cost of the contractor amount, and a 15.46% to 18.48% additional markup for other direct overhead costs relating to legal, professional, engineering and project management charges. The Ministry's valuation model may or may not reflect the actual market rate of the listed project costs.

### **ARO Health & Safety implications**

The TDSB is dedicated to the goal of providing and maintaining safe and healthy working environments through the development and implementation of programs designed to eliminate occupational illness and injury. The Asbestos Management Program (AMP) is designed in compliance with Regulation 278/05 under Ontario's Occupational Health and Safety Act to ensure a healthy and safe working environment and to eliminate asbestos exposure within our buildings. TDSB staff as well as contractors must review the AMP and the site-specific Asbestos Building Materials Survey and sign the Record of Acknowledgement form. The AMP is updated continuously upon completion of projects and the TDSB conducts periodic reassessments of the detailed Asbestos Building Materials Survey. TDSB implemented mandatory Asbestos Awareness Training for all staff; in addition, asbestos related issues are communicated with staff, parents and community members. The TDSB approved AMP implemented safety measures address all concerns relating to health & safety regarding asbestos.

### **Action Plan and Associated Timeline**

The Board will implement the Asset Retirement Obligation accounting standard in the 2022-23 fiscal year. The liability will be reflected in the Board's financial statements.

## **Resource Implications**

Not applicable.

## **Communications Considerations**

Not applicable.

## **Board Policy and Procedure Reference(s)**

Not applicable.

## **Appendices**

Appendix A: List of items that potentially cause ARO – From Ministry template

### **From**

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