
HALDIMAND COUNTY

Report CS-GM-05-2018 Council Remuneration Review, Including Boards and Committees and Removal of One-third Tax Exemption

For Consideration by Council in Committee on June 19, 2018



OBJECTIVE:

To provide information associated with Haldimand County Council remuneration, including Boards and Committees, as well as highlight the legislative removal of the one-third tax exemption for elected officials on January 1, 2019.

RECOMMENDATIONS:

1. THAT Report CS-GM-05-2018 Council Remuneration Review, Including Boards and Committees and Removal of One-third Tax Exemption, be received;
2. AND THAT the remuneration issues, as identified in Report CS-GM-05-2018, be referred to the newly elected Municipal Council for consideration at the December 11, 2018 Council in Committee meeting.

Respectfully submitted: Karen General, CPA, CGA, General Manager of Corporate Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

In 2016, Council appointed a subcommittee to review remuneration paid to appointees to Boards and Committees given concerns over inequity in workload, time commitments and compensation, if applicable. The Subcommittee reported back in late 2016 with several recommendations, all of which were deferred for consideration during the Municipal Election year 2018, except for the increases to the citizen comprised Committee of Adjustment which took effect in 2017.

Subsequently, the Federal government announced that the deemed expense allowance for elected officials, making one-third of their remuneration tax exempt, would be removed effective January 1, 2019. This legislative change has a significant impact on Council member remuneration, causing the Subcommittee to revisit the Board/Committee compensation issues identified previously. The removal of the one-third of income exemption not only affects the individual member of Council's net pay, but also impacts benefits (OMERS, CPP, Life Insurance), expense reimbursement policies and associated by-laws. Given the implications, the Subcommittee determined that the information should be presented publicly prior to the close of nominations for the fall municipal election, but the decision on which option to implement should be left to the newly elected Council. Any changes in remuneration will take effect on January 1, 2019.

BACKGROUND:

A formal Council Compensation Study was last prepared by a consultant, Morehouse Associates, in 2002. At that time, seventeen municipalities of similar size and characteristics to Haldimand County were surveyed to determine their compensation levels. Over the subsequent years, periodic surveys have been undertaken by various municipalities in search of comparative information. Haldimand County Council compensation has been adjusted annually, to account for inflationary impacts, by the economic adjustment factor applied to non-union salaries.

Although Haldimand Council's base compensation levels have been viewed as reasonable, given the above foundation, throughout the current and prior term of Council, concerns regarding remuneration for Council appointed positions on committees and boards have been received. On March 1, 2016 at their regular Council in Committee meeting, Haldimand County Council passed the following recommendation:

"THAT a subcommittee of Council be established to review the remuneration paid to Council and citizen appointees to Boards and Committees;

AND THAT this subcommittee consist of the following Members of Council, with staff support from the Human Resources division / Corporate Services department:

- 1. Ken Hewitt*
- 2. Councillor Bartlett*
- 3. Councillor Corbett*

AND THAT the subcommittee report back to Council with any recommended changes to remuneration for appointees to Board and Committees by October, 2016."

Report Mayor-01-2016 re: Remuneration Review for Council and Citizen Appointees to Boards and Committees was presented at the November 15, 2016 Council in Committee meeting in order to coincide with the 2017 Council Appointments report (CS-CL-10-2016). At the subsequent Council meeting, the following recommendation was approved:

"THAT Report MAYOR-01-2016 Re: Remuneration Review for Council and Citizen Appointees to Boards and Committees, dated November 02, 2016, be received;

AND THAT, effective January 1, 2017, the per diem rate for each person appointed to the Committee of Adjustment be increased from \$100 to \$200 for each full meeting attended, inclusive of any ad hoc matters associated with Property Standards, Sign Variance or Animal Control Muzzle Appeals, with any applicable by-laws amended and presented for enactment accordingly;

AND THAT the remuneration adjustment for members of the Committee of Adjustment be reflected as a Council approved initiative in the 2017 Tax Supported Operating Budget;

AND THAT the remaining recommendations outlined in Option #2 of Report MAYOR-01-2016 be referred to the Council Remuneration Subcommittee for further consideration, with a report back to Council prior to May 1, 2018."

The deferred Option #2 recommendations, included in the above report, were as follows:

- 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.
- 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 other words, Council members appointed to one of Haldimand's

directly administered boards/committees (for example, Police Services Board) would not receive the associated honorarium/per diem that is paid to citizen appointees;

- 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;
- 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
- remuneration for members of the Haldimand Norfolk Housing Corporation Board of Directors be referred to the development of the Shareholders' Agreement, with both Haldimand and Norfolk Council's subsequent approval.

In March 2017, the Federal government announced their intention to eliminate the one-third tax free exemption for municipal elected officials, effective January 1, 2019. Given the impact of this legislative change, the broader issue of Council remuneration needed to be examined, including revisiting many of the above recommendations. Accordingly, this report has been delayed while further information on the impacts/options could be gathered.

As the issue of council compensation is politically sensitive and given that most Ontario municipalities will be required to consider changes in light of the Federal change noted above, the Association of Municipalities Clerks and Treasurers of Ontario produced a report in March 2018 (refer to Attachment #1). This resource guide is intended to help elected officials and the public as council compensation is reviewed in order to ensure it meets the needs of the municipality. In addition, Haldimand staff surveyed our comparator municipalities to obtain updated information on their council compensation levels, including: annual remuneration level, handling of the one-third tax free issue, OMERS, other benefits, annual inflationary adjustments, expense reimbursement, etc. (refer to Attachment #2).

ANALYSIS:

The purpose of this report is to provide the results of the Subcommittee's recent review of the updated municipal comparator survey results and impacts of the pending legislative change to taxation of elected official compensation.

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

Prior to 2003, the *Municipal Act* (the Act) stipulated that one-third of the Mayor and Councillor remuneration was deemed to be an allowance for expenses incurred in the discharge of a Council member's duties, thereby making one third of the remuneration tax-free. This is referred to as the "deemed expense allowance". The Act was amended in 2003 to allow for Council members to be compensated via the payment of remuneration and the reimbursement of actual expenses, rather than the deemed expense allowance allowed for under the old Act. It should be noted that, unless a Council passed a By-law to maintain this provision at that time, it no longer applied as of January 1, 2003 and all remuneration paid to members of Council became taxable in accordance with federal and provincial income tax rules.

To maintain the deemed expense allowance, Haldimand County Council passed By-law No. 250/02 on August 12, 2002 which deemed "one-third of the remuneration paid to elected members of Council to be for expenses incidental to the discharge of their duties on and after January 1, 2003". The deemed expense allowance by-law has been reaffirmed for each subsequent term of Council since 2003. By-law No. 1169/11 incorporated a small amendment to clarify that any remuneration paid to a Member of Council sitting on the Police Services Board was not eligible for the one-third tax free allowance.

In 2017, the Federal Budget announced a legislative change to eliminate the deemed expense tax exemption, effective January 1, 2019. Removal of this one-third tax free allowance will render all of a Council member's remuneration as taxable. For the individual Council member, this also means that 100% of earnings, rather than just 2/3's, are pensionable (OMERS and Canada Pension Plan), as well as eligible for higher County paid life insurance coverage. As a result, the individual Council member's net pay, after the increased deductions for the above, will be significantly less, however, they will have greater pension and life insurance coverage. The impact on each individual Council member, both in the short and long term, will vary depending on other sources of personal income as well as the overall length of pensionable service. It should also be noted that elimination of the deemed expense allowance will result in an increase in the County's share of higher OMERS, life insurance, Canada Pension Plan (CPP) and Employer Health Tax (EHT) expenses, regardless of whether the base remuneration is increased or not.

Removal of the one-third tax free allowance also raises the issue of how Council expenses will be treated on a go forward basis. The intent of the deemed expense allowance, equating to one-third of the annual remuneration, was to compensate elected officials for the expenses of carrying out their duties without the requirement to present individualized receipts for reimbursement. Essentially, it was not intended to generate a higher net "take home" pay (through avoidance of income tax) but was to streamline the administration of constituency expenses that elected officials incur on a regular basis. In reality, this method of compensating for expenses did not meet senior governments' expectation of transparency, accountability and taxation equity, plus is not well understood by the electorate.

Most municipalities in Ontario have maintained the optional deemed expense allowance since 2003. As a result, all such Councils will be required to consider the impacts of its elimination by January 1st of next year. This issue is further complicated by the fact that Municipal Elections occur in October 2018, meaning that decisions made now will not impact the current Council. Accordingly, staff have recommended that any changes to Council member remuneration be referred to the first meeting of the newly elected Council on December 11, 2018. The information is being presented at this time, however, so that those individuals considering whether to seek elected office have knowledge of the compensation issues prior to the close of nominations at the end of July 2018.

To assist the newly elected Council in addressing the impacts of this legislative change, the following options have been developed:

Option 1 – Make no adjustment to Council member compensation but reimburse constituency expenses)

Given that the deemed expense allowance wasn't intended as compensation, this option is closest to the intent of the legislative change but brings with it considerable administrative issues related to the recordkeeping, approval and processing of individual Member's constituency expenses. The Council budget will need to increase to cover the reimbursement of such expenses (i.e. meetings, events, etc.) Even with no change to the compensation level, Haldimand County will also incur increased payroll expenses for OMERS and CPP (since the employer matches the member's contributions) as well as EHT and life insurance premiums. Although this option would provide the greatest transparency, it is also administratively burdensome.

Option 2 – Hybrid - increase the base compensation via taxable expense allowance, as well as reimburse certain direct expenses

This option would increase the base compensation for Council members to provide a taxable expense allowance to offset some of the impact of the higher taxable earnings, as well as provide for reimbursement of certain direct expenses. Council would need to determine a reasonable taxable expense allowance to include in the base remuneration, recognizing that this standard amount will not vary by Member nor require support through receipts. In addition, the current Expense Reimbursement

Policy will need to be expanded to identify other direct expenses that Council members can be directly reimbursed for upon presentation of individual receipts. As in Option 1, the budget will need to increase to cover the increased compensation costs and expense reimbursements.

Option 3 – Increase the base compensation to offset the income tax impact

This option would see the annual remuneration for the Mayor and Councillors increased to offset the estimated income tax impact only. The reduction in Members' net pay due to increased pensionable earnings will not be offset since they will receive the benefit of those higher pension contributions upon retirement. Assumptions are needed to generate a standardized remuneration increase as each individual Member would have a different net tax impact depending on OMERS/CPP eligibility, other personal sources of income, other personal tax deductions, etc. As the current remuneration for the Mayor's position falls within the 2nd tax bracket, the offsetting annual increase will be proportionately higher for this position than for a Councillor. Given the increased compensation to offset the tax implications, Council will need to determine if there is also to be a changed approach with regard to direct expense reimbursement. The annual Council compensation budget will need to increase to cover the higher compensation and benefit implications, with the potential for higher expense reimbursements as well.

Option 4 – Increase the base compensation to offset the full impact

This option would increase Council member remuneration so that the net "take-home" pay would be relatively equal to what members are receiving now. This means offsetting not only the income tax impact but also the higher OMERS and CPP contributions, even though the Member will receive the benefit of that higher amount of pensionable earnings in the future. The issue of direct expense reimbursement will also need to be addressed. This option will have the greatest dollar impact on the Council compensation budget.

Given the assumptions needed to generate the financial impact of any of the above options, dollar figures have not been calculated at this time. As shown in Attachment #2, two of our comparator municipalities have dealt with this issue resulting in a 31% to 35% increase to their Mayor's annual remuneration, and a 17% to 22% increase to their Councillor's annual remuneration. This excludes each municipality's share of increased contributions for Council member's OMERS, CPP, EHT, Life Insurance and any adjustment to reimbursed expenses, if applicable. So, the impact of the options will need to be carefully considered by the future Council of Haldimand County.

Regardless of which option is selected, [Policy No. 2001-05 Expense Reimbursement Policy – Members of Council, Members of Staff, Volunteers and Appointees](#) will need to be amended due to the elimination of the deemed expense allowance. An excerpt of the relevant section from the current Policy is provided below:

Expense Remuneration for Council Members

Normal day-to-day expenses incurred by Council members conducting municipal business are covered through the one-third tax free portion of their remuneration, with the exception of mileage directly related to the conducting of municipal business.

An exception to this policy is expenses that directly relate to the Head of Council's stated Municipal Act role "to represent the municipality at official functions". For the purpose of this policy, "official functions" are events that are unique in nature, provide the opportunity to profile and promote the community at large, and are community based. Examples are: special business promotions, open houses or workshops; local festivals, special service club celebrations, annual community association dinners, and major public fundraising events.

Such expenses will be eligible for reimbursement through the County provided:

- 1) – A formal personal written invitation is extended to the Head of Council to attend the event and is included with any expense claim.*
- 2) – That no discrimination will be applied regarding preference to a specific political party if the invitations are for attendance at political fund raisers.*
- 3) – Where possible, the Head of Council will endeavour at such events to actively promote and profile the County in a positive way.*
- 4) – When the Head of Council is expected to take a major active role in the event, such as keynote speaker, the expectation is that the event sponsors or organizers will defray event costs (other than mileage) of the Head of Council.*
- 5) – Where registration or other types of event costs include a tax deductible portion, only the expenses net of the tax deductible portion will be eligible for reimbursement.*

The policy regarding additional expenses that may be claimed by the Head of Council also apply to the Deputy Mayor when fulfilling the role of Head of Council.

Additional Remuneration for Council Members Appointed to Boards/Committees:

There are nineteen (19) active boards and committees to which members of Council are appointed (refer to Attachment #3). Currently, there is no additional remuneration for any of these boards and committees with the exception of the Police Services Board, Conservation Authorities (3) and the Source Water Protection Committee. In some cases, the treatment of remuneration is historical; in others, it is based on the related legislation. It should be noted that all appointees to any board or committee are also reimbursed for approved expenses (for example mileage and conferences) over and above any additional form of remuneration (honorarium, stipend, per diem.)

In its initial review in 2016, the Subcommittee determined that a more systematic approach to determining board member remuneration was warranted. Accordingly, a rating scale was developed based on function, responsibility, accountability and impact to determine the relative scope and workload of the appointee's involvement on each board/committee. Such a review determined that only the Police Services Board, Conservation Authorities (3) and Health and Social Services Advisory Committee had a significant enough impact to warrant compensation. Of these, Haldimand Council only controls the compensation for the Police Services Board. This realization led to the recommendation in the previous report to provide all Council members with an annual stipend of \$5,000 to account for all additional workload caused by their appointment to any Board/Committee.

Given the bigger implications of the legislative change affecting the tax-free expense allowance, staff suggest that the issue of any additional remuneration for a Council member appointed to any Haldimand County Board/Committee, can be addressed when the newly elected Council considers their Board appointments in December 2018. Saying that, specific consideration to the Haldimand Police Services Board will be needed given that it is the only Board/Committee, other than the citizen-only Committee of Adjustment, whereby Council members are provided with annual remuneration by Haldimand County. The Committee of Adjustment remuneration was increased in 2017, with only annual economic adjustments left to be considered. Below is information pertaining to the Police Services Board given that the current remuneration practices are impacted by consideration of any changes to Council compensation.

Police Services Board

Haldimand's PSB is made up of two provincial appointees (citizen) and three Council appointees (currently 1 citizen, Mayor and 1 Councillor). Remuneration for the PSB is set by Haldimand County

By-law, with governing requirements through the Police Services Act and Ontario Regulation 268/10. Specifically, legislation requires that provincial appointees receive, at a minimum, a \$300 annual stipend based on the municipality's population. Currently, both Council and Citizen members of the Haldimand PSB are provided with a \$4,000 annual stipend for their service, plus an additional \$1,200 stipend for the Chair. These rates have been in effect for citizen-only appointees since the former Region of Haldimand-Norfolk entered into a contract with the OPP back in 1998. In 2011, Council members appointed to the PSB were given the same annual remuneration.

Comparing Haldimand County's remuneration is limited to other Section 10 PSBs with similar populations as shown on Attachment #4. Although it appears that Haldimand PSB is consistent with others in total remuneration, there have been concerns expressed in that the annual stipend is not tied to attendance at the PSB meetings. If compensation is revised to be based on a per diem, there will need to be administrative processes put in place to track PSB attendance and make retroactive payments. It is also recognized, however, that PSB members regularly address policing matters outside of the monthly meetings, thus justifying a base stipend. These other policing matters relate to: detachment commander contact; responding to business, citizen or Council concerns; community policing; recognition events; contract issues; etc. In addition, recent amendments to the Police Services Act will put significantly more demands on the PSB related to development of community action plans, determining local policing objectives and priorities and monitoring the performance of policing services in Haldimand County. Accordingly, there may not be a need to change the compensation practices for the PSB, other than to reconsider whether Council members appointed to this body will continue to receive the annual stipend in addition to their base remuneration.

Summary:

The issues outlined in this report are overlapping, somewhat complex and definitely politically sensitive. Saying that, the level of compensation provided to elected officials is of key consideration to individuals who are considering running for elected office, particularly in an Election year, in addition to the taxpaying public. Given that most municipalities in Ontario are grappling with the same topic, caused by the elimination of the one-third tax free expense allowance in 2019, staff will continue to gather information that can assist the newly elected Council in making decisions. A report will be prepared for the December 11, 2018 Council in Committee meeting, in order for any changes to be effective on January 1, 2019. It should be noted that several by-laws and the Expense Reimbursement Policy will need amendment at that time as well.

FINANCIAL/LEGAL IMPLICATIONS:

The current approved Council compensation budget, including benefits, is \$378,400. This excludes any additional remuneration paid to Council appointees to Boards and Commissions (such as Police Services Board, conservation authorities and the Source Water Protection Committee.) Also, there are additional expenses currently reimbursed to Council members associated with municipal business, such as travel, conferences, etc.

Effective January 1, 2019, the Council compensation budget will increase due to the elimination of the deemed expense allowance, meaning that the County's contribution towards Council members' OMERS and CPP pensions, as well as life insurance premiums, will be higher. Any further adjustments to Council remuneration, to offset some or all of the impact of the higher taxable earnings, will require additional budgeted funds. Reimbursed expenses for constituency business may also need adjustment.

If changes are made to the remuneration paid to Council or citizen members of the County's boards and committees, the annual operating budget will also be impacted.

STAKEHOLDER IMPACTS:

For good governance, it is imperative that Haldimand County is in a position to attract interested and qualified individuals to serve on Council as well as on all boards and committees. The remuneration level could be a factor when citizens consider running for Municipal Council or applying to the various Boards and Committees.

There is a requirement under the Municipal Act for the Treasurer to publicly report, by March 31st of each year, the details of all remuneration and expenses paid to any Council member as well as any appointee to a board/committee in the previous calendar year, including that paid by bodies not under our direct control, such as the Conservation Authorities. Accordingly, the remuneration reported will be affected by Council's decisions in setting the compensation and expense reimbursement policies.

Divisions responsible for administering meetings and/or remuneration of certain Haldimand County Boards/Committees could be impacted if changes are made to the compensation plan, specifically, the Police Services Board Administrator and Committee of Adjustment Secretary/Treasurer. If PSB member remuneration is changed to a per diem approach, an administrative process to track attendance and pay retroactively will be required. The citizen appointees to the Committee of Adjustment had their per diem increased to \$200 in 2017, however, the issue of economic adjustments going forward still needs to be addressed. Staff recommend that the newly elected Council consider approving a recommendation that, starting in 2020, the per diem for Committee of Adjustment members be adjusted annually at the same percentage as is approved for increases to the Council remuneration, rounded to the nearest dollar.

The only other Boards/Committees whereby Haldimand Council appointees currently receive remuneration are the three conservation authorities, namely Grand River Conservation Authority (GRCA), Long Point Region Conservation Authority (LPRCA) and Niagara Peninsula Conservation Authority (NPCA). There are five Haldimand County appointees to these boards as follows: 2 appointees to the GRCA; 2 appointees to the NPCA; 1 appointee to the LPRCA. While all Haldimand County appointees are currently Council Members, legislation allows for the appointees to be citizens. Duties and workload also vary by Conservation Authority, but generally the purpose of each Board is to represent the interests of the municipalities that fall within the respective watershed in consideration of the underlying Conservation Authorities Act (the Act) and regulations. Remuneration for members on a conservation authority board is governed by the Act and administered directly by each individual conservation authority. Specifically, the Act requires that changes to any Board member's salary/allowance of any kind be approved by the Ontario Municipal Board. Logistically, each conservation authority is responsible for setting a remuneration structure and overseeing the administration of it, including budgeting, reporting and payment. Currently, all three boards affecting Haldimand County provide a per diem to members for each meeting attended, as follows (2018 proposed rates pending approval by Ontario Municipal Board (OMB)):

- GRCA \$146.93/regular meeting, and \$88.42/special meeting
- NPCA \$76.10/meeting
- LPRCA \$100.00/meeting

The above comparison shows some discrepancy in the conservation authority (CA) remuneration, however no workload analysis of the three Boards has been done. Presumably, that type of comparison is done by the respective CA and the OMB when setting their rates. In the 2016 remuneration report, there was mention of a Haldimand County "top up" to equalize the Conservation Authority per diems. Staff advised that it is not administratively practical, nor the intent of the legislation, to provide remuneration above what is already provided directly by the local conservation authority. Further, staff's opinion is that providing a top-up, even though paid directly through the member municipality's Council budget, does not comply with the accountability and transparency intentions of this legislation.

There is one other stakeholder board/committee, the Health and Social Services Advisory Committee, which is proving difficult to fill with Council appointees. This Committee is made up of three appointed Haldimand County Council Members and three Norfolk County Council Members, along with staff support from each municipality. The Committee's role is to oversee the delivery of shared services such as public health, social housing, childcare and social assistance and make recommendations to Norfolk County, as the designated Consolidated Municipal Services Manager or as the Board of Health, depending on the subject matter. Although additional remuneration may be warranted for this committee based on the workload and subject matters, it would not be prudent to provide remuneration for Haldimand County members only. As a result, consideration of any future remuneration to be provided to members of this Committee should be a joint decision with Norfolk County Council. Alternatively, Haldimand Council members can be appointed on a rotating basis or perhaps even consider citizen members if the Terms of Reference are amended.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. AMCTO Report Municipal Council Compensation in Ontario, March 2018
2. Municipal Council Compensation - Comparisons to Haldimand County
3. Council Representation on Haldimand County Boards and Committees
4. Police Services Board Comparators