



Agenda
The Township of Cavan Monaghan
Special Council Meeting
Monday, March 11, 2013
9:30 a.m.
Council Chambers

Members of the gallery are asked to please turn off all electronic devices during the Council Meeting. Any special needs requirements pertaining to accessibility may be directed to the Clerk's Office prior to the meeting.

	Pages
1. Open Session	
2. Call to Order	
3. Disclosure of Pecuniary Interest and the General Nature Thereof	
4. Additions/Deletions to the Agenda	
5. Closed Session	
6. Presentations	
6.1 Nigel Bellchamber - Service Delivery Review Final Report	2 - 22
6.2 Update from March 5, 2013, City of Peterborough Planning Committee Meeting - Mayor Fallis and Deputy Mayor McFadden	
7. General Business	
8. Confirming By-law	
8.1 By-law No. 2013-18 being a by-law to confirm the proceedings of the Special Meeting of the Council of the Township of Cavan Monaghan held on the 11th day of March, 2013.	
9. Adjournments	



Modified Service Delivery Review

March 2013

N. G. Bellchamber & Associates

Introduction

The Township of Cavan Monaghan contracted with N.G.Bellchamber & Associates in December 2012 to undertake a modified Service Delivery Review in light of possible declining revenues. It has already received an initial third party recommendation that the solution, from a revenue point of view, was to increase the local (township) portion of the property tax by ten (10) percent for each of six (6) successive years.

Council was interested in determining if there were areas of expenditure reduction that could be implemented to mitigate the tax increase needed.

The accepted proposal included several components as follows:

Step 1

A desk review of existing documents including past budgets, and documents and reports such as FIRs for several years, MIDAS and BMA reports, MPMP and other measures compared over time and to similar municipalities, and an assessment of the Township's infrastructure based on financial statements and available reports, all leading to preliminary conclusions about where spending reductions were most likely to be achieved, both short and long term.

Step 2

A visit to the Township, interviews with each member of Council and each senior manager, and a visit to major township facilities.

Step 3

Analysis of what had been learned to quantify and rank opportunities for expenditure reduction.

Step 4

A return visit to the municipality to meet once again with senior staff and to review findings, and preliminary conclusions and recommendations with Council at the Special Budget meeting scheduled for January 15, 2013 .

The recommendations were also to indicate areas where there might exist opportunities that needed further detailed review.

The Council also asked that the Library operations and budget be included in this review, and at the January 15 meeting agreed that the final report include a multiyear capital expenditure analysis in order for Council and the public to understand both the operational and capital needs of the municipality.

As the review was being undertaken, Staff and Council were simultaneously developing the 2013 budget which was also identifying operational and capital reductions that could be put into place.

Background

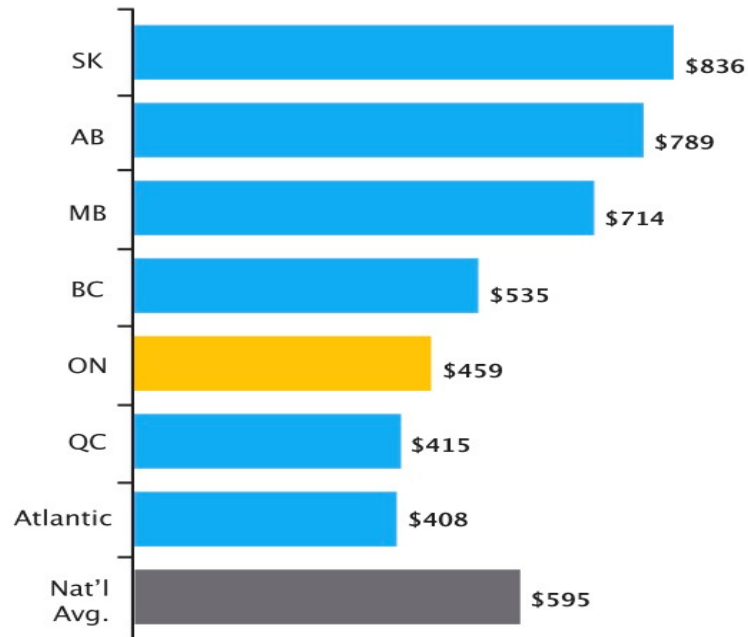
On March 12, 2012, the Province of Ontario announced that it intended to proceed with the “modernizing of gaming” in Ontario.

Ontario’s fiscal situation is indeed challenging and the need to maintain and increase revenues wherever possible is a high priority for the province.

The excerpt on the next page, taken from a gaming industry publication, lays out the situation for the Province and will give the reader an appreciation of why Ontario is taking a different approach to gaming than it has in the last decade:

“There is opportunity for growth. On average, Canada’s lottery and gaming corporations generate an average of \$595 in revenue per adult in the province. In Ontario, however, that number is \$459 per capita. There is potential to be more innovative, more efficient and more effective.”

Net Gaming Revenue per Adult 2011



Sources: Saskatchewan Lotteries Trust Fund Financial Statements, Alberta Gaming and Liquor Commission Annual Report, Manitoba Lotteries Annual Report, BCLC Annual Report, OLG, Loto-Québec Annual Report, Atlantic Lottery Corporation Financial Statements and OLG analysis.

Source: Canadian Gaming Business published by the Canadian Gaming Association

In order to facilitate the “modernization” the Province has already closed three sites with Ontario Lottery and Gaming Corporation (OLG) Slots at racetracks in Sarnia, Windsor and Ft. Erie.

Kawartha Downs, in Cavan Monaghan, has been kept open because it is a more lucrative site for the Province and a redeveloped local casino site for gaming will be an important part of the new Eastern Ontario “Bundle” which includes Belleville and Kingston.

The change has generated a keen interest in the new site from Peterborough City Council because of the revenue sharing and property tax components although the city residents appear to be divided at present. Unofficially, OLG is reported as saying that it expects that a future Casino operator is likely to favour a site inside the City of Peterborough with full sewer and water servicing.

Realistically, while the Township of Cavan Monaghan has indicated that it supports a redeveloped site within the Township, it is only reasonable that it plan for the elimination of any payment after the end of calendar 2015 from OLG to the Township.

Impact on Cavan Monaghan Finances

As noted, Kawartha Downs has performed very well financially for OLG. For example, despite having approximately one third of the trading area population of London and vicinity, Kawartha Downs has consistently generated in excess of 80% of the revenue that the slots at the Western Fair Raceway have.

And that performance has been of considerable benefit to the municipal corporation of Cavan Monaghan and its taxpayers since the year 2000, with OLG payments averaging approximately \$3.3 Million per year since 2002.

While taxes have not been frozen since that date, there have been considerable improvements made to the Township's road network, equipment has been updated, growth and development opportunities have been explored, while property taxes per household today are substantially below similar local municipalities. (See chart pg 9).

Are all municipal assets in such a condition that nothing has to be done in the next few years and tax levels maintained while the slots revenue comes to an end? Unfortunately, the answer is no.

The municipality has assets funded from the property tax base (water and sanitary sewer are excluded as they are funded from user fees) with a 2013 replacement value, excluding land, that exceeds \$90 Million. They will need replacement in the years ahead as this report will show in a later section.

Had property taxes been levied at levels comparable to similar municipalities while the slot revenue was being received perhaps all major assets might have been up to date. But previous Councils chose, as was their right, to keep taxes per household lower. Until March of 2012 there was no indication that slot revenues for the Township would decline.

Revenue in Cavan Monaghan

As noted in the following chart, on page 9, using 2011 Provincial data, the last year for which comparable figures are available, for similarly sized municipalities and populated households reflecting age and permanence of residency, the typical household in Cavan Monaghan has been paying about \$300 per year less in local township purposes property taxes than in the most appropriate comparators in the sample being Hamilton Township and Douro-Dummer Township.

The reasons for these being most comparable are household composition, limited seasonal residential development and geographic and climatic conditions.

The good news from the chart is that 70% of the Cavan Monaghan's road beds have been improved and the surfaces have been hard topped, providing better year round service, compared to a much lower percentage in neighbouring municipalities. OLG slot revenue has provided a lasting advantage here, as long as these improvements are maintained.

Cavan Monaghan Comparative Statistics Selected 2011 Data

Municipality	Households	Population	Pop/HH	Gen Levy Res \$	Res%of Levy	G Levy/HH \$	Rd km	%Hdtp
Asphodel-Norwood	2077	4125	1.99	1,946,447	88.7%	937	151	33%
North Kawartha	3735	2065	0.55	3,825,807	98.2	1024	310	21%
Cavan Monaghan	3332	8601	2.58	3,390,692	85.0%	1017	235	70%
Douro-Dummer	2560	6805	2.66	3,234,696	96.0%	1263	270	33%
Galway-Cavendish-H...	6726	5284	0.79	6,609,222	98.7%	982	615	48%
Havelock-Belmont-M ...	4268	4637	1.01	4,147,556	93.9%	972	318	42%
Otonabee-S.Monaghan	3030	6080	2.01	3,030,062	88.0%	1000	266	28%
Smith -Ennismore-L...	8988	17,413	1.94	7,193,789	91.8%	800	320	14%
Hamilton Tp 50%	4449	10,972	2.47	6,081,515	93.1%	1367		538

Sources: MMAH Financial Information Returns 2011, Municipal Websites, Statistics Canada.

N. G. Bellchamber & Associates, January 15, 2013

***Gen Levy**-General purposes levy- amount levied by way of property tax for local township municipal purposes. County and education levies are separate.

As mentioned previously, the revenue from the OLG Slots has been substantial.

Annual payments of \$3.2 to \$3.4 Million have been received and have represented between 35% and 40% of total annual revenue for Cavan Monaghan, excluding user fees for utilities. For most of the other OLG Slots at Racetrack municipalities the payments have ranged from less than 1% to no more than 10% of their total revenue. Cavan Monaghan has been very fortunate, but the likely loss of Slots revenue creates a huge hole in the Township's annual budget. And it is prudent to plan for the worst even though one might hope for the best.

Dealing with the Loss

Actions to date

During 2012 and 2013 budget deliberations the Staff and Council, as well as the Library staff and Board, have managed to reduce the dependency of operations on the slots by just over a million dollars per year through a variety of program and staffing reductions. This still leaves present and future capital programs currently dependent on OLG Gaming revenue as of 2013, rather than property tax dollars, an unsustainable situation.

The 2012 and 2013 reductions were quite significant. A few operational reduction opportunities still exist but should be identified clearly through further analysis before being implemented. The recommendations at the end of this report provide the areas where this analysis should take place.

Future Options

Could the remaining loss of Slots revenue be offset by further staff reductions?

The answer is no.

The amount, approximately \$2.2 Million is approximately equivalent to the total wage, salary and benefit expense for ALL Township and Library Board employees. Clearly the problem cannot be solved through staff reductions, although this report's recommendations will address an opportunity.

Can service levels be further reduced?

If anything, service demands and costs are likely to increase. OPP costs are scheduled to increase significantly in 2014 and 2015. Roads service could be reduced by reducing the timing of winter roads maintenance but this would need to be considered closely in terms of increased liability and resident needs. The municipality has a relatively dense rural residential profile.

Fire expenditures are mostly about preparation and prevention. Library services are covered through two branches, a historic fact that would see dramatic service reductions if one were closed and result in relatively small savings.

Recreation programs are broad but reflect a family oriented population.

Many staff members already perform multiple functions. Work will vary by season, or from day to day. This also includes administrative staff where managers often have more than one key area of responsibility, as do many support staff.

Is growth the solution?

A quick analysis says no, for the following reason. Assume a new home generates tax revenue of \$1200 per year. To generate sufficient revenue to offset the capital contribution currently enjoyed from Gaming revenue would require over 2000 new homes. Clearly with less than 3400 households at present, growth of that nature is not going to happen. And new homes do attract new costs, so only a portion of incremental taxation would be available in any event.

In summary, the Township can neither save nor grow itself out of the challenge presented by a loss of OLG Slots revenue.

What is left to examine before increasing taxes is the level of capital spending. Can it be scaled back?

Capital Needs in Cavan Monaghan

Until accounting standards changed for all municipalities in Canada in 2009, Cavan Monaghan, like most other municipalities, did not have consistent data on what assets were owned by the municipality and used in providing services to residents.

Examination of the Township records has found that it now has a detailed inventory of the capital assets currently in service and their historic cost and the portion of their useful lives that has been consumed.

But that information alone does not tell the complete story. The original cost of all assets in service as of their date of acquisition, is reported as just over \$45 million. However, it quickly becomes clear that those values are not appropriate for planning purposes. The

Community Centre/Arena is carried on the books in that total as having cost less than \$1,000,000 when it was built in 1951.

Replacement value today is estimated to be in excess of \$6 million! That's just one example.

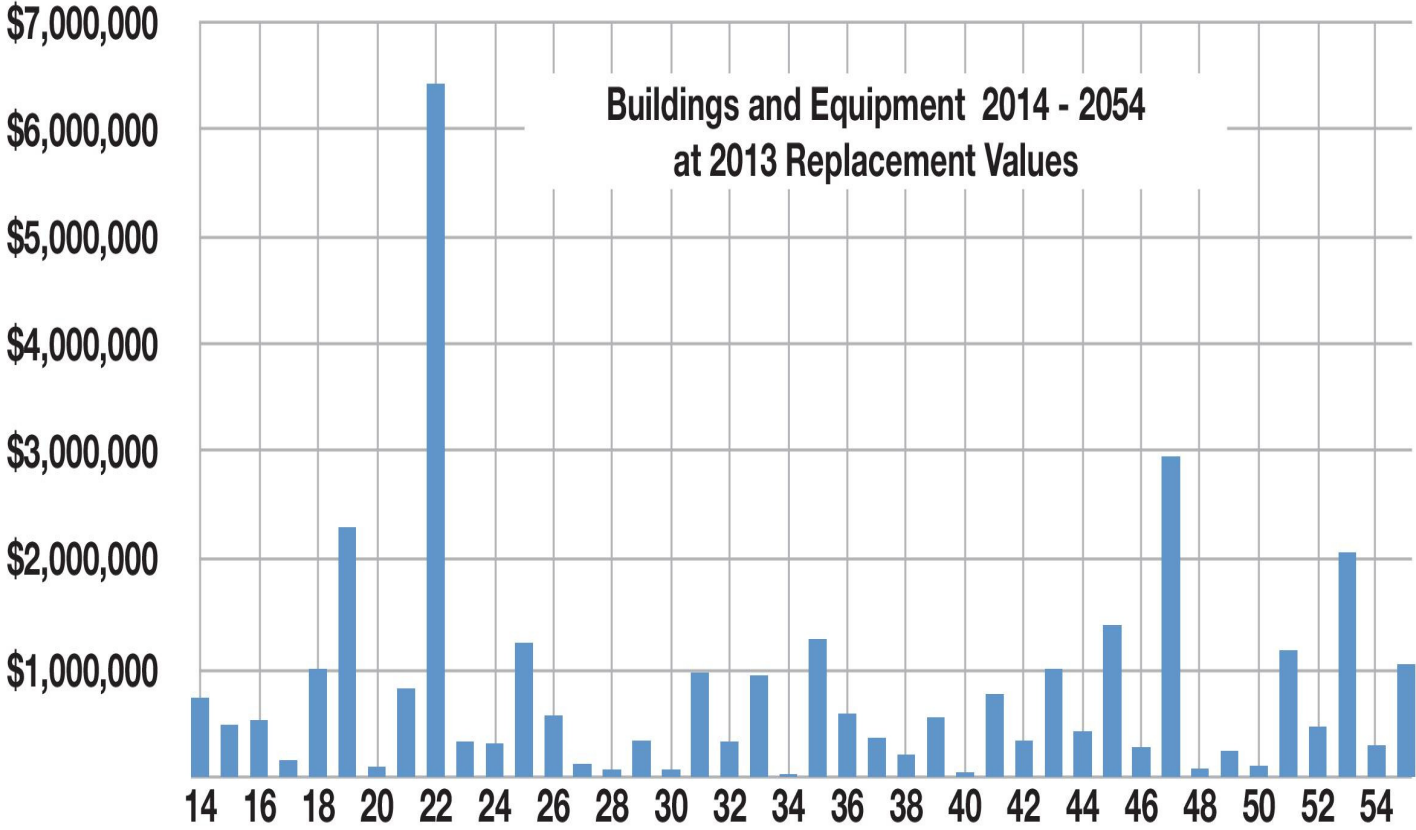
As part of this modified service delivery review process, Township staff was asked to review the existing assets, and estimate current replacement value in 2013 dollars. They rose to the challenge, and using existing prices and expertise where data was not available already, provided reasonable data for projection purposes.

To begin with, it was assumed that assets would be replaced on the date that their useful life schedule projected that they would be fully amortized. However this would have shown the projected replacement of the Community Centre/ Arena, the Millbrook Fire Station #11 and the Cavan Works Yard being overdue in 2014. More probable dates were selected to allow for a better graphic representation of the uneven (lumpy) nature of capital investment needs and more likely construction dates. See the chart on the following page.

And not all assets were automatically included. For instance it was assumed that the "Lions Den" for example, would never be replaced.

The rescheduling to future dates does not, however change the amounts needed over the 40 year planning horizon.

Cavan Monaghan Capital Needs Projections without Roads



The amount needed in each year for Buildings and Equipment is an average of \$950,000.

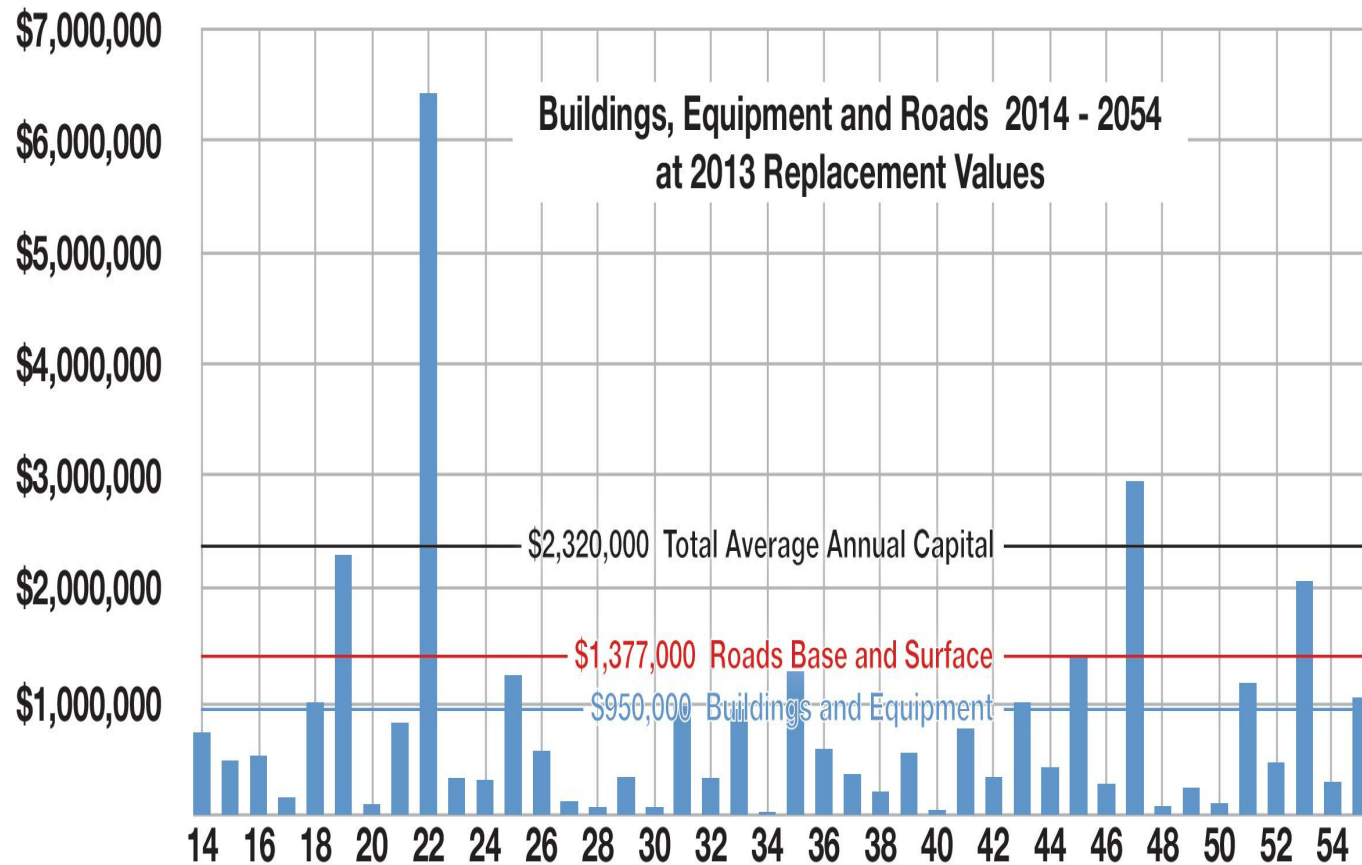
The recent roads needs study for the Township, conducted by outside engineers using industry standards, projects over that same time period just over \$55,000,000 of base and surface needs, or nearly 1.4 million per year. This is slightly more than the municipality is currently spending annually on roads capital.

Adding these estimates together shows average capital needs at current levels of service with current assets or equivalents of just over \$2.3 million per year at 2013 prices.

The chart below shows these levels when smoothed, to give an average yearly amount. This smoothing technique ignores interest charges if debt were issued and does not attempt to show the balance between reserves and debt for capital financing as such distinctions disappear over the long term.

It should be noted that these projections reflect existing assets, not ones that might be added in future.

Cavan Monaghan Capital Needs Projections with Roads



It is worthwhile to review the impact of single projects on such a forecast. The arena replacement, for projection purposes, is put into 2022. At that time the current structure would be 70 years old. If it were eliminated the annual requirement would only reduce to approximately \$2,170,000. And deferring major projects has no impact on the analysis unless they can be delayed beyond the planning period, and there is no evidence that any can be delayed thus.

The 2013 draft budget for the Township is currently funding \$2,907,000 in capital spending and reserve contributions, entirely funded from Gaming revenues except for \$245,000 funded from federal gas tax contributions.

At current property tax levels the municipality is contributing nothing to capital needs from the property tax. This will obviously have to change when the OLG Gaming revenue ceases.

The question is how much do taxes have to increase and when?

Tax Increases Needed

The C. N Watson report from the Fall of 2012 suggested 10% per year tax increases for each of six successive years would be necessary to make up for the lost revenues from Kawartha Racetrack and Slots. This is an accurate calculation but did not take into consideration the expenditure reductions that have already been achieved. Nor did it have the benefit of comparative municipal tax

level analysis or the more detailed and sophisticated capital forecasting that staff has undertaken. This capital forecasting is more comprehensive than virtually any other municipality of Cavan Monaghan's size and staff are to be congratulated for their work.

This Report concludes that 10% increases are necessary in 2013, 2014 and 2015 to replace, by 2015 on an annual basis, about the amount that is being set aside in the Asset Replacement Reserve from Slots Revenues in the 2013 budget of \$1.4 Million

This will still not replace the total amount contributed in past years and at present by the Slots revenues but it will provide for average buildings and equipment needs.

The capital reserve balance, by that time will be approximately \$10 million, allowing the Township some flexibility in financing strategies (combinations of debt, reserves and current taxation) for its post 2015 capital needs.

This rate of increase will not allow for the same level of capital expenditure as has been the experience in recent years. But roads conditions in the Township exceed comparable municipalities' standards and do not generally require further improvements, just appropriate maintenance.

Three successive increases of 10% will raise by 2015 approximately \$1,550,000 from the property tax base, and coupled with the federal gas tax at an estimated \$245,000 annually by then a total of \$1,795,000 per year

Is that sufficient when the need is calculated at 2.3 million per year?

In the long run, the answer should be yes. Federal and Provincial programs from time to time will contribute to major projects such as a new Community Centre/Arena if the municipality is ready when the programs are announced.

Conclusions and Recommendations

1. Township and Library Board staff members have done excellent work in reducing the level of operating expenditures while attempting to minimize the overall impact on residents. In addition, Township staff members have reviewed in detail the long term capital building and equipment needs at 2013 replacement values. This latter capital work has not been done before, to the author's knowledge, in a similarly sized municipality.

2. The cost containment/reduction work should not be considered to be over. Even after the 2013 Budget is adopted staff should remain seized with the challenge. At one of the senior management team meeting each month, an hour should be set aside wherein senior managers can outline and review new ongoing reductions that have been identified in their areas of responsibility, that are achieved or possible. The Chief Librarian should be invited to join this part of the meeting for mutual benefit.

3. Staff reductions are still a possibility although the writer could not identify in his discussions with staff and council, and review of documents, any individual positions that could be described as redundant at current service levels. The CAO should be charged with responsibility to sign off on the filling of any position that becomes vacant, in order to first satisfy herself that there is not a better way to provide the needed service through realignment of responsibilities among remaining positions in whole or in part. Further discussions on this matter should be considered by Council only in closed session as individual positions would be the subject of any discussion.

4. The transfer of bookkeeping and accounting responsibilities to Library staff should be reconsidered. Library staff members, through their education, are often trained in financial management but the nuances of bookkeeping and internal control systems are rarely within their area of expertise, nor of their Boards. This is not to be considered as micromanaging by the Township, but a way of efficiently and effectively allowing Library staff to do what they can do best while maintaining appropriate records and trails to support and reduce the cost of the annual audit.

5. The Capital Budget for the municipality needs to be developed and maintained in much more detail for the period 2014 to 2024. Fire Station#1 Millbrook and the Cavan Works Yard both should be replaced in that period and serious consideration given to the Community Centre/ Arena as well. This will flow from the work that has been done already to support this report and the work that the municipality has to do to meet the grant funding asset management planning requirements of future federal and provincial infrastructure grant programs. It is imperative that this work begin immediately.

The Township has not had to be disciplined with respect to capital investments with the amount of Gaming Revenue coming in each year.

It must change its approach immediately to a longer time horizon, maintaining a 40 year perspective, but detailing the expected expenditures and sources of financing in each of the next ten years and not adding new projects without a clear understanding of their impact.

The Roads Needs Study needs to be critically examined and individual projects determined for each of the next ten years at least, and this level of detail maintained. This should be completed by September of 2013.

6. The Use of a Transfer Station for some of the Residents' waste needs to be reviewed. It may be that curbside service, if extended to the entire municipality, could be done as cheaply, or at less total cost, than the current hybrid system.

7. Recreation scheduling should be reviewed. It is apparent that junior staff members are in charge when the arena is busiest. This does not seem to make sense from either a risk management or a customer service point of view. This should be reviewed for the 2013-2014 year and be determined by June of 2013.

8. Property taxes must increase.

Three years of 10 percent township levy increases per year will add a total of approximately \$300 by 2015 to a typical residential tax bill and bring Cavan Monaghan tax levels up to comparator municipalities. They will provide for much of the projected capital needs by then and provide some breathing room for more moderate future increases if the difference is not offset by sustainable senior government infrastructure grant programs expected to be announced by that time.

Because the Township portion of the individual property tax bill is only 44% of the total, 10% on the township portion is only 4.4% on the total bill. County and Education taxes make up the balance.

9. Administrative leadership for the above recommendations will clearly be the responsibility of the CAO. She should keep Council apprised on a monthly basis of progress in each.