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# HALDIMAND COUNTY

## Report HR-08-2018 Council Remuneration

For Consideration by Council in Committee on December 11, 2018

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### OBJECTIVE:

To bring forward the deferred Report CS-GM-05-2018, which provided information associated with Haldimand County Council remuneration, including Boards and Committees and the legislative removal of the one-third tax exemption for elected officials. Further, to provide updated information and seek direction as it relates to Council remuneration, effective January 1, 2019.

### RECOMMENDATIONS:

1. THAT Report HR-08-2018 be received;
2. AND THAT Option # \_\_\_\_\_ as it relates to Council salaries, as outlined in Report HR-08-2018, be adopted, effective January 1, 2019;
3. AND THAT with respect to Council Remuneration for appointments to Boards/Committees:
  - a. Effective January 1, 2019, provide an annual stipend of \$5,000 to each member of Council, in addition to their base remuneration, to recognize the additional workload associated with their Council approved appointment to various boards/committees;
  - b. In conjunction with the above, Council members appointed to a particular board or committee that is directly administered by Haldimand County are not eligible for the remuneration that is provided to citizen members, in addition to their annual stipend (for example, Police Services Board);
  - c. No change to the current remuneration for citizen members appointed to the Police Services Board; in other words, the annual stipend of \$4,000 (plus \$1,200 for the Chair) would remain due to ease of administration since not tracked to attendance;
  - d. Beginning in the year 2020, the per diem of \$200 for Committee of Adjustment citizen members be adjusted annually at the same percentage as is approved for increases to Council members' base remuneration, rounded to the nearest dollar; and
  - e. Remuneration for members of the Haldimand Norfolk Housing Corporation Board of Directors be referred to the development of the Shareholders' Agreement, requiring both Haldimand and Norfolk Council's subsequent approval;
4. AND THAT the draft 2019 tax supported operating budget be developed to reflect the options directed above;
5. AND THAT any applicable By-Laws be amended to reflect changes required as a result of this resolution.

**Prepared by:** Megan Jamieson, Director, Human Resources

**Respectfully submitted:** Cathy Case, General Manager of Corporate & Social Services

**Approved:** Donald G. Boyle, Chief Administrative Officer

## **EXECUTIVE SUMMARY:**

On June 19, 2018 Council reviewed Report CS-GM-05-2018, regarding legislative and optional changes to Council Remuneration with respect to salaries, expense reimbursement and compensation for participation on Boards and Committees. Council opted to defer any changes to Council remuneration to allow the newly elected members of Council to determine the most reasonable approach going forward. Accordingly, this report provides updated information, outlining options, each of which include the potential financial impacts to current and future elected officials as well as the impact on the 2019 operating budget. Staff are seeking direction as it relates to these remuneration issues, prior to the effective date, being January 1, 2019.

## **BACKGROUND:**

Report CS-GM-05-2018 - Council Remuneration Review, Boards and Committee and Removal of One-third Tax Exemption, was submitted for Council in Committee on June 19, 2018; however, the issue was deferred to the December 11, 2018 Council in Committee meeting, allowing the newly elected members of Council to select the appropriate option. Report CS-GM-05-2018, in its entirety, is provided as Attachment 1 to this Report to provide background information for Council.

Staff are bringing forward and seeking direction on the following issues as they relate to elected officials' remuneration:

- Base salary compensation and eligible Council expense reimbursement, given the Federal Government's removal of the income tax exemption on one-third of municipal elected officials compensation, effective January 1, 2019.
- Remuneration for Council members appointed to boards or committees, given previously expressed concerns over inequity in workload, time commitments and compensation for serving on the various boards/committees.

## **ANALYSIS:**

### **Income Tax Exemption on One-third of Municipal Elected Officials Compensation**

In accordance with Federal legislation, effective January 1, 2019, Council members will be taxed on 100% of their earnings, rather than two-thirds as previously allowed. As a result, 100% of earnings will become pensionable as opposed to two-thirds in the past (OMERS and Canada Pension Plan) and County paid life insurance coverage will increase as it will now consider 100% of earnings. Attachment 1 (Report CS-GM-05-2018) provides history and detailed information related to this legislative change, and included four options as follows:

- No change – make no adjustment to Council member base compensation, recognizing that the net “take-home” pay for Council members will be reduced as a result of 100% taxable earnings and offset this change by expanding the expense reimbursement allowances
- Hybrid approach - increase the base compensation via taxable expense allowance to partially offset the impact and further review the expense reimbursement allowance for other identified areas
- Fully address income tax impact - increase the base compensation to offset the impact of additional income tax only, recognizing the net “take-home” pay for members of Council will be reduced relative to the increased pensionable earnings and resulting contributions (CPP and OMERS deductions)
- Fully bridge impact - increase the base compensation to offset the full impact of this change (including impacts of income tax *and* pensionable contributions)

To assist the newly elected Council in addressing the impacts of this legislative change, and in recognition of what our municipal comparator Councils have done, staff have now focussed on three options for consideration. The following chart provides a sample of base pay under the current (2018) tax rules, and compares it to three options under the new tax rules effective January 1, 2019.

#### Option 1 – No Change in Base Compensation

This option provides the same gross compensation as currently approved, yet requires full taxation of this amount resulting in less “take home pay”. This option will decrease the current net pay more than any other option and will increase the levy (due to increased pension/life insurance Employer contributions) by approximately \$20,000 annually.

#### Option 2 – Address Income Tax Impact

This option provides an opportunity to ‘gross up’ base pay to approximately offset the amount of pay lost due to the additional taxation, with the intent of maintaining net “take-home pay” as closely as possible, less pension contributions. Although Option 2 results in reduced net pay overall for members of Council who are eligible for pension contributions, it is important to note that the elimination of the tax-free portion of pay means that 100% of earnings will now become pensionable (OMERS and Canada Pension Plan). Therefore, any reduction in “take-home pay” is partially offset by the employer matched contributions to the elected officials’ pension and, ultimately, the increased benefit they will be receiving upon retirement, due to the higher pension contributions. Elected officials will also be eligible for higher employer paid life insurance coverage as it will now consider 100% of earnings. This option will decrease the current net pay, although less than Option 1, and will increase the levy by approximately \$60,000 annually.

#### Option 3 – Fully Address Income Tax Impact Considering Other Expected Income

This option provides an opportunity to ‘gross up’ base pay to approximately offset the amount of pay lost due to additional taxation, also recognizing other expected income. Staff were asked to present this new option, which considers the impact of the tax change on total personal income, including wages from alternative sources. This option is presented because Haldimand County Council Member positions are described as part-time commitments in nature and often an elected official has other sources of income. It is impossible to consider all scenarios as the circumstances for each individual will be different, however in consideration of alternate taxable earnings, Option 3 below has been calculated based on a flat 28% personal income tax rate (approximate rate applied to earnings of \$100,000). This is higher than the actual tax amount deducted by payroll and will result in a higher net “take-home” pay than is shown in Table 1. The intent is that the additional annual net pay would offset potential additional personal income tax owed at year-end, as a result of this legislative change. Alternatively, members of Council can request the additional tax to be taken off at the source, to reduce the personal impact at tax submission. To clarify, personal impact at tax submission will differ for individuals based on their total income from all sources and available tax write-offs. Accordingly, Council members may see an increase or decrease in net pay from the municipality based on individual circumstances.

**Table 1:**

	Current (1/3 Tax Free)			Option 1 (Fully Taxed, same gross)			Option 2 (Fully Taxed, "grossed up" in amount of tax lost)			Option 3 (Fully Taxed, "grossed up" incl. higher tax rate in consideration of other income)		
Annual	Mayor	Deputy	Councillor	Mayor	Deputy	Councillor	Mayor	Deputy	Councillor	Mayor	Deputy	Councillor
- 2019 salary	81,351	43,388	40,677	81,351	43,388	40,677	81,351	43,388	40,677	81,351	43,388	40,677
- Grossed Up Amount	-	-	-	-	-	-	11,826	3,949	3,747	20,568	12,849	12,280
Subtotal	81,351	43,388	40,677	81,351	43,388	40,677	93,177	47,337	44,424	101,919	56,237	52,957
Estimated Income Tax	7,932	2,852	2,520	17,650	6,300	5,800	21,600	7,300	6,500	28,500	15,700	14,800
Estimated Net (excluding pension deductions)	73,419	40,536	38,157	63,701	37,088	34,877	71,577	40,037	37,924	73,419	40,537	38,157
Difference over current				(9,718)	(3,448)	(3,280)	(1,842)	(499)	(232)	0	0	0
Estimated Net Pay (after pension deductions)	65,950	36,636	34,511	52,289	31,149	29,320	58,439	33,541	31,839	59,004	32,786	30,869
Estimated Increase to Levy				(Option 1)	19,600		(Option 2)	59,700		(Option 3)	129,700	
Tax Rate Calculated				22%	15%	14%	23%	15%	15%	28%	28%	28%

**Note:**

Table 1 has been developed for illustrative purposes only, using the following assumptions, and therefore will not match actual 2019 pay statements:

- 2019 approved annual salaries
- 2018 estimated Basic Personal Income Tax Rate, 2019 rates currently unknown (Options 1 & 2)
- 2019 projected Income Tax Rate of 28%, in accordance with option assumptions (Option 3)
- 2019 pension contribution rates
- 2019 employer paid statutory premium costs

Actual impact on individuals (increase or decrease) will vary based on individual tax rates and pension contributions.

Attachment 2 provides an updated survey of our comparator municipalities with respect to their Council compensation levels. Of the 11 Council approved comparator municipalities (based on location, size and services), 1 municipality (Hamilton) was already fully taxed and therefore no change was required. Further, 1 has not yet made a decision, while 7 have determined remuneration practices for 2019 to address the change in one-third tax free exemptions, as follows:

- 1 municipality is making no adjustment (Option 1 above)
- 1 municipality has used this opportunity to review and implement a new Council remuneration package (resulting in wage, benefit and pension adjustments)
- 5 municipalities are increasing Council's base compensation to offset the impact of the tax change, with or without consideration of pension contributions.

At the time of finalizing the report, information from the City of Niagara Falls and the Regional Municipality of Niagara was unavailable.

**Additional Remuneration for Council Members Appointed to Boards/Committees:**

Report CS-GM-05-2018 also provided details regarding additional remuneration for Council members appointed to boards/committees. This issue was originally raised by Council in 2016, resulting in a subcommittee being formed and Report Mayor-01-2016 being considered at the November 15, 2016 Council in Committee meeting. At that time, Council approved changes to the citizens appointed to the Committee of Adjustment, however recommendations, impacting members of Council were deferred to May, 2018. Through Report CS-GM-05-2018, these recommendations were further deferred to December 11, 2018.

The five recommendations deferred from Mayor-01-2016, provided for the following changes:

- A \$5,000 annual stipend for Council members appointed to a Board/Committee in recognition of additional workload associated with appointments;
- Removal of Council member remuneration associated with Boards/Committees directly administered by Haldimand County;

- No change for citizen members appointed to Haldimand County administered Boards/Committees;
- Future increases for the existing Committee of Adjustment per diem tied directly to Council Member base remuneration increases; and
- Remuneration for members of the Haldimand Norfolk Housing Corporation Board of Directors be referred to the development of the Shareholders' Agreement, requiring both Haldimand and Norfolk Council's subsequent approval.

Staff recommend this approach to remuneration for Council appointees to Boards/Committees. Alternatively, Council could opt to make no adjustment to remuneration for Council appointees to Boards/Committees and/or re-establish the remuneration committee to review the remuneration and provide updated recommendations at a later date.

## **FINANCIAL/LEGAL IMPLICATIONS:**

The 2018 approved Council compensation budget, including benefits, is \$378,400. This excludes any additional remuneration paid to Council appointees to boards and committees (such as Police Services Board, Conservation Authorities and the Source Water Protection Committee). There is also a total of \$25,800 budgeted for expenses, which may be reimbursed to Council members upon the presentation of a receipt for the purposes of municipal business such as travel, conferences, etc. in accordance with Policy No. 2001-05 Expense Reimbursement. County payroll expenses will increase effective January 1, 2019 as a direct result of the removal of income tax exemption of one-third compensation for Council members. Estimated financial impact with each of the options to adjust base compensation for elected officials and expense reimbursement policies are shown in Table 1.

In all options, the calculations used were based on known 2019 wage and CPP rates, however, the 2019 tax rates are not yet available and therefore are based on the 2018 income tax rates. In addition, the calculations exclude Taxable Life and AD&D benefits which may be moderately impacted by an increase to wages.

Council remuneration is funded directly by the tax levy. Accordingly, staff will prepare the Draft 2019 Tax Operating Budget based on the direction provided, regarding Council compensation, remuneration and constituency expenses.

## **STAKEHOLDER IMPACTS:**

Any increase to salaries, may impact wage expectations for upcoming union negotiations. The County is scheduled to negotiate the renewal of the Service Employees International Union (SEIU) agreement which expires January 31, 2019 in early 2019, with two others (CUPE and UFCW) likely to begin in late 2019.

Also, as noted, all remuneration and expenses paid to Council members and appointees to boards/committees is reported publically, as required under the Municipal Act. Accordingly, the remuneration reported will be consistent with Council's decision regarding compensation.

## **REPORT IMPACTS:**

Agreement: No

By-law: Yes

Budget Amendment: No

Policy: Yes

## **ATTACHMENTS:**

1. Report CS-GM-05-2018 Council Remuneration Review, Including Boards and Committees and Removal of One-third Tax Exemption;
2. Municipal Council Compensation – Comparisons to Haldimand County