

Date: 30, October, 2024
Time: 9:00 a.m.
Location: Council Chambers

Attendance: Wayne Olson, Councillor (left at 10:45 am)
John Wink, Councillor
Brian Eckhardt, Councillor
Michael Cottenden, Member
Bill Crumm, Chair

Staff Present: David Cribbs, CAO
Teresa Quinlin-Murphy, Director of Corporate Services & Treasurer
Usama Seraj, Manager of Financial Services & Deputy Treasurer
Andrea Metler, Secretary

Other: Trevor Ferguson, Deloitte

1. Call to Order and Declaration of Quorum

Noting that quorum was present, Chair Bill Crumm called the meeting to order at approximately 9:01 a.m.

2. Land Recognition Statement

The Chair recited the land recognition statement.

3. Approval of Agenda

Moved by Councillor John Wink
Seconded by Member Michael Cottenden

THAT the agenda for the October 30, 2024 regular meeting of the Pelham 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 minutes from the September 10, 2024 Pelham Finance and Audit Committee meeting were approved electronically and provided to Council at the September 18, 2024 Regular Council Meeting.

6. Unfinished Business

None

7. Regular Business

7.1. 2024 Audit Presentation by Deloitte Partner, Trevor Ferguson

The Auditor, Trevor Ferguson presented the Audit Service Plan to the Pelham Finance and Audit Committee (PFAC). The Auditor explained to the Committee that the annual engagement letter had been sent to the Town of Pelham and that there were no significant changes.

The Auditor pointed out that there were a couple of changes to the Audit Risks and that there are new accounting and audit standards this year. The accounting standards changes include accounting for a new revenue standard and purchase intangibles. He further commented that these new standards should not have significant impact on the Town of Pelham and the Auditors will conduct a quick analysis on these standards.

The Auditor further noted that there is a new Group Audit Standard that will have a bigger impact on the Auditors and comes into play due to the Town's ownership interest in the Lincoln Pelham Union

Public Library, the Peninsula West Power Inc., and the Niagara Central Airport Commission. Trevor Ferguson noted to the Committee that this is a completely revamped standard and they are considered the group auditor and are required to tell the Town's ownership interests auditors how to plan their audit and supervise and review their work as part of the consolidation and will require a lot more time for the Town's Auditors to do this. This was referenced in the engagement letter and is the reason for the fee increase by \$10,000.

A Committee Member questioned the Auditor as to what percentage the Town of Pelham owns of the Utility? Trevor Ferguson responded that he believed the Town owns approximately seventeen or eighteen percent (17-18%). The Member responded that this did not make any sense that they are considered the lead. Trevor Ferguson responded that the reason is because the Town proportionately consolidates its shares, the auditors of the auditors of the utility are going to get referral instructions from all other entities, that also consolidate, it is going to be a mess for them.

A Member asked if this increased fee is a one-time year of adoption and if the expectation is that the fee increase will come down after the initial year. The Auditor commented that it is certainly not a one-time fee but a one-time fee at this level and the hope is to bring it down on a go forward basis.

With respect to materiality, the Auditors have estimated it at \$750,000 same as last year and they will recalculate this as part of the year-end audit procedures and will update the Committee. Trevor Ferguson noted that they have a reporting threshold to the Committee of five percent (5%) of our materiality being roughly \$37,000. If the Auditors identify the misstatement as part of our audit that is greater than that threshold, we will tell the Committee as part of our year-end results reporting.

In their role as external auditors, they are required to consider fraud risk as part of the audit of the Town's financial statements and we are required annually to discuss this with PFAC to see if there are any risks of fraud. The Auditor asked the Committee for any comments on this and noted that there were none.

Trevor Ferguson expressed to the Committee that the auditors are very hopeful that the library consolidation goes smoother this year. The Treasurer mentioned with regards to the Library, that the Town of Lincoln and the Town of Pelham are both doing a deep dive review into their records before KPMG does the audit to ensure the audit runs smoothly.

The Audit Service Plan will be circulated after the meeting to the Pelham Finance and Audit Committee.

Moved by Councillor Wayne Olson
Seconded by Councillor Brian Eckhardt

THAT the Committee received the 2024 Audit Presentation by Deloitte Partner, Trevor Ferguson for information.

Carried

7.2. 2025 Draft Capital and Operating Budgets

Usama provided an overview of the 2025 Draft Capital and Operating Budgets to the Pelham Finance and Audit Committee and highlighted key points.

The CAO commented that for context, the Town of Pelham is in the middle range for all of the municipalities in the Niagara Region for debt for draft proposed budgets. Thorold and Welland are significantly lower than Pelham and Fort Erie have directions to come in 4%. Lincoln is almost 3.5% higher than Pelham and Niagara-on-the-Lake is around 11% because their Council passed a 3.5% spending to be included in the budget.

Staff are proposing a budget with a 5.81% tax levy increase including a 1.58% increase in assessment growth. The assessment growth has been lower than prior years, and it might have changed slightly. Staff will do a final check in November, but it will not change very much. A 1.31% of the levy is the increase to reserve transfer to Capital Budget. Also, a 2.5% increase for staffing positions previously approved by Council and does not only include

new positions, but also for salary grid movement and cost of living adjustment and the remaining 1.96% is to maintain base services.

A Member asked what the Region was anticipating for an increase this year? The CAO responded approximately 8%. The Treasurer noted that this is about 48% of the residents' tax bills from the Region. The Deputy Treasurer further commented that the Town's share is 41%. So for every dollar that a resident pays in taxes only \$0.41 cents comes to the Town to maintain the services offered.

A Member questioned the Deputy Treasurer about the utilities and where the savings from the LED lighting is shown in the budget and where does it come out as a savings or what happened to it. The Deputy Treasurer responded that the savings were built into last year's budget. The Treasurer added that the increase pertains mostly to water as opposed to hydro and gas due to the splash pads. The new transformer at the MCC is more efficient and is using less energy.

A Member commented that if the Town increases the taxes by 5.81% and this continues to be the trend then the hard fact is that the Town will be doubling resident taxes in 13 years. The Member questioned that in thirteen (13) years, how many people will be looking forward to having their taxes doubled? The member noted that it is fair to point out that this is becoming a bigger issue and will be a problem for the future. Another Member added that this is as small portion of the tax bill and with the Region going even higher the residents' tax bill will be doubling within six to seven (6-7) years.

A Member questioned what staff are predicting for the Bank of Canada rate drop. The Deputy Treasurer responded that they have not done any predictions but staff are anticipating another half to three quarter percent drop. The Member noted that Fidelity Investments predicted one-point seven five (1.75%) by end of next year and this will have a significant impact on the Town's bottom line. The CAO commented that if it drops that much then development will go back up, more housing will be built. Our dominant source of revenue is property taxes and new homes. Growth has slowed and Pelham has the fourth highest growth rate

in Niagara. The growth has slowed in houses being built, and the Town has been experiencing an 18 month lag and there is nothing to be done about it.

A Member asked what the reason is for the delay in new homes coming onto the tax roll. The CAO Responded that MPAC does not do it by municipality, they have a finite number of staff. They have a corporate practice not to do work on commercial buildings for more than a year because it results in so many appeals. For residential, MPAC would like to be able to assess new homes right away but are limited by the number of staff they have. The only solution is to ask Ontario to tell them to hire more people but that is the reason for the delay Ontario wide. It is a third party over which the Town has no control. He further noted that MPAC has up to two (2) years to assess and it is retroactive in response to a Member's query.

A Committee Member questioned staff as to what the surplus forecast will be at the end of the year and whether it will be above or below. The Treasurer responded that staff are providing a Q3 Report to Council on November 20th and will have a better sense of that number then. The Member asked what happens with the surplus and the Treasurer responded that it goes back to the reserves.

A Member questioned whether or not a target should be set for the tax increase and expressed curiosity about hearing Council's feedback on the 5.81% tax increase and whether this is in line with their expectations or if there is an expectation for staff to bring that number down. Another Member commented that looking at the Operating Budget, the cost of operating is being driven by the increase in staffing. We have created a narrative where Pelham is one of the wealthiest communities in the Region and there is the expectation that the average income is north of \$140,000 and that narrative is not true for everyone, that is a homogenous number, just an average and there are some people that a tax increase of one hundred and \$134.00 each year is going to mean a lot to. We need to develop a narrative of reducing, saving and reallocating work because it will not be affordable in the longer term. It is

unfair to take advantage of the 5.8% and say this is the end result, there is a trend towards this and it is not good for everyone.

CAO responded to the point leading to whether this Committee should make a recommendation to Council about setting a tax increase target or not. He stated that it comes down to two concepts, Council telling staff the percentage, which can cognitively shift internal culture amongst staff and make them work towards something. But understanding that when you do that, Council gives up a huge amount of its power and it is no longer staff explaining how we got here, it is now a public domain Council possession and advisory. He further pointed that who should make this cut as far as this Committee making a recommendation to Council as to what to consider and needs to be aware about cuts being done by elected officials but a political benefit to that versus everything being done by elected officials and demanding nothing by staff, there is a continuum in there. The CAO continued that he has been at the Town for 6 budgets and the Treasurer has been here for 8 budgets and this is the second lowest budget of those 6 budgets. The CAO further pointed out that he completely understands Members' comments about the higher number for this budget, but four other budgets have been higher than this and had support of both prior and current Council. Council would be happy to take some direction but just understanding the benefits of telling them to come in with a number and giving them a target it has to be arbitrary. In response to a member's question about when the budget needs to be decided, the CAO responded that the budget needs to be decided in the Spring and staff do the work in the summer for the next calendar year and there are some benefits to this structurally.

The Member commented that hearing more the comments on what staff is tabling and getting a feel that it is higher than what Council is expecting, the intention was to try and get ahead of it, so staff know Council's expectations of what is reasonable. The Member further commented that this is a good benchmark as staff works through the budget. The Member noted that he does not believe in full control transfer in that model where staff comes to the table with a recommendation on how to get there. Council does not need to endorse it and they have autonomy and a voice to say that this

is not how we are going to go about getting to that target. The member further noted that he was not suggesting one or the other, his comments were based on recent discussion from one of the PFAC meetings and reading the room this increase is higher than expected, and now staff are working it in reverse to getting it back down to Council's expectation.

The CAO responded that this is the largest transfer to reserve that he has ever seen in a budget in two decades and the Town is putting in the 1.94% savings by way of debt, which is a good policy. The Member added to the CAO's comments about the last 6 years budgets as being very different times, the Town had no reserves, the majority of the reserves were in a negative balance so there was a different financial situation that the Town was going through than where it is today and that was the story told to justify the increases at that time.

A Member noted that with salary and benefits not being touchable then the Town's labour costs are increased by two to three percent (2-3%) every year as a baseline and Council needs to wrap their head around this. A Member added that an interesting point was that a third-party consultant had done a staffing report in May that identified that the Town was the right size. The CAO responded that there was a third-party KPMG report on Public Works, and it called for four (4) positions over ten (10) years. The Town has hired for two of these and the third position was not included in the review even though there was a statutory change and new tasks that the Ontario government is not doing, and municipalities are now expected to do. The Town is close to the right size in Public works and most of the rest of the Corporation is fairly consistent. There's growth in Recreation, Culture and Wellness (RCW) and a possible new Clerk position in the Clerks Department which will be an interesting discussion with Council. The new Clerk's position would not start till September, so it would only be a quarter of the cost for that year. For the next calendar year, the obligation to hire one more person for the municipal election year would be included because the Town would end up hiring a full-time person for six (6) months every four (4) years in the cycle to help with the election. Part of the sales pitch is that the Town would not do that but that is another discussion for another day for Council and

staff's attempt to address that is to only have that person start in September to minimize that cost. A Member added that there was a report done two (2) years ago on RCW and that report depicted some flaws in the Town's staffing at that point in time and recommended hiring a Manager. RCW is the largest and only department that did not have a Manager position. The Town had to hire for that position, it was non-negotiable. The Clerk position at this point in time is a negotiable and it maybe something to look at down the road. Another Member further suggested that an internal look at what the Town does may help to find those savings.

A Member brought forth that the 5.81% increase is important for Council to be aware of what that Capital Plan is going to mean to the taxpayer. The increases to support the Capital Plan and now adding this to the discussion that the Committee is having here, this number is going to get a lot worse before it gets better. It will significantly impact the future years tax burden on the 10-year Capital Plan that was supported on the annual basis over and above what is being presented today. The Member further noted that everyone needs to be aware of the tax impact, the need to try to keep the percentage as low as possible while still allowing the Town to keep operating and progressing. The Member further commented that the \$700,000 impact net on the tax levy associated to expense increases for the Meridian Community Centre (MCC) is not offset directly by the same amount of revenue increases. The Member questioned what staff are doing in relation to fee charges for the MCC in order to not allow that gap to widen and have a bigger impact on the Town's tax base. Furthermore, the member mentioned that this tells an interesting story as to where the pressure is coming from and whether or not this pressure is what the Town wants for whatever the reason is or is there is an opportunity to look at the fee base and if the Town is going to provide these level of services, we need to charge them appropriately or at the minimum do a cost recovery model. The Treasurer noted that currently Watson and Associates are conducting a fee review for RCW, Planning and Engineering and it is going to Council on November 20th for RCW fees. The Fee increases are not included in the budget, staff are being conservative and waiting for the report from the consultant and noted that it will be a positive impact to the budget. The CAO

added that the fees and services are governed by statutes and the Town has to give public notice. The good news is there are new fees that are going to be charged to Developers that was previous done by the Region or by the Ontario Government or a combination of the two and these new fees are coming our way. It looks like there is no offset revenue increases, but the Town has to do it separately. The hope is to pass some of these fees in December and the rest will be at a later date.

A Member questioned how much notice the Town needs to provide to the Public and when does the budget need to have final approval. The CAO responded that he believed it was approximately twenty (20) days and the final approval for the budget is scheduled for December 18th. He further noted that there is no law in that, but it has to be approved by April in the next calendar year, so it could be pushed to January.

Another Member stated that it would be nice to see the budget come down but at what cost. Throughout the year, there are far more complaints about lack of service than tax rate. It is easier to justify a reasonable tax increase if services are still being delivered. It is a balancing act. A Member responded that a fee adjustment does not change the services providing.

Usama provided an overview of the Draft 2025 Capital Budget.

A Member asked for clarification on what is considered a red circle project. The Treasurer responded that it is a project that can only be proceeded with if the grant is approved. CAO commented that the Town is trying to increase the number of red circled and shovel ready projects. Staff do all the work ahead of time and the engineering costs for the project, so it is ready to go, but the project does not proceed until the Town receives the grant money. It is an efficient way for the Town to operate. The Treasurer provided a red circle project example of Pelham Street. This project was shovel ready otherwise, the Town would not have received \$4.2 million dollars for this project and the addition to Town Hall. A Member question why the Town is doing the design but not putting in the septic system for ten (10) years for the Old Pelham Town Hall project. The CAO responded that the building is

being used and rented far more now but the septic is under the cenotaph and if it failed it would be a bad story. Staff are preparing for this to be shovel ready and this would be a good narrative on a grant application and to be ready to complete the project if the Town were to receive grant money. In theory, the engineering works will not change in 4-5 years.

The Member also asked about \$850,000 for parking at the MCC but there was no red circle around this project. The CAO noted there is a report next week for Council to decide if it will be red circled or not. The Member further questioned where the surplus from the sale of the land will go. The Treasurer responded that it would go to the Land Deficit Reserve and the Treasurer has the discretion of looking at the reserves and seeing where the need is and bringing it to Council for approval. The Deputy Treasurer further clarified for the Committee that the project was not red circled on purpose due to the funding source being listed as other and once staff receive the decision from Council and if the intention is to red circle, until the land is sold then it will be red circled but the red circles are only tied to grant funding.

The Treasurer drew attention to the fact that when staff started with the initial 10-Year Plan, the Annual Repayment Limit (ARL) was at 21% to do all the projects on the list. The Senior Leadership Team had to go back to see what projects could be pushed out of the 10-Year Plan to make it affordable and stay within the Town's Debt Policy of 12% until 2030 and then 10%. This is a really good guideline. The Debt Policy established in 2020 was to ensure that the municipality stayed within the parameters and the goal back then was twenty percent. Most municipalities are at ten percent and they do not exceed that.

The Treasurer commented that the December 31, 2023 reserve balance in the financial statements of \$9.7 million does not include the \$8 million of commitments for the projects that were not completed at year end. The December 31, 2024 projected reserve balance assumes that all the commitments have been disbursed and that is the true balance of the reserves is approximately \$2,018,000. The reserves are increasing to 2028 due to percentage increase that staff built into the budget. The projected

December 31, 2024 reserve balance in the 2025 Capital Budget is the true picture of what the actual reserve balance is once the commitments have been met. A Member commented that this is a scary situation, and the Town has come a long way to not having any reserves in the debt position with the exception of the land acquisition. From a financial health perspective this is going to put the Town in a red situation. The Treasurer noted that is why the grants are so critical, because every new grant takes some pressure off the reserves.

A Member inquired about the practical capacity of Public Works Engineering department to do engineering work for projects at approximately \$12 million. The CAO responded that Public Works can now do more than \$15 million in projects. The largest project is Canboro Road for 2025, which encompasses a new water tower coming in. The Town will be proceeding with the grant money for water lines in Fonthill. Engineering is having a meeting with the Region and the project may be delayed because every time the Region shifts, the Town has to adjust because the Town does not have complete control over this domain. Engineering's capacity is growing, and it was maxed at \$12 million due to limited staff but come January and February Engineering will be at full complement in Public Works. We had very junior staff and now these staff members have two to three (2-3) years experience. Close to \$20 million is the hard cap for Public Works. The Member further asked if there was a provision for balloon payments. The Deputy Treasurer responded that based on what staff have seen in the past, there are two options, amortization or serial debenture and balloon payments is not one of the options. He further noted that staff usually opt in for the one where there are consistent payments. The Member asked about rolling stocks for fire engines and the Treasurer noted that the Town's policy excludes us from doing rolling stocks. The Member questioned whether staff could come up with another flexibility option and stressed that they are not proposing this. Both the Treasurer and the Deputy Treasurer noted that they would look into it.

A Member inquired about adding another line to the graph to show the Town's progress in trying to hit targets and minimum balances and all the reserve funds in order to show the progress in building

the reserves. The Treasurer noted that it doesn't show the commitments. Staff can show the \$9.7 million less the commitments and what the balance is, that is the comparator, and this can be shown for the five (5) years. The Treasurer stated that staff can show the story but have to be consistent and show the actuals balance subtracted by the commitments for 5 years. The Treasurer commented that she liked the idea of showing the trending of actuals less the committed and showing how the balance has increased and will look into showing this. The Member highlighted that the story this Committee and the Town needs to tell the community is that the Town has introduced many good policies and practices around mitigating debt and around establishing and replenishing reserves. The Treasurer highlighted that the impact of COVID on projects has resulted in projects increasing from \$1 million to \$1.5 - \$2 million and have been the biggest hit for the Town. If the increases were not as substantial as it has been this would not look as bad because the Town would have been making those contributions. The Treasurer indicated that staff should add a line to state that it is being covered by the debt repayment reserve and show the net increase as it related to how it impacts someone for staff's presentation of the budget to Council.

Moved by Councillor John Wink
Seconded by Councillor Brian Eckhardt

THAT the Committee received the Draft 2025 Capital and Operating Budgets and Power Point Presentation for information.

Carried

8. Adjournment

Moved by Councillor Brian Eckhardt
Seconded by Member Michael Cottenden

THAT this Regular Meeting of the Pelham Finance and Audit Committee be adjourned at 10:49 a.m.

Carried



Chair, Bill Crumm



Secretary, Andrea Metler