

Date: November 22, 2023
Time: 4:00 pm
Location: Main Floor Meeting Room, Meridian Community Centre

Attendance: Wayne Olson, Councillor
John Wink, Councillor
Brian Eckhardt, Councillor
Michael Cottenden, Member
Bill Crumm, Chair
Caroline Mann, Member

Staff Present: Teresa Quinlin-Murphy, Director of Corporate Services & Treasurer
Usama Seraj, Manager of Financial Services & Deputy Treasurer
David Cribbs, CAO
Jonathan Witzke, Payroll Clerk
William Tigert, Clerk

Other: Trevor Ferguson, Deloitte (part time)
Marvin Junkin, Mayor

Regrets:

1. Call to Order and Declaration of Quorum

Noting that quorum was present, Chair Bill Crumm called the meeting to order at approximately 4pm.

2. Land Recognition Statement

Chair Bill Crumm recited the land recognition statement.

3. Approval of Agenda

Moved by **Member Michael Cottenden**
Seconded by **Councillor John Wink**

THAT the agenda for the November 22, 2023 regular meeting of the Finance and Audit Committee be adopted.

Carried

4. Declaration of Pecuniary Interest and General Nature

There were no pecuniary interests disclosed by any of the members present.

5. Approval of Minutes

The Committee approved the minutes from the May 23, 2023 Pelham Finance and Audit Committee meeting.

Moved by **Member Caroline Mann**
Seconded by **Councillor Wayne Olson**

THAT the minutes of the May 23, 2023 Pelham Finance and Audit Committee be approved.

Carried

6. Business Arising from Minutes

None.

7. Audit

7.1. Deloitte Audit Plan Presentation, Trevor Ferguson, Partner

Mr. Ferguson, Partner from Deloitte presented the 2023 Audit Plan to the Committee, highlighting their role as external auditors to discuss any fraud concerns. The Committee reported no fraud issues. Trevor outlined audit risks, emphasizing year-end accruals,

estimates, and the importance of asset allocation estimates in financial statement preparation, which the Town is addressing.

A Committee member inquired about the time impact of two new accounting standards on the audit. Mr. Ferguson indicated the timeline varies based on information from management. The Treasurer mentioned staff collaboration with a consultant on three potentially contaminated properties, the most significant risk being land contamination.

Regarding asbestos, Mr. Ferguson noted significant removal efforts in 2015 and the Town's comprehensive asbestos records. The Committee discussed the status of the accounting standard's implementation, focusing on contaminated land and asbestos. The Auditor affirmed that aside from these issues, other audit elements remained consistent with previous years, although the 2015 asbestos remediation significantly impacts this year's effort.

A Committee member asked about changes due to the new financial instrument standard. The Auditor mentioned it would mainly affect disclosures, not the financial statements themselves. The Treasurer and CAO identified the three potentially contaminated properties: Tice Road, the water hauling station (formerly an auto body shop), and Parklane near Marlene Stewart Streit Park.

Moved by Councillor Brian Eckhardt
Seconded by Member Caroline Mann

THAT the Committee received the Audit Plan for 2023 for information.

Carried

8. New Business

8.1. 2024 Operating Budget

The Committee reviewed the 2024 Operating Budget. The Treasurer reported an initial tax levy increase over 11%, reduced to 4.28% through staff efforts. The growth number was 3.16%, helping offset

the tax increase for residents. The net levy increase includes 1.89% for reserves and 2.39% for the operating budget as shown in Table 1. The Treasurer highlighted the importance of allocating funds to reserves to reach target balances and mentioned that setting aside an additional \$342,000 to reserve in 2024 budget will help with this.

During discussions, the Committee chose to focus on the Operating Budget summary rather than detailed budget reviews. A member inquired about the \$1,233,000 investment income, its dependence on interest rates, and the lack of a continuity schedule. The Treasurer explained the difficulty in predicting this due to variable capital expenditure timings. The Deputy Treasurer added that the Town does have some projections on reserve balances that are included in the budget document, however it is difficult to predict future balances with accuracy due to the timing of future and current approved capital expenditures.

A Committee member observed that salaries and benefits showed notable increases, with some over 100% since 2021. The committee member mentioned that it would be good to see a head count comparison from year to year to better understand these staffing changes. The CAO stated that the Town can produce a head count list comparing it from year to year. CAO also stated that as a service corporation the Town will be staff heavy but during the past four years, staff growth was consistently less than the levy increase, which shows an increase in productivity. A salary review in 2021 found that Town staff were significantly underpaid in comparison to their municipal peers. To improve retention, the Town decided to place staff at the 55th percentile for pay, which resulted in a fair amount of salary adjustments.

The Treasurer confirmed that the Cupe Collective Agreement was ratified. Upon inquiry from a committee member, Treasurer also confirmed that \$377,000 is the average assessed value for household and that this figure comes from MPAC.

A member inquired if the \$342,000 increase in reserve transfers was additional to this year's amount, to which the Treasurer confirmed. Regarding the surplus expected to go into reserves, the Treasurer explained it would mainly come from interest and supplemental revenues. She estimated around \$1 million but noted potential costs might offset this. Regular payroll variance analyses ensure budget balance, but she cautioned that repeated council requests for extra funding for underfunded projects have gradually reduced the reserves, implying the actual amount transferred might not reach \$1 million.

The Committee discussed the challenge of balancing reserves with taxpayer burdens, especially in light of upcoming capital expenses. A member expressed concerns about the adequacy of current reserves outlook and the need for a more realistic assessment of the town's financial outlook, differentiating between wants and needs. They highlighted Pelham's high debt-to-net revenue ratio and upcoming commitments like the MCC donation pledge as warning signs.

The discussion shifted to evaluating the town's financial model, which emphasizes grants for new investments and reserves for maintenance. Members suggested focusing the capital plan more on needs than wants to better manage debt and avoid unnecessary tax increases. A point was raised about whether the Council provides specific tax increase targets for staff budget planning. It was suggested that setting such targets could guide staff in creating a budget that aligns with Council's expectations. The importance of continuing to invest in and protect the reserves was emphasized.

A member raised concerns about the Meridian Community Centre's (MCC) finances, noting a \$186,000 increase in net revenue but a concerning \$700,000 increase in expenditures. This imbalance, contributing to a \$500,000 increase in the MCC's operating budget, is part of the overall 4.28% tax increase. They questioned the strategies in place for revenue generation, such as revising fees or adjusting to supply and demand, to lessen the tax burden. The member also noted a trend in the overall operating budgets: moderate revenue increases or decreases paired with significant cost rises. For example, Planning and Development saw a \$65,000

revenue decrease and a \$40,000 expense increase, despite an anticipated activity decrease in this area. The member questioned the rationale behind increasing staff and expenses in areas with decreasing activities, suggesting a more focused approach to managing taxes and adhering to the reserve policy established three years prior. A committee member noted that one of the challenges with MCC is that we had to take on significant debt to build this facility. If the Town had waited for a potential grant, it would have relieved some of the financial pressures with MCC.

A member discussed how, during COVID, the Director accumulated a surplus of supplies due to reduced program activity. However, the programs' unexpected success upon resumption led to rapid depletion of these reserves, necessitating increased spending to avoid waitlists. This situation was described as an anomaly. The budget review highlighted \$460,000 for staff increases, \$110,000 for contract services, and \$61,000 for supplies, with the supply cost being a minor portion of the total \$680,000 increase. A Member noted that the Town recently completed a study by KMPG on staffing levels and some changes needed to be made which are part of the increase in 2024. The Treasurer added that these figures were due to new positions, step increases, and a 3.25% salary increase approved by the council. A member acknowledged these facts but expressed concern about how external observers might perceive these increases in the context of taxpayer concerns.

During a discussion about the Meridian Community Centre (MCC), a member emphasized the need for financial adjustments to maintain MCC's success and service provision. The Treasurer mentioned a KPMG report highlighting MCC's understaffing for its extensive operating hours. In response to a question about fee increases, the Treasurer indicated that fees hadn't significantly risen. A member suggested revisiting the fee structure to cover costs, especially considering the facility's heavy usage and the importance of not overburdening taxpayers. Another concern was the MCC's \$1.5 million impact on the budget. Members questioned the facility's capacity for generating more revenue and whether a break-even analysis had been conducted. The Treasurer noted an ongoing review to optimize facility utilization.

Members discussed the approach to managing MCC, with some suggesting a focus on operational efficiency rather than just filling the facility. There was also discussion on MCC's profitability and that generating an additional \$175,000 in revenue by adding almost \$700,000 in expenses is not sustainable in the long-term. The Deputy Treasurer acknowledge the concerns but also shared his experience that municipal recreation facilities rarely generate profits. While users fees can help offset some cost of maintaining, expecting the MCC to generate a profit is unrealistic. The committee member clarified that they are not looking for MCC to generate a profit, but looking at the overall long term financial sustainability of the facility. They noted that the Facility had been operating at a deficit of \$1 million for the past 5 years, however that deficit has increased to \$1.5 million in 2024 budget and it may get worse in 2027 when the MCC donation pledges become an operating expense. The discussion ended with consensus on the need for strategic management of the MCC and looking at user fees to mitigate the financial impact on the tax budget.

Moved By Councillor Wayne Olson
Seconded By Member Michael Cottenden

THAT the Committee receive the 2024 Draft Operating Budget for information.

Carried

8.2. Review of Capital Financing Using Debt Reserves, Grants and Development Charges (former agenda item 8.4)

The chair asked for the agenda to be rearranged and item **8.2 2024 Capital Budget** moved to **8.4 Review of Capital Financing Using Debt Reserves, Grants and Development Charges** and agenda item 8.4 moved to 8.2.

The Deputy Treasurer noted that the reserve fund forecast shows a projection that the Town will be in a deficit in 2025, and this is not where the Town wants to be. Treasurer commented that the deficits are despite the increases build into contribution for these reserves based on targets.

A member commented that the 2022 cumulative reserve balance was \$13.1 million with only the land acquisition reserve being in a deficit. The Treasurer clarified that the \$13.1 million figure is from the financial statements as at Dec 31, 2022 and do not include capital commitments. By Contrast, the reserve projections in the budget documents show the balances with commitments. It was noted that the actual balances on Dec 31, 2023 will likely be different from the projections in the budget document. The Treasurer highlighted the importance of reporting the reserve projections with commitments so that funds can be earmarked for Council approved projects. There was discussion about the existing capital commitments and the fact that some of these projects were approved a long time ago but not spent. The CAO noted that in Q1, meetings with senior staff, including engineering and planning, will focus on reassessing inherited projects and addressing the engineering departments capacity for delivering these projects. Senior staff will differentiate between essential and non-essential projects. A comprehensive review of the Capital forecast is planned, where staff will differentiate between essential and non-essential projects. There are several days dedicated to this exercise over four months. The Deputy Treasurer highlighted that the focus has been on 2024 capital projects with minimal non-essential projects included for 2024. No significant analysis has been done for post-2024 projects, but this will be addressed in the new year.

A member inquired about the 10-year plan's legislative status and expressed concerns about its reliability beyond a 5-year outlook. Another member referenced the CAO's previous comments, noting the plan's current pictorial nature and its limitations. The focus was acknowledged to be primarily on 2024, with doubts raised about the accuracy of projections for years 5 to 10, especially regarding assumptions about grants and unrealistic cost growth. The Treasurer affirmed the necessity of having a 10-year plan, a point with which the member concurred.

A member had a question about the land reserve and asked about the plan to reduce the deficit in this reserve every year. The Treasurer responded that first \$142,000 of surplus is allocated towards the land acquisition reserve.

Moved By Councillor Wayne Olson
Seconded By Councillor Brian Eckhardt

THAT the Committee receive the Review of Capital Financing Using Debt Reserves, Grants and Development Charges for information.

Carried

8.3. Set Meeting Dates for 2024

Through discussion with the committee, the chair noted that that the committee would not be setting all meeting dates for the full calendar year at this meeting. The Treasurer will put together some dates and a doodle poll will go out to try and ensure full attendance if possible. The date required of this committee next is January 31, 2024 and that is when the committee will be receiving a preview of the water and wastewater budgets.

Moved By Member Caroline Mann
Seconded By Councillor Brian Eckhardt

THAT the Committee receive and approve a meeting for January 31, 2024

Carried

8.4. 2024 Capital Budget (former agenda item 8.2)

The Deputy Treasurer gave an overview of the 2024 Draft Capital Budget.

The Treasurer noted that regional grants are not included in the 2024 Draft Capital Budget due to uncertainty about available funds. The Town recently received \$640,000 from the Region for the Church Street Project, which was not budgeted for and will help alleviate pressure on reserves. Staff are considering applying for the Quaker Street Project but cannot include it in the budget due to unknown grant amounts and approval criteria.

A member questioned how many of the sixty-eight (68) projects totaling \$16.6 million dollars were wants versus needs. They also asked if staff receive budget targets based on reserve affordability, rather than simply listing all desired projects. The Treasurer explained the complexity of this process, noting that some projects, like the Quaker Road project, are influenced by external factors like regional involvement for better pricing. Staff are given approximate budget limits per category, but factors like grants and development charges must be considered. The Treasurer emphasized that the 2024 projects are mostly essential, involving road and repair work. The budgeting process involves assessing what the Town can realistically undertake within its financial capacity.

The Deputy Treasurer explained that in the draft 2024 Capital Budget, a few large projects account for over half of the \$16.6 million total capital expenditure. For example, a watermain replacement project in 2024 is budgeted for \$2.7 million with \$1.9 million coming from an approved grant. Although there are 68 projects, many are smaller in value. The final list for 2024, focusing on essential projects like roads and water infrastructure, cannot be easily reduced without risking service levels. A member emphasized that they are not necessarily proposing cuts to these critical projects but rather highlighting the importance of considering affordability when initially drafting the capital budget.

During general discussion about capital budget and debt, the Treasurer mentioned that when the debt policy was introduced in 2019, the Town was struggling to get to a 10% internal debt limit by 2032. The reserves were underfunded so debt was forecasted in future years to be able to fund capital expenditure. Since then, the Town has made some extra contribution to reserves as a result of surpluses, which has allowed the Town to avoid taking out debt that was previously forecasted. As a result, the Town is currently at 10.8% internal debt limit, which is a huge achievement.

A member asked if the capital forecast considered any future grants. The Treasurer responded that besides the already approved grants, the only other grants that are included in the capital forecast are the Ontario Community Infrastructure Fund (OCIF) and the Canada Community Building Fund (CCBF, formerly gas tax) grants. These two grants combined provide approximately \$1.2 million in long-term infrastructure funding. The Deputy Treasurer noted that when staff look at funding the capital expenditures, grants and reserves are exhausted first as funding sources before Town considers issuing any debt for remaining capital items.

Moved By Councillor John Wink
Seconded By Member Michael Cottenden

THAT the Committee receive the 2024 Draft Capital Budget for information.

Carried

9. Operating Financial Report

The chair noted that this report has already gone to council for approval. The chair commented that he will look at making meeting dates that make more sense of when sequentially we are getting information versus getting something after the fact, there is no value in the committee when we look at it through that lens.

No comments or questions.

Moved by Councillor John Wink
Seconded by Councillor Wayne Olson

THAT the Committee receive the Operating Financial Report for information.

Carried

10. MCC Operating Financial Report

The chair noted that this report has already gone to council for approval.

No comments or questions.

Moved by **Member Michael Cottenden**
Seconded by **Councillor Wayne Olson**

THAT the Committee receive the MCC Operating Financial Report for information.

Carried

11. Capital Report 2023 Third Quarter

The chair noted that this report has already gone to council for approval.

No comments or questions.

Moved by **Member Caroline Mann**
Seconded by **Councillor Brian Eckhardt**

THAT the Committee receive the Capital Report for information.

Carried

12. Reserves

None.

13. Financial Risks

None.

14. Unfinished Business

None.

15. Next Meeting

The next meeting is scheduled for January 31, 2024

16. Adjournment

Moved by **Member Caroline Mann**
Seconded by **Member Michael Cottenden**

THAT this Regular Meeting of the Pelham Finance and Audit Committee be adjourned at 5:52 pm

Carried



Chair, Bill Crumm



**Andrea Metler, Admin. Assistant,
Corporate Services**