Subject: 2019 Council Member Remuneration – Impacts following changes to the non-taxable ‘Municipal Officers’ Expense Allowance’ under the Income Tax Act

Report to: Corporate Services Committee

Report date: Wednesday, June 12, 2019

Recommendations

1. That this report respecting '2019 Municipal Officers’ Expense Allowance' taxation changes, effective January 1, 2019, and its impact on Council Member Remuneration BE RECEIVED;

2. That the Region’s existing methodology for Councillor and Chair remuneration, as confirmed by the analysis and review provided in the Niagara Region Independent External Governance Auditor Final Report, April 5, 2019 (Appendix A), BE APPROVED, with retroactive implementation to December 1, 2018.

3. That the increase in the 2019 base remuneration for Council members, including the Chair, required to offset the impact from the Income Tax Act changes, BE APPROVED effective January 1, 2019.

Key Facts

- Council remuneration methodology is brought to council for consideration and approval with each new term of council. For 2019, council approved adjustments to the 2019 budget for council remuneration amendments, however deferred decisions that would increase council remuneration based on current methodology, and deferred any adjustments required to offset impacts from the Income Tax Act, until the receipt and consideration of recommendations from the Independent External Audit requested by council.

- In 2017, the Government of Canada enacted changes to the Income Tax Act, which eliminated the tax-exempt Municipal Officer’s expense allowance across Canada as of January 1, 2019. Niagara Region complied with the removal of the one-third tax exemption on earnings effective January 1, 2019, and at the same time deferred any offset to the loss of council earnings pending the Independent External Auditor Report, as per council direction (GM 15-2018).

- Methodology established by a Council Remuneration Citizens Review Committee, CL 2.2004, was approved in 2004 and reaffirmed in 2012, directing an annual salary increase for Regional Council and Regional Chair effective each December 1. The methodology is ‘an adjustment based on a twelve month average of core consumer price index (CPI) as reported by Bank of Canada, plus an increment equal to the
Options & Financial Considerations

Existing methodology for annual adjustments:

Based on the formula, the annual remuneration for Regional Council members and Regional Chair would increase by 2.9% effective retroactive to December 1, 2018. This number is comprised of a 1.4% increase related to core CPI plus a 1.5% increase based on the annual policy line change for non-unionized employees for Ontario.

As a result, retroactive to December 1, 2018, the annual remuneration of a council member would increase by $928.38 to $32,941.37. The annual remuneration of regional chair would increase by $3,841.83 to $136,318.84.

This increase to total annual council remuneration as a result of the annual adjustment is $32,621.61 (31 councilors x $928.38 + 1 Regional Chair x $3,841.83) and can be accommodated within the 2019 Council approved budget.

Adjustment to offset the impact from the Income Tax Act changes:

Note: the adjustment effective January 1, 2019 calculation assumes the current annual methodology (as noted above) is completed PRIOR to this adjustment, and the new annual rates are already applied. This does not include considerations for individual items such as committee stipends, other taxable earnings and benefits, etc.

An increase to council remuneration rates to offset increased income tax arising from the removal of the municipal officers allowance, would be a total increase of $248,864 annually (inclusive of the annual adjustment noted above). If the current methodology is approved and applied effective December 1, 2018, in addition to the Income Tax Act adjustment, the new annual remuneration of a council member would increase by $5,538 from $32,941.37 to $38,479.37. The annual remuneration of regional chair would increase by $44,564 from $136,318.84 to $180,882.84.

The annualized compensation including the adjustment to offset the impact from the Income Tax Act changes ($38,479 per councilor, $180,883 for regional chair) differs from the anticipated annualized compensation noted in GM 15-2018 ($35,786 per councilor, $173,400 for regional chair). This is a result of the 2019 compensation being calculated based on the composition of current Council members, change in estimate used for the annual increase, as well as changes in taxes and statutory deductions rates in 2019.

Approval of an increase in the 2019 base remuneration for Council members, including the Chair, to offset the impact from the Income Tax Act changes, effective January 1,
2019, will result in a 2019 budget pressure of approximately $58,000. Staff are recommending that the budget pressure of $58,000 can be accommodated within the council approved 2019 budget through reprioritization of existing budget.

Analysis

Existing methodology for annual adjustments:

The existing methodology was first determined by a Citizens Committee authorized by council in 2003. The annual formula methodology was approved by Council (Citizens Committee on Council Remuneration: CL2 – 2004), and effective December 1, 2006, council authorized annually adjusting the regional chair remuneration on the same basis (CL3 – 2007). In 2012, a Citizens Committee report was also requested and received for information.

Over recent years, council has made some annual decisions to enact a remuneration increase that differs from the current formula methodology. The following chart outlines the wage increases that have been approved over the past several years.

<table>
<thead>
<tr>
<th>Regional Council &amp; Regional Chair</th>
<th>Annual Remuneration Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.68%</td>
</tr>
<tr>
<td>2009</td>
<td>4.11%</td>
</tr>
<tr>
<td>2010</td>
<td>3.23%</td>
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<tr>
<td>2017</td>
<td>3.30%</td>
</tr>
<tr>
<td>2018</td>
<td>2.60%</td>
</tr>
</tbody>
</table>

For the 2019 annual remuneration increase (effective December 1, 2018), based on the current formula, the annual remuneration for Regional Council members and Regional Chair would increase by 2.9%. This number is comprised of a 1.4% increase related to core CPI plus a 1.5% increase based on the annual policy line change for non-unionized employees for Ontario.

As stated in the Niagara Region Independent External Governance Auditor Final Report and Fact Book, April 5, 2019 "the salaries of the members of the Niagara Regional Council (including the Chair) are the lowest among Ontario’s regional governments, but
its council is also the largest and its population and annual operating budget the smallest...not because we think compensation for elected officials should be strictly tied to the scale of the operations they oversee, or to size of the populations they serve, but because some may find it helpful to keep such factors in mind when comparing compensation across Ontario’s regional councils….There is not much that can be said with any certainty about determining appropriate levels of compensation for municipal councilors, other than that remuneration should be periodically reviewed and, at a minimum, adjusted for inflation.”

Adjustment to offset the impact from the Income Tax Act changes:

Municipalities across Canada made provisions for the income tax change for 2019 federal compliance purposes by January 1, 2019. The change will most noticeably result in an increase in income tax payable by each municipal Councillor and Chair at rates established under the Income Tax Act. Other impacts to the Niagara Region include a reduction to the HST tax rebate and an increase to total income subject to the Employer Health Tax.

Comparable Ontario municipal council member remuneration data was previously provided in report GM 15-2018 to assist Council in considering the ongoing competitiveness of council remuneration. The comparative data showed Niagara council remuneration to be lower than other regional governments.

As stated in the Niagara Region Independent External Governance Auditor Final Report and Fact Book, April 5, 2019, “...it is important that the compensation be sufficient enough so that the position of regional councilor remains accessible to individuals from a variety of socio-economic backgrounds...appropriate statistical measure for Niagara Region, therefore, might be median total income, a figure which includes those who work part-time as well as those who are fully employed...this amounts to $33,894 in 2019...Because the selection of the appropriate statistic is arbitrary, and because the connection between regional councilors and local economic performance is a tenuous one at best, we prefer adopting a simpler approach. Our recommendation is that:

Remuneration of the Regional Chair and councilors be increased to sufficiently offset the loss in after-tax income due to the removal of 1/3rd federal income tax exemption. “

The adjustment to offset the impact of Income Tax Act changes as recommended to increase annual councilor remuneration to $38,479 and Regional Chair remuneration to $180,883 is in line with the recommendation.

Alternatives Reviewed

Implementing changes to the taxation for Municipal Officers is a matter of regulatory compliance.
The alternative of maintaining current salary with no increase to offset the removal of the 1/3 tax exemption is an option however does not address the need to maintain an equitable remuneration to attract citizens from all socio-economic backgrounds to public office, is below most remuneration in other municipalities as shown in GM 15-2018 Appendix A, and not consistent with most municipalities in the transition to address the changes to the Income Tax Act.

Other Pertinent Reports

- HR 02-2015 Revised: Council Remuneration Effective December 1, 2014 to November 30, 2015
- HR 03-2015 Council Remuneration: Annual Process
- GM 10-2017 Change to Composition of Regional Council – Additional Representative for West Lincoln
- CL 2.2004 Council Remuneration Citizens Review Committee

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Appendices

Appendix A - Niagara Region Independent External Governance Auditor Final Report, April 5, 2019