

Town of Deep River Financial Master Plan 2020

Introduction

The application for the Ontario grant that supported the preparation of this report stated in part that the goal was:

to review the current financial state of affairs of the Town of Deep River and provide a report along with recommendations on how the Town may improve processes, find efficiencies, and produce an overall financial roadmap guiding Deep River toward greater financial health, prosperity, and sustainability.

In addition, it indicated that:

This report will provide specific and actionable recommendations for cost savings and improved efficiencies. In addition, the final report will incorporate a 10-year Financial Masterplan that will act as a roadmap to manage and measure the success of process improvements, modernization and efficiency activities.

Background

The Town of Deep River origins are unusual, if not unique, in the history of Ontario municipalities. The location for the community was chosen by the federal government in 1944 for the purposes of nuclear research. Much of the community's infrastructure, including, housing, that exists today was developed by the crown corporations that preceded Atomic Energy of Canada Limited (AECL) which was formed in 1952.

These corporations and subsequently AECL administered the community and its assets until 1956. After that it was designated an Improvement District under the jurisdiction of the Provincial Department of Municipal Affairs until it was incorporated in 1959 with its own elected Council. The ownership of the community infrastructure, including water, wastewater, roads and recreational facilities was transferred to the new municipality without debt. Housing was sold to individuals.

Why is this history relevant?

It is important to this analysis for several reasons. The Town Council in 1959 did not start with a "clean slate" although it was provided with substantial physical and administrative resources as a starting point. And the AECL was the largest revenue source for the Town through the federal grant in lieu of taxes that was made at the discretion of the federal

government each year. Residents and the municipal government both benefitted from the presence of AECL, and the physical and service amenities it had established. Above average incomes and municipal service levels, modest property taxes and service charges, and relatively new and comprehensive facilities were the order of the day.

This situation, according to available information and anecdotal reports continued for the decades that followed.

It was important to AECL and residents alike that the community be a welcoming place in order to attract and retain the high calibre employees that it competed for on the international market.

This situation continued until the late 1990s when provincial-municipal regulatory and financial relations began to change, in some instances quite dramatically in terms of service delivery and service standard expectations by the Province. And by the year 2000, the Town's infrastructure began to show its age as most of it was just over 50 years old, well beyond the midpoint of its expected lifespan.

But the focus of municipal Councils at that time was on making sure drinking water was safe (the Walkerton tragedy occurred in May 2000 and the Inquiry report was issued in May 2002), delivering services differently at the County and locally following the Provincially initiated Local Services Re-alignment in 1998, discussions and threats about municipal amalgamations and ongoing pressure to keep property taxes low.

Municipal infrastructure issues in Deep River and across Ontario were addressed if grants became available and/or unavoidable needs arose. That was the norm in Ontario municipalities.

Meanwhile AECL, according to financial statements filed by the Town with the Province, in 1998 was contributing \$1.55 for every dollar raised in local property taxation.

By 2008, a couple of key factors had begun to change. AECL's infrastructure was aging and the related payment in lieu of taxes was declining, while market values of residential properties were increasing.

As a result, AECL was now contributing \$0.91 for every dollar of local property taxation.

And, as one of the offshoots of the previously referenced Walkerton Inquiry, the Province changed accounting standards for municipal governments. Municipalities were required to begin the process of inventorying and reporting on all their tangible capital assets. The purpose of this accounting change was to enable both the Province and municipalities to

understand the future investments needed, particularly in core infrastructure-water, wastewater, and stormwater systems along with roads and bridges. These are often also referred to as linear infrastructure.

The Town was able to adjust to these changes although property taxation and service charges for water and sewer increased above inflation over the next ten years.

In part this was due to the declining relative contribution from the AECL property, which was by 2018, contributing \$0.67 for every dollar raised in local taxation even though the number of taxable properties did not increase substantially. The assessed value of AECL properties in proportion to the market values of other properties had declined substantially over the years.

Still, property taxes per household were not excessive, and relative to average household income quite reasonable compared to similar communities where incomes are not as high.

A significant effort of Town administration in response to the ongoing budgetary challenges was to attempt to manage those cost centres that were considered out of line with comparable municipalities. Members of Council and the community will recall efforts to consider switching the local Police Service for OPP Service and the community's response to retaining local delivery and its perceived benefits. Some success was achieved with a Fire Service agreement with AECL which is currently under review as it is set to expire.

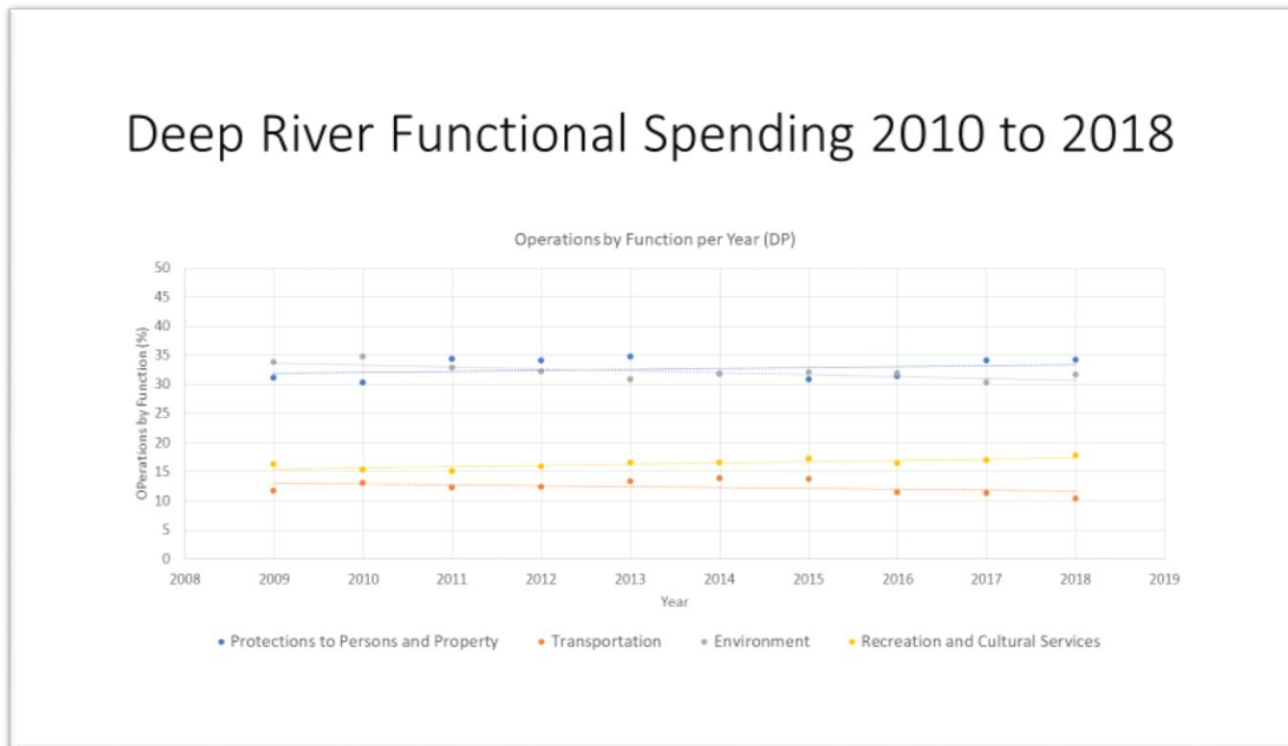
The recommendations at the end of this report are guided by the historical background above and statistical and financial analysis performed over several months, along with multiple conversations with senior staff as well as some with the Mayor and Reeve to gain their perspective.

Much of the analysis is presented graphically and is but a fraction of the material that we reviewed. It was unfortunate that we were unable to visit Deep River due to Covid-19 restrictions and practical caution, but in the end, electronic communications and the availability and willingness of staff to participate in this study have perhaps even allowed for greater communications.

Analysis

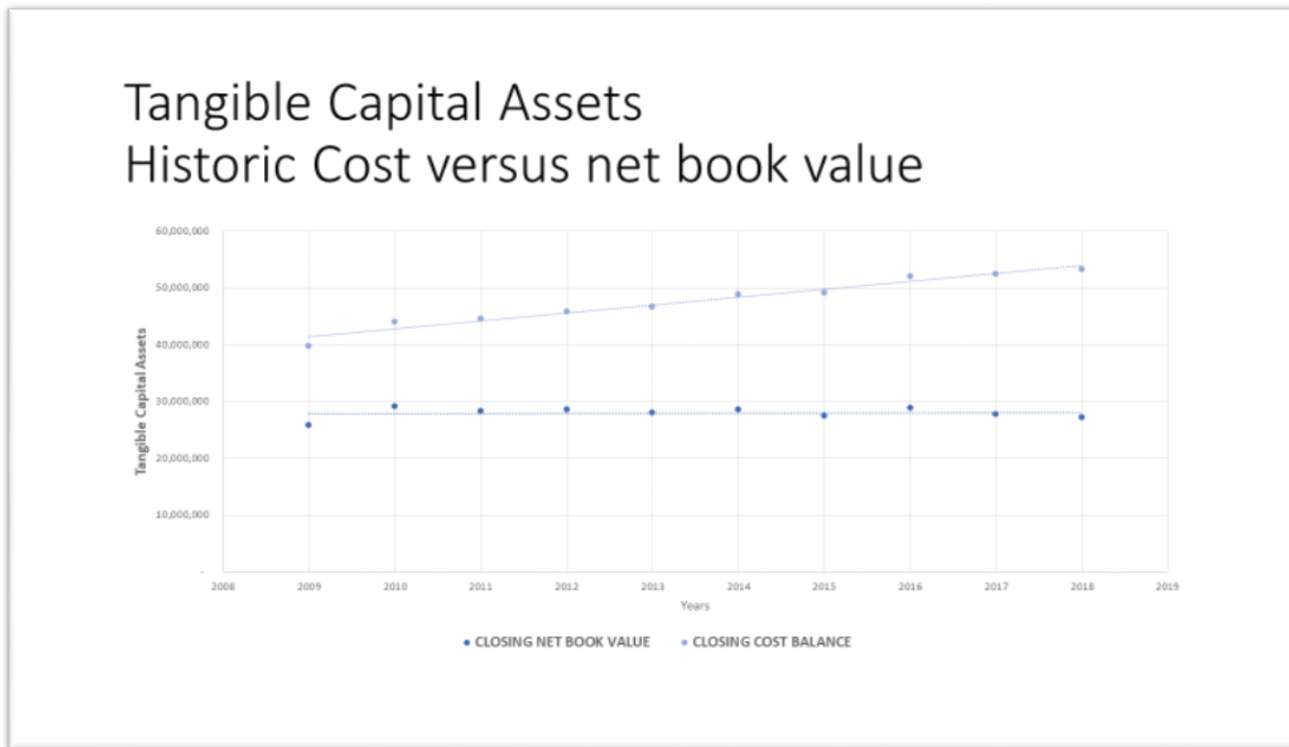
What follows is a series of charts and graphs drawn from data available through municipally provided Financial Information Returns (FIR), that are housed both on Provincial and Association of Municipalities of Ontario (AMO) websites that allow for analysis, and Statistics Canada income and population information available from the Government of Canada.

In some cases, the information on data such as households varies between the FIR and StatsCan for a given year or shows an unusual FIR year to year change. We have made either a choice or slight adjustment based on what seems reasonable.



This first graph gives a multi-year view of the relative size of operational expenses in Deep River over a decade. For the municipal sector as a whole in Ontario, Transportation and Environmental Services (Water and Wastewater largely) usually are the two highest areas, with Protection (Fire and Police mainly) third while recreation is a distant fourth. It appears that with no transit and a relatively compact urban form that the Town has been able to limit transportation expenses, although the largely depreciated road structures, given their age, may have had an impact.

It is thus not surprising that past cost control efforts have focused on the Protection Function. We will see more to support that in additional analysis to follow.



Despite significant investments in Tangible Capital Assets (TCAs) in the past decade such as in water, wastewater, and facilities, the depreciated value of the Town's capital assets has remained static. That alone does not tell a complete story, but it is one indicator that causes an analyst to wonder if the current state of infrastructure is adequate or if significant investments might be needed soon.

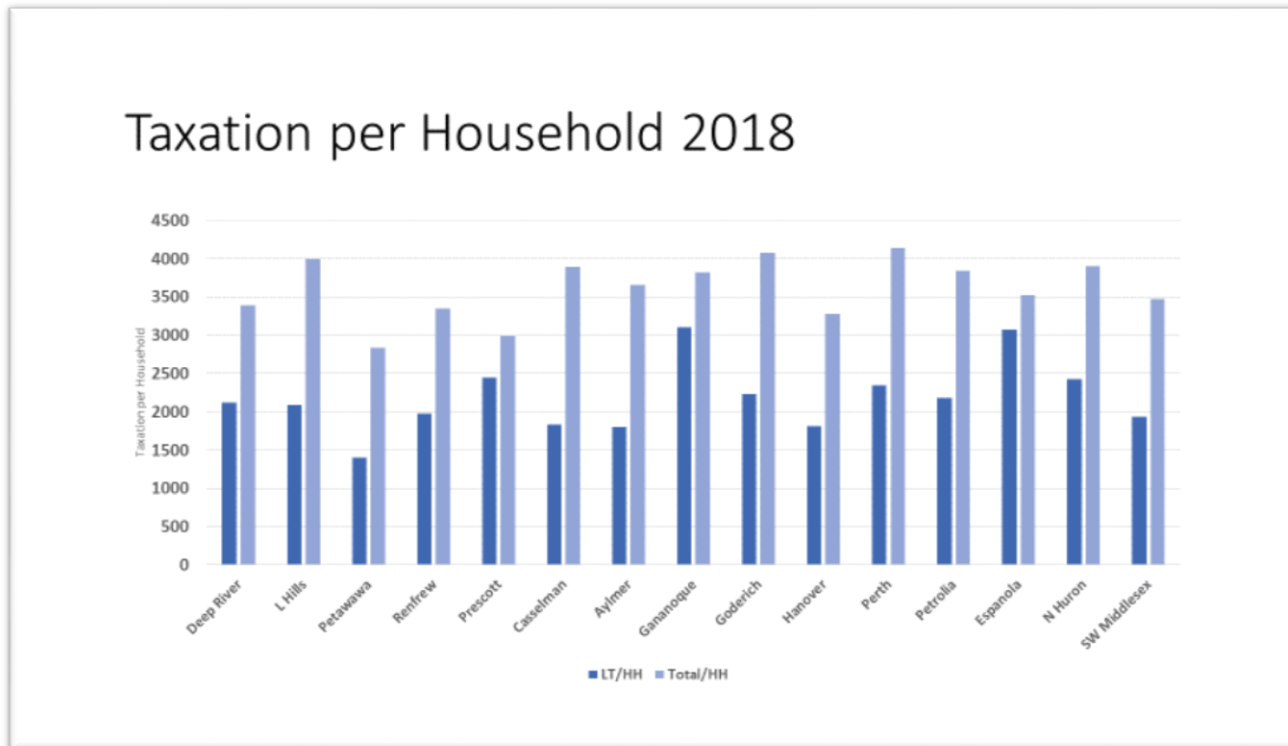
Financial data alone will not answer this question. Only detailed asset condition and life cycle analysis of all Town TCAs will answer this question. There will be more comment on this later.

So how does Deep River stack up in comparison to others?

The sample used for this report includes as follows: Laurentian Hills Tp, Petawawa T, Renfrew T, Prescott ST, Casselman V, Aylmer T, Gananoque ST, Goderich T, Hanover T, Perth T, Petrolia T, N Huron T, and SW Middlesex Tp.

Tp, stands for Township, T for Town, ST for Separated Town (not part of County Structure) and V for Village.

What do we see when we start to do some comparisons?



The dark blue bar is the local taxation per household and the lighter bar total taxation including County (Upper Tier or UT for short plus Education taxes) The reader will note the smaller difference between the two bars for Espanola, Prescott and Gananoque, the separated towns, because what will be in the County rate for everywhere else is in their lower tier (LT) rate.

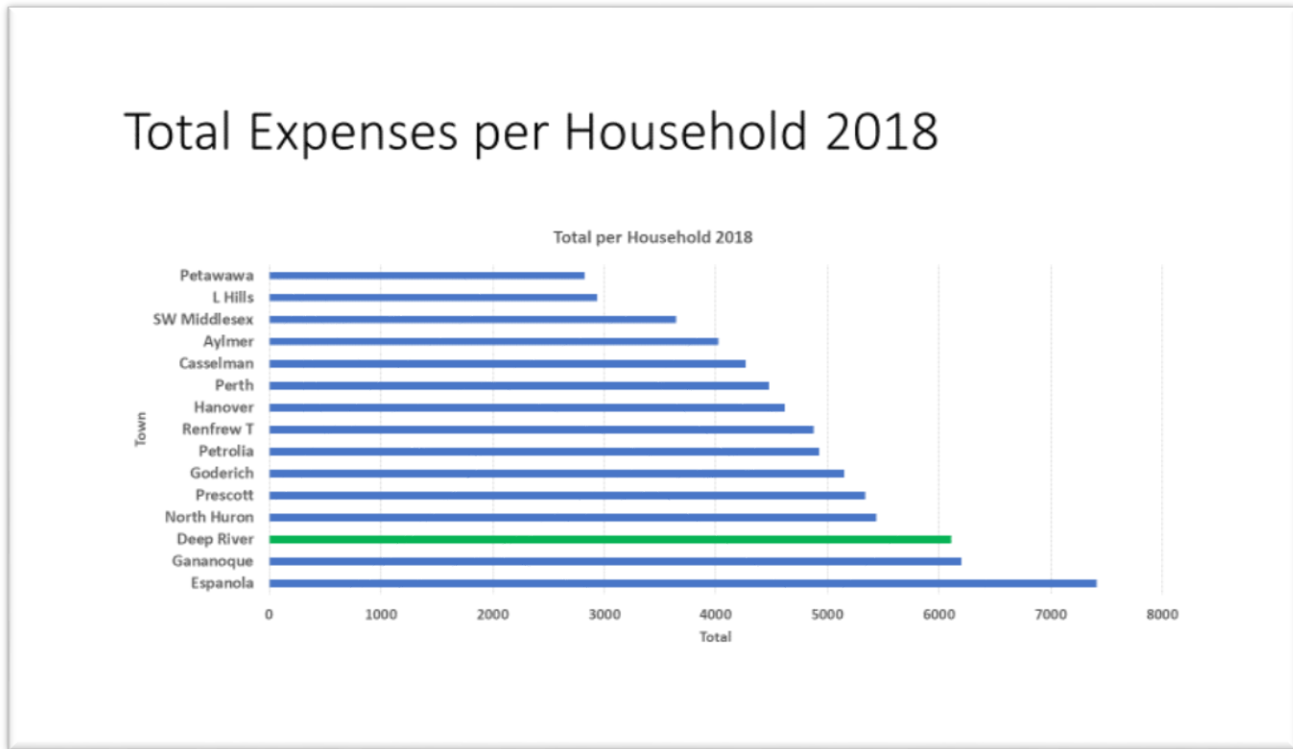
But the totals are more comparable. Each municipality's residents receive similar services, although how they are delivered may differ.

Deep River is the third lowest after Petawawa and Prescott. Several in the sample vie for the highest.

The reader must consider that since property taxes are a product of base times rate (current value assessment times the tax rate) that lower valued properties attract less taxation for school and UT purposes, and other revenue availability such as payments in lieu of taxes and unconditional grants can reduce the tax levy, and hence rates required to be levied by taxation.

Let us look next at the factors that drive the tax revenue(levy) requirements.

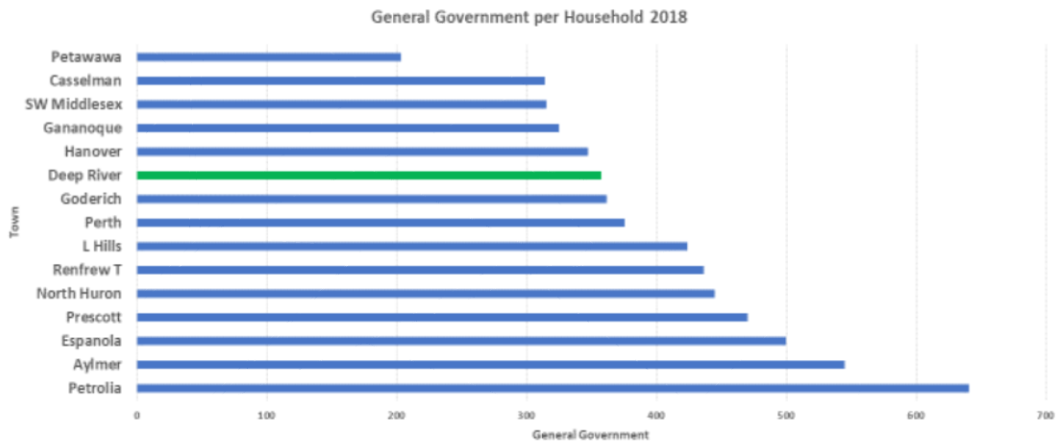
The first has to do with where the money goes.



As one can see, Deep River is clearly among the highest. In fact, it is next only to two single tier municipalities which, include in their spending, services that are in Renfrew County expenses, not Deep River's.

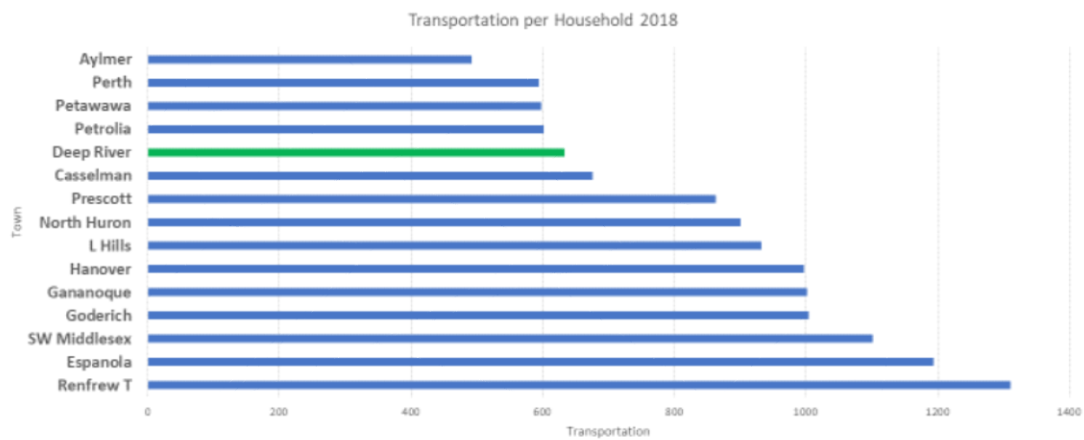
So where does the money go?

General Government per Household 2018

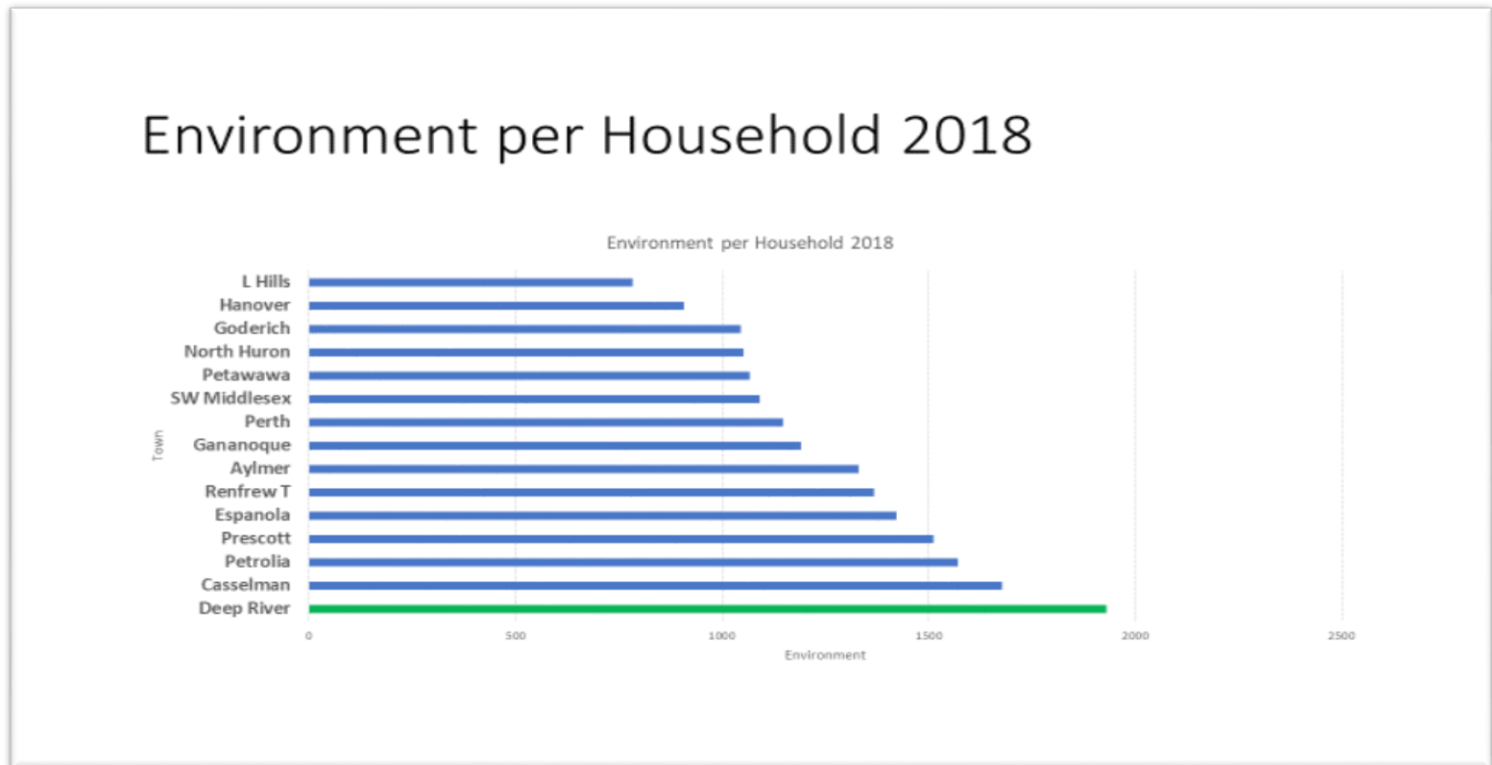


Deep River spending on Council and general management appears to be mid-range or below.

Transportation per Household 2018

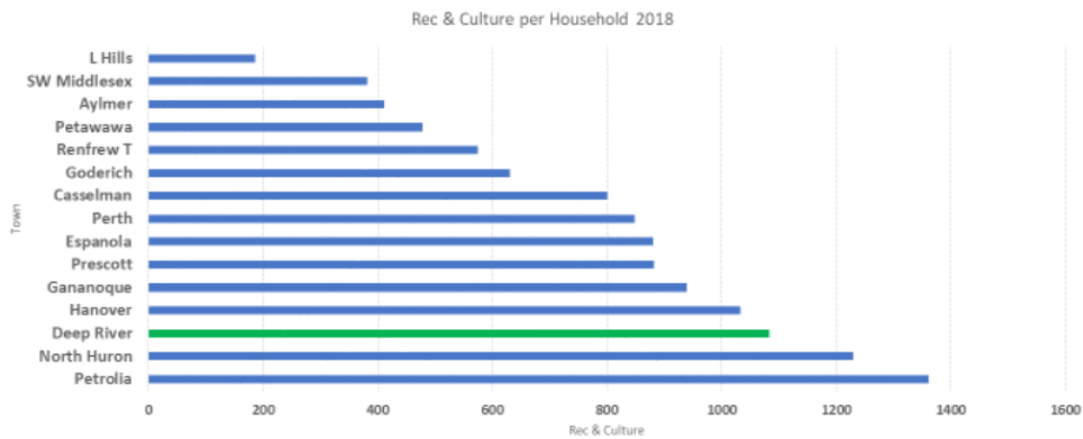


Here as well, transportation operations appear to be lower than the norm. Compact design, good management, and the lack of major storm drainage works, and sidewalks may all contribute. Traffic counts will also differ.



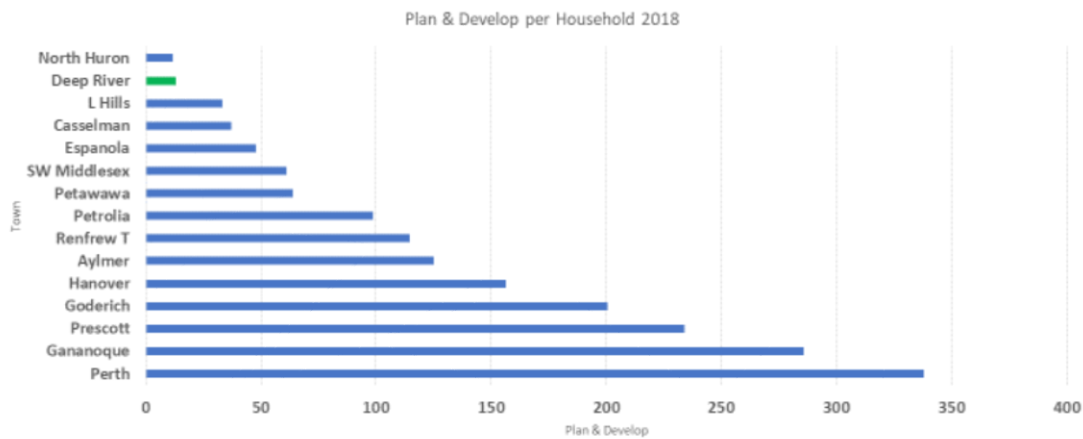
While Environmental Services include water and wastewater, they also include solid waste collection and disposal. And given the relative newness of some of the water and wastewater plants, amortization of capital is a major component that does not have an annual cash element. But it should not be ignored as assets wear out and ultimately cash is needed to replace them. The 2020 Water and Wastewater Study by C, N. Watson and Associates, rather than this report should inform Council's, decision making on those rates. Waste and recycling services are contracted out to private sector providers and make up about 15 percent of the per household environmental service expense, with user fees in turn covering only 15 percent of that amount. Many municipalities have imposed a higher fee for waste services than Deep River does to reduce the burden on the property tax.

Recreation and Culture per Household 2018



Deep River is clearly among the highest in culture and recreational expenses per household despite having much of its recreation programming organized with the assistance of local volunteer groups. This level is largely due to two factors. It has a very wide variety of facilities, many inherited from the early AECL days, and they serve not only Town residents but also many from neighbouring municipalities. Both North Huron and the Town of Petrolia also enjoy aquatic facilities, but they also provide extensive recreation and fitness programming.

Planning and Development per Household 2018

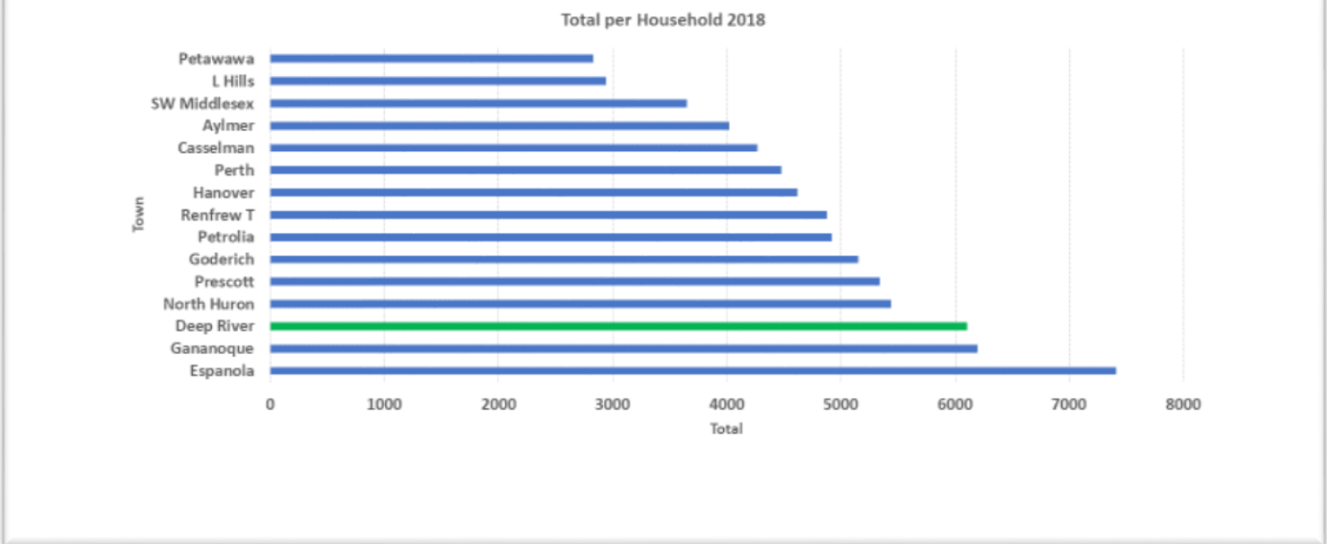


In case the reader was thinking that Deep River had above average or high expenses in almost every area, that is not the case. Its expenses on Planning and Economic Development are much less than the sample of comparators. Growth pressures, the need to update planning documents and attempts to expand and diversify local communities lead to greater investments as the chart shows.

But the sum of local expenses does add up to a relatively high level per household as the chart on the following page shows. And, in preparing this report we also examined costs for each service for the entire sample from 2010 to 2018 to see if 2018 was an anomaly for Deep River or for the sample. It was not.

Deep River's position in the sample reflects a high level of services. The top four all had local police services in 2018.

Total Expenses per Household 2018

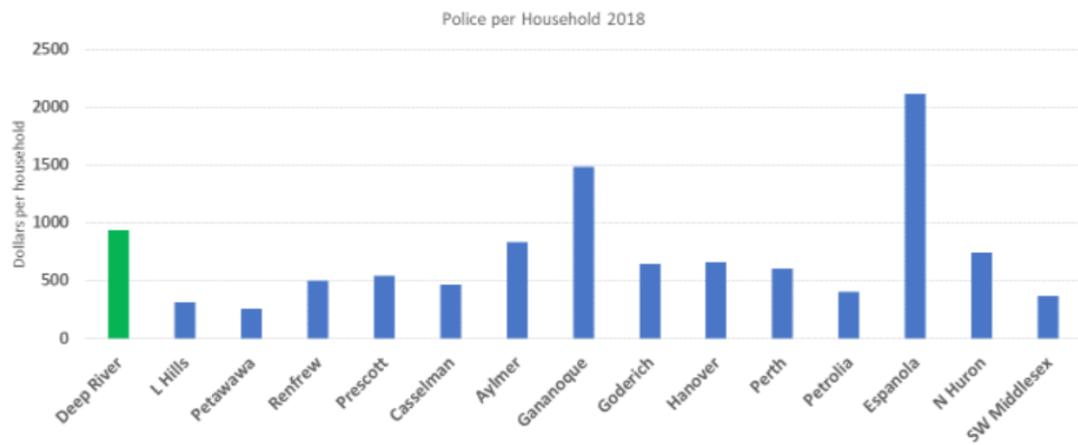


Going Forward

As was pointed out earlier, much of the Town's infrastructure is of a similar age and although functioning well, cannot continue to do so without increasing investments to replace it or extend its useful life. Before attempting to raise property taxes on residential properties, it is incumbent on a Council to look first for areas where significant expense reduction might be achieved.

As can be seen from the chart below, policing is an area the warrants continued watchfulness even though alternate servicing has been considered in the past and rejected. Even mitigated by providing fee for service background check services, it still ends up with a higher impact on the tax levy that the sample experiences. Gananoque may benefit from special casino related funding and Espanola shot up in 2018 due to payouts for retiring personnel who did not move to the OPP in 2020.

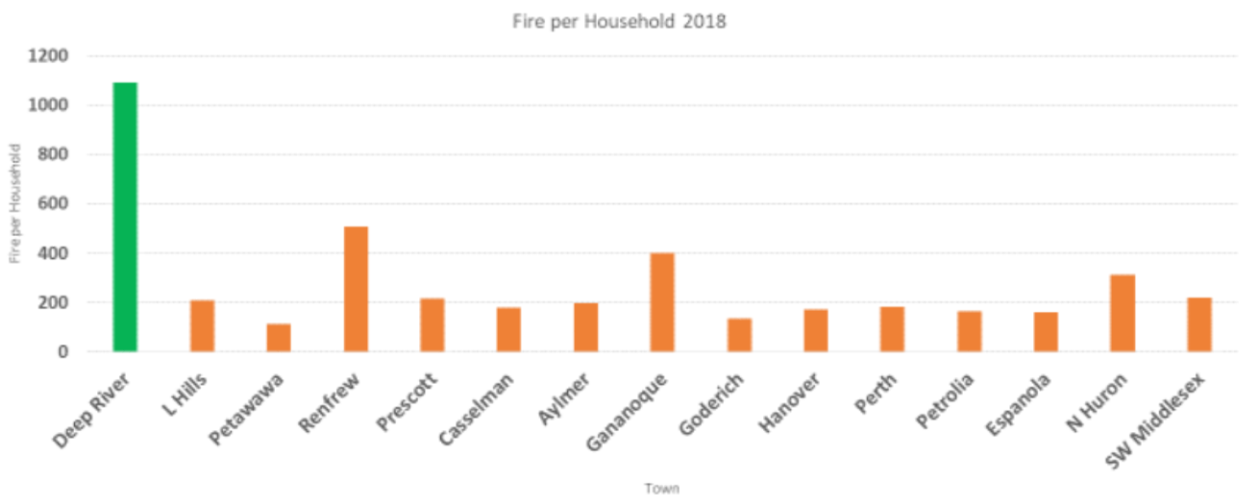
Police per Household 2018



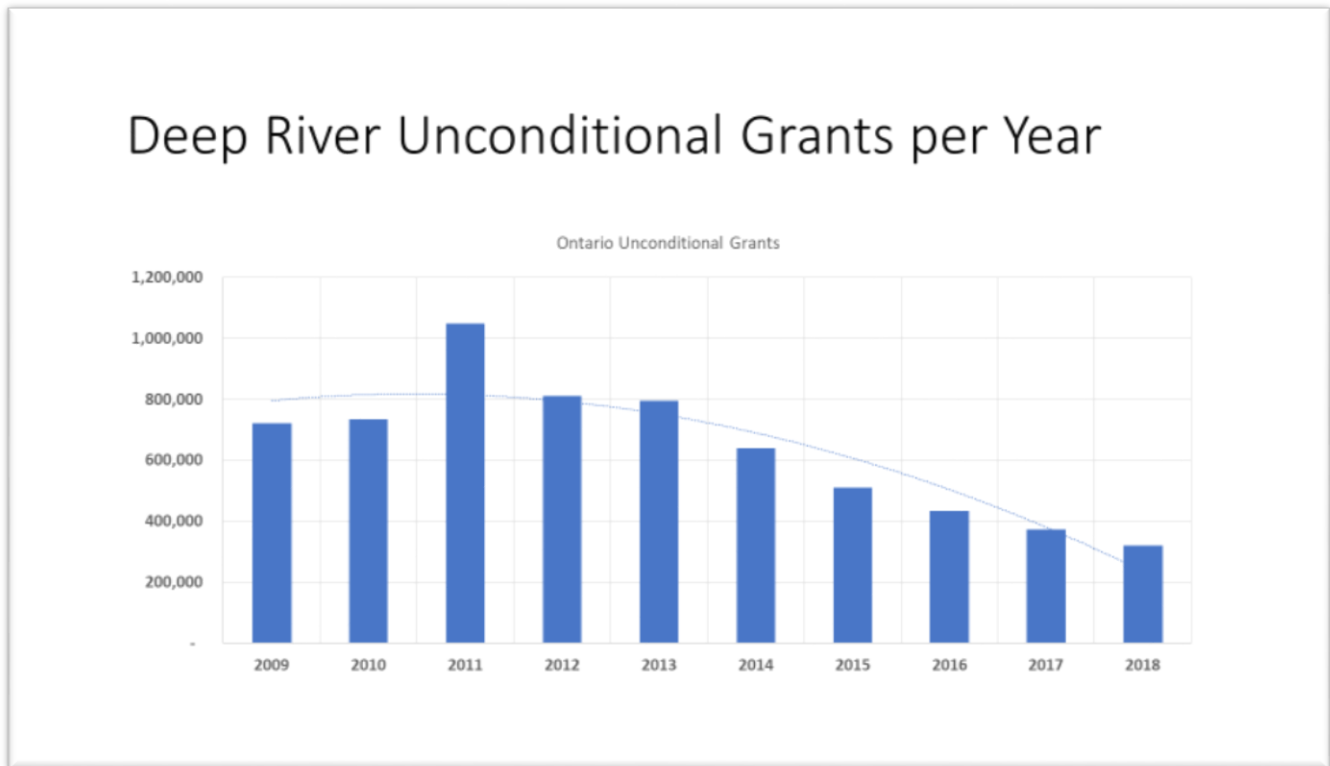
It is still a budget area that should be closely monitored in the years ahead.

Fire service expense warrants closer inspection, and it is understood that the agreement between CNL and the Town is currently under review.

Fire per Household 2018

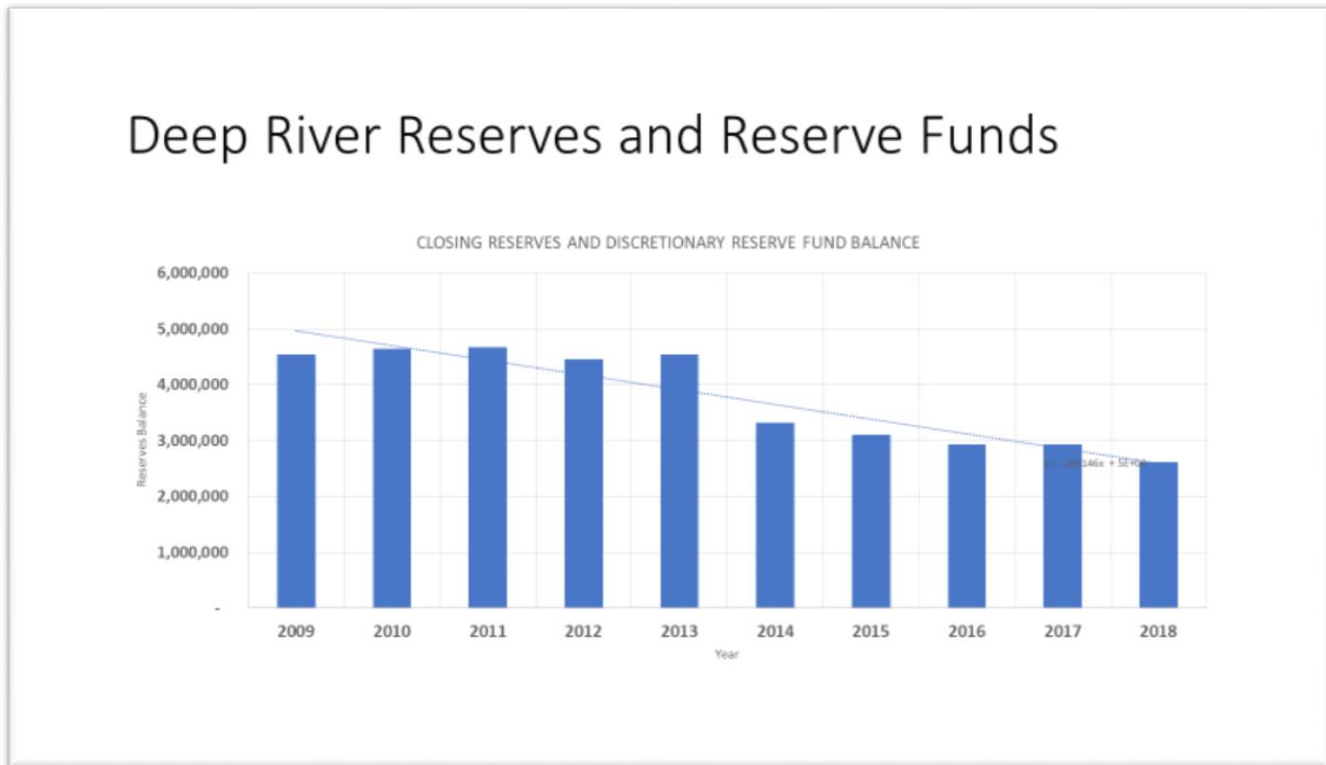


Besides expenses, a Council and administration wishing to keep tax increases low must look to other sources of cash. Provincial grants can be important.



Unfortunately the trend for the Town is downwards and anecdotally the Town administration reports that in response to applications for project related **capital grants** they are informed that the Town frequently does not qualify because it is considered not to be as “needy” as other applicants, usually based on the level of average household income, which is well above the provincial average.

Reserve and Reserve Fund drawdowns have been used to finance capital expenditures as has debt issuance. That is what they are for.

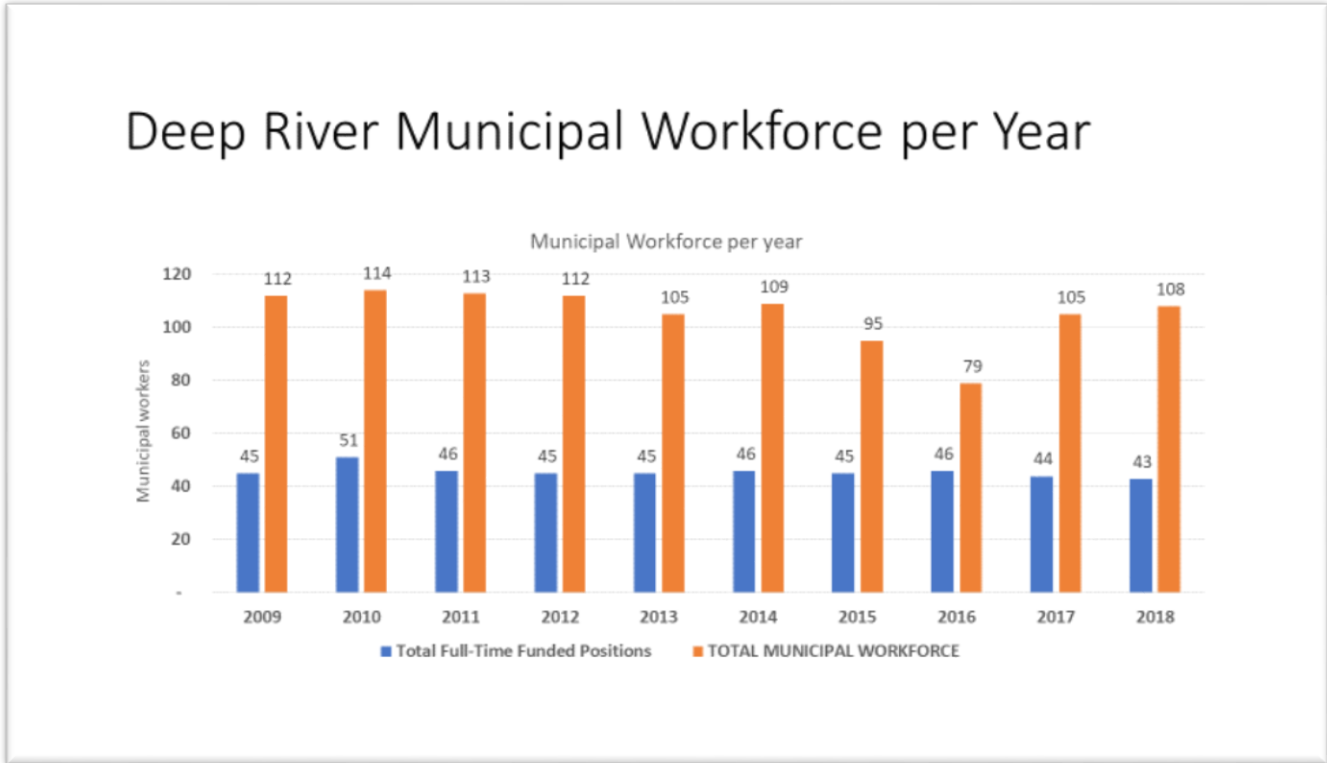


But debt must be repaid, and capital expenditure should be predictable. In fact, this predictability is the main reason municipalities are required to account and develop plans for their tangible capital assets. What do they own, what is its condition and remaining useful life, are service levels reasonable, and what investments are needed to continue providing service and when are they necessary?

Unfortunately, some of the Town's initial work dating back nearly 15 years appears to be irretrievable and a plan must be prepared for core infrastructure by mid-2021. We have been advised that the Town is about to hire a party to update this data and work towards completing the plan by the provincial deadline of July 1, 2022 for core infrastructure.

It is always reasonable to ask, is the Town’s increasing taxation due to a “hiring spree”?

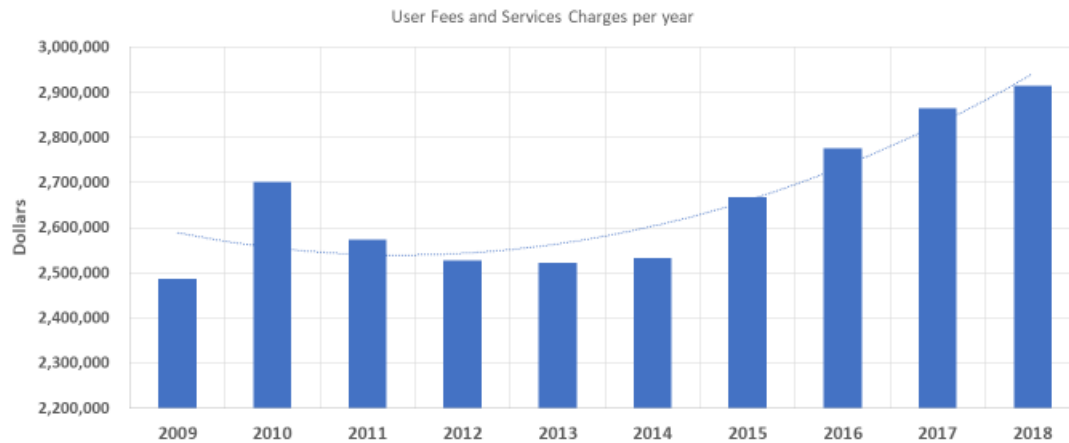
The answer is no. The Town relies heavily on part-time employees and contracts out much of its water, wastewater and waste management service delivery.



Periodically contracts come up for review. Municipalities should always ask themselves, if contracting out or contracting with the current provider is still the best option.

Similarly, one might ask if the Town has made sufficient use of fees and charges as opposed to property taxes to finance services. The following chart looks at the last decade for the Town and the rate of increase.

Deep River User Fees and Service Charges per Year



User Fees structures and levels are not straightforward decisions. If one were to attempt to recover the full cost (capital and operating) of certain services such as recreation from users, we would have very few hockey players or swimmers. It is well understood there is a broader community benefit to cultural and recreational services and that is a result the general tax base should bear part of the burden. The challenge arises when users come from outside the community and pay the same rate community members do with those same services. It is wise to examine periodically whether there should be some sort of charge with respect to facility use by non-residents. Who pays that charge is another matter. Should it be the user or their municipality or another party?

In the case of fees for water and wastewater service the structure and the amount both are important. Services must be provided on an ongoing basis and thus not just operating costs, but future capital investments must be considered. In addition, thought must be given to whether the rate should discourage wasteful use as municipal capacity can be limited and expensive to expand. Structured user fees for water and wastewater have not only a service delivery component which is usually fixed but also a usage component. The structure of such a fee is often as much art as science. Costs of

administering such fees may exceed the benefits. While Deep River does not use residential water meters, that decision should be reviewed periodically

Payments in Lieu of Taxes

Payments in lieu of property taxes on federal properties, which are legally exempt from municipal taxation, are at the discretion of the Minister of Public Works. They make up a very significant component of the Town's annual revenue and discussions are under way between the Town and AECL/CNL to review current and future payments in order that Council can proceed with longer term operating and capital budgeting. Financial and statistical input to Town officials to assist with these discussions has been provided during the development of this report.

So far, this report has looked at expenses per household, revenues, and taxation levels, and compared them to a sample of municipalities with some similarities to Deep River.

What we have not yet examined are payments in lieu of taxes (PILTs) by AECL for the Chalk River Plant property which in 2018 totalled just over \$2.27 million dollars for local municipal purposes.

Payments in lieu of taxes are what Provincial and Federal governments make to municipalities instead of property taxes as municipalities are legally unable to tax senior governments.

The stated objective for the Government of Canada and its crown corporations, such as AECL, is to make payments on federal properties in municipal jurisdictions as if they were taxable entities. This means they are to be assessed at values as if they were regular commercial, residential or industrial properties and taxed at the local applicable tax rate in the local jurisdiction.

As noted earlier, the payment in lieu of taxes received from AECL over the last twenty years has dropped considerably in relation to the Town's revenue requirements. Some of this decrease is no doubt due to the aging and changing nature of the Chalk River site and the rise in value of residential properties.

But the decision to reinvest heavily in the Chalk River site particularly in the last decade does not appear to have been captured in the base in recent years when comparisons are drawn with public announcements.

In Ontario, the tax base calculations are the responsibility of the Municipal Property Assessment Corporation (MPAC), a provincial corporation. For taxable property assessment changes, they get their updates from copies of municipally issued building, demolition and occupancy permits, and periodic inspections of selected properties.

These permits are not required nor available for federal properties and the Chalk River site is not publicly accessible to assessors without permission and accompaniment by AECL staff who host their visit to the site and specific properties, usually only new construction, and demolition.

Summary and Recommendations

We have received excellent and enthusiastic co-operation from the Town staff in all positions. Council should be proud of their team and their commitment to serving the residents of the Town as best they can.

The ratepayers of the Town are not overburdened with property taxes relative to their ability to pay nor in comparison to the chosen sample of other municipalities.

However, there are several critical issues that Council should be aware of and needs to deal with. They are also reflected in the following recommendations.

1. The Town must proceed quickly to update its TCA files in order to meet the July 2021 Provincial deadline for a Core Asset Management Plan, but also to be able to plan appropriately for its numerous other facilities that provide recreational enjoyment to the community. Without this information the Town cannot accurately predict its capital financing and tax revenue needs in the years ahead.
2. Despite the lack of information noted above, the Town needs to increase its contribution to capital spending and reserves from its operating budget beginning with the 2021 budget. The C. N. Watson Water and Wastewater Report will address a portion of that need, but it may be unable to fully address the issue due to limited asset information. Similarly, the other assets such as roads are in many cases approaching their expected replacement dates. A sum in the order of an additional \$1 million per year is a not unreasonable estimate for that contribution. A much better estimate could be made when the TCA data is complete. But property tax levels per household could competitively afford this level of investment.

3. The Water and Wastewater rate study should be dealt with such that the rates come into effect beginning when recommended. A delay would only hamper efforts to maintain this critical infrastructure.
4. The Town and the community deliver recreation in a comparatively cost-effective way, given the breadth of programmes available. Council should monitor this activity regularly, not just revenues and expenditures, to have a sense of value for money. Council should request from staff a report on non-resident usage and recommendations the appropriateness, and the source of support, for non-resident user fees in various programmes beyond what Town residents pay. Otherwise, the Town is choosing to subsidize visitors' use and should do so only with full knowledge.
5. Net Policing costs beyond the level experienced by similar municipalities continue to be a budget challenge. If the community wishes to continue to operate its own police service, the associated tax premium should be acknowledged annually in the budget. There is also always a risk that this budgeted amount could be significantly exceeded by an external billing from the OPP should extraordinary service needed to supplement Town capacity.
6. Fire service costs are also an obvious budgetary challenge. Maintaining modest tax increases while dealing with protection service cost escalations have caused councils in recent years to draw down reserves and defer capital expenditures. It is understood that there are currently negotiations under way with AECL/CNL and their fire service regarding a modified service agreement. These negotiations should be actively pursued.
7. The above recommendations are made in the context of attempting to develop a Financial Master Plan without a comprehensive Asset Management Plan or departmental business plans under the existing Strategic Plan for the municipal corporation. They should be developed for 2022 and subsequent years to inform budgeting. Without them the desired multiyear Master Plan is not feasible.

8. While the Treasurer can with some difficulty extract data for analysis and reporting from the current financial system serving the Town, it is not the straightforward exercise it should be. The financial system that the Town operates is outdated and is not remotely accessible by the Treasurer. In addition, when it was initially implemented and modified over many years it was not designed to meet the operational, analytic, and reporting needs that exist today. There are several available systems in wide use in the municipal sector that can, and the Treasurer should be directed to report to Council on how the financial system and related software can be brought up to today's standards.
9. In addition, the Town's Records Management system is weak. Data required for this review was difficult to access and relied on the memories of individuals if it still existed in accessible form. Council should request a report on implementation of a comprehensive system.
10. In a review such as this one consideration is often given to bringing services such as contracted out water and wastewater service "in-house". Such a consideration is usually in order every second time a service contract is considered for renewal. Now is not the time in the development of the municipal organization to consider such a move. The Town does not have the asset data needed to fully assess such a move and senior management are already stretched in their capacity with the implementation of more pressing initiatives.
11. Finally, a high priority should be placed on nurturing the relationship with AECL/CNL not only as the largest ratepayer in the Town but also as an employer which has a large stake in the effective workings of the Town from a both a "hard service" and a "soft service" perspective. The municipal corporation and its services play a large role in their ability to attract and retain talent. Consideration should be given to developing a two-level mechanism, one level involving administration alone with counterparts at AECL and one which includes both elected and appointed officials from the Town and AECL/CNL officials. The relationship is positive today, but individuals change over time and some formality to the interaction could be of long-term benefit.

Conclusion

At the beginning of this study, it was assumed that it would find several areas where savings and efficiencies in the order of tens of thousands of dollars could be achieved. As the service delivery methods employed by the Town, associated cost analysis, and comparisons to other similar municipalities evolved it became evident that the challenges were much larger than that. Revenues from AECL properties were determined to need urgent review and AECL and CNL agreed to that.

And the rationale for additional revenue being need was supported by the fiscal challenges presented by the unique creation of the Town and its service delivery methods.

Despite the Covid-19 Pandemic the recently recruited Treasurer and the newly appointed CAO have quickly recognized, agreed with, and acted in their reports to Council on the challenges to be addressed that have been identified through this study.

There are challenges ahead, to be sure, but with perseverance, by 2023, the Town should be in a position to review service delivery in such a way that those items where the tens of thousands of dollar items might be thoroughly investigated and reported to Council for action. In the meantime, there are more fiscally significant tasks for them to deal with, and they are.

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Interim Report November 2020

Final Report February 2021