

To: Board of Trustees
From: CAO Andrew Peat
Date: 17 July 2017
Subject: Salt Spring Incorporation Study 21 November 2016

At the request of the Board I have review the Urban Systems final report submitted to the Salt Spring Island Incorporation study Committee. Impact of incorporation on fire protection services is discussed in Services Summary #3 (pages 75 – 77).

The report makes clear that if incorporation were to proceed property owners in the various island service areas (for instance Fire Protection District, North Salt Spring Water, Ganges Sewer) would still be required to pay the total cost (operating expenses + small capital + debt servicing) for municipal services not provided to all areas of Salt Spring. Property owners in Musgrave Landing will not subsidize fire protection services.

Identified Cost & Potential Savings

For purposes of the study Fire Protection services are estimated to cost \$2,644,000 (page 76). The amount is based on a 2016 Tax Requisition of \$2,695,000 less identified savings of \$51,000 (Table 5.6 page 77). These figures were derived from information requested of me – a 2016 Operating Budget Workbook and a breakdown of 2016 Budgeted Wages & Benefits between Administrative staff and firefighters (Career & paid-on-call).

The Study's estimated cost of Fire Protection services is at first glance unreliable because of errors that both underestimating costs and potential savings. Corrections offset each other and are summarized on the attached table: +\$3,834 on revised total expenses of \$2,647,834.

Understatement of Estimated Costs:

- The total estimates costs do not include debt servicing (principal & interest) on outstanding loans – in Fiscal Year 2016 \$200,980.
- Until exhausted by deficit budgets and capital asset purchases, interest earned on deposit balances (2016 Budget \$12,000) would reduce Fire Protection service costs.

Understatement of Potential Savings:

- Estimated savings include \$40,000 reduction of Overlapping Administrative Expenses – elimination of the Corporate Administrator position. The estimate approximates actual 2015 costs of \$43,910 (Gross Wages + Employer Contributions) but is less that the budgeted amount for 2016 (\$69,645).
- It appears that estimated savings in Trustee Expenses are the budget lines Advertising/election (\$5,000) and Annual Dinner (\$6,0000) and did not question Legal (\$100,000) and Consulting Fees (\$60,000). The 2016 Budget included the legal costs related to collective agreement

negotiations (\$60,000) and consulting included one-off charge for a 10 Year Master Fire Services Plan (\$40,000).

- Total Costs include “double counting” of Administration Expenses that are part of General Government Expenses - Audit & Related Fees (\$5,500), Insurance (\$32,000) and Technical Support (\$12,000). For budget purposes Technical Support is bookkeeping and IT services. Administration costs should also no include \$12,000 Finance Charge – the estimated interest owed the Province on the advance on tax revenue receipts which I subsequently learned is not reflected in the District’s accounts.

It should also be pointed out that the stabilized Annual General Government Expenses (detailed in Table 5.4 on page 63) of \$2,180,000 is a high 15.62% of stabilized Total Municipal Expenses (Table 7.1 on page 77). For the Fire District comparable 2016 budget expenses (Admin, Trustee & CAO wages & benefits less \$100,000 adjustment for extra legal and consulting expenses) comes to \$272,800, 10.12% of the Tax Requisition for Operating Expenses . I am surprised that there are no economies of scale under the municipal “umbrella”.

Potential sources of savings which I do not believe were mentioned in the report would be membership in the Municipal Insurance Association (liability and property insurance expenses) and Capital Area Benefit Trust (group dental and extended health benefits).

Eligibility for Infrastructure Planning Grant and major infrastructure programs such as Building Canada Fund (page 199) would be available to a new municipality and also if the District were to become a CRD service area. There is no guarantee of “approval” notwithstanding the merits of an application (e.g. the new fire hall). At present the total cost to service borrowings for capital projects is the responsibility property owners.

A larger organization such as a municipality would have the “critical mass” to have specialized administrative functions including HR and Finance and more readily backfill positions when needed. Many functions done by service providers (Islands Trust, CRD service areas, improvement districts) would be consolidated. A municipality would decide whether some functions such as IT support would be contracted out or brought in house.

Governance

In many respects improvements districts as a means for “local government” are an historic anomaly. At one time they served a useful purpose but have now largely superseded by service areas set up by Regional Districts. An improvement district run by a volunteer board of trustees should not be expected to “manage and direct” an operation as large and complex as Salt Spring Island Fire Rescue.

Municipal councils and boards of improvement district are all elected and as such ultimately directly accountable to their constituencies. The eligible electorate for an improvement district is limited to property owners.

In my opinion, a major argument in favour of a municipality would be that a single group of elected officials (the mayor and council) would have to always look at the “big picture” and continually balance needs/wants against the community’s (tax payers) ability to pay. For instance, the District is investigating water supply for fire flow purposes for the Ganges core and more rural parts of Salt Spring. A municipal council could tell public works to service hydrants in Ganges and direct the planning department to include supplemental water storage capacity as a condition for approval of increasing density or new subdivisions.

Incorporation Study
 Fire Protection Service

2016 Tax Requisition	Urban Systems Report	Adjusted
Budget Reductions (Trustee Expenses)	\$ 2,695,000.00	\$ 2,695,000.00
Budget Reductions (Administrative)	-\$ 11,000.00	\$ 33,003.00
	-\$ 40,000.00	\$ 167,976.00
		<u>\$ 2,895,979.00</u>
		-\$ 12,000.00
		-\$ 5,000.00
		-\$ 12,500.00
		-\$ 32,000.00
		-\$ 12,000.00
		-\$ 5,000.00
		-\$ 40,000.00
		-\$ 60,000.00
		-\$ 69,645.00
	<u>\$ 2,644,000.00</u>	<u>\$ 2,647,834.00</u>