DISTRICT OF
OAK BAY

REPORT TO: Mayor and Council

FROM: Debbie Carter, Acting CAO

DATE: July 6, 2018

RE: Council Remuneration

EXECUTIVE SUMMARY

The purpose of this report is to respond to Council direction related to (1) addressing pending changes in Federal tax law that take effect in January 2019 that will eliminate the one-third tax exempt portion of municipal elected officials' salary; and (2) options for more generally reviewing Oak Bay Council's existing remuneration.

This report has been prepared under a fairly tight timeline and staff are well aware that once Council has indicated how it may wish to proceed more work is required.

BACKGROUND

At its meeting held June 25, 2018 Council resolved:

> *WHEREAS the Federal Government will repeal the tax-free expense allowance effective January 1, 2019;*
>
> *AND WHEREAS this change in tax law will effectively reduce salaries paid to Mayor and Councillors in British Columbia municipalities;*
>
> *AND WHEREAS there has not been an Elected Officials Compensation Review in Oak Bay since 1989;*
>
> *THEREFORE, BE IT RESOLVED that Council request Staff to provide a report on the options for conducting a review of Elected Officials Compensation for the July 9, 2018 Council Meeting; and*
>
> *BE IT FURTHER RESOLVED that should any increase in compensation to elected officials be deemed appropriate that the increase not take effect until January 2019.*

There may be no more awkward task for a municipal Council than determining its level of compensation. There are many important practical, financial, philosophical and political considerations. Provincial legislation that local governments must work within ultimately require Councils, by bylaw to approve their own remuneration.

From staff's perspective there are two important issues that require fairly urgent Council consideration should Council determine that they be considered in advance of the October 20,

2018 General Local Elections. First, how does the municipality deal with the changes to Federal tax laws effective January 2019 that will eliminate the one-third tax exempt portion from municipally elected officials' compensation? In Oak Bay, without any action, the impact of this change is essentially a reduction in remuneration of 10.58% for the Mayor and 8.58% for members of Council. This is obviously significant and unfortunately another example of downloading impacting local governments.

The second issue for Council consideration is its level of base remuneration. The last time the District conducted a review of Mayor and Council remuneration was in 1989. Looking at comparators it is very apparent that Oak Bay is significantly behind others' compensation policies and levels.

With elections approaching staff do get questions about remuneration so if Council felt comfortable in making any decisions related to salaries it would be very helpful information to communicate to the community and potential candidates.

In a perfect world the best approach to deal with Council compensation would be to first determine the "appropriate" base remuneration. The next step would be to then consider how to address the January 2019 changes to federal tax law. Staff are fully cognizant that given other priorities Council may not be in a position to complete this task in short order, however, if Council were able to fine tune options for proceeding staff will prepare the necessary processes and research to assist.

ANALYSIS

Changes to Federal Tax Law

Currently, in BC one-third of locally elected officials' remuneration is "tax free". This was intended to recognize the expenses elected officials incur while carrying out their duties. In January 2019 Federal tax laws will change resulting in the elimination of this tax free-portion. Without a policy/salary change this will result in a significant reduction in the compensation to BC Mayors and Councillors.

There are essentially three approaches to deal with this pending change; (1) do nothing; (2) increase base salaries to off-set the increased taxes; or (3) permit expenses to be deducted. While many municipalities continue to contemplate how to best respond most agree that doing nothing is not an appropriate reaction. From what staff can ascertain it seems that the most likely response by most will be to increase base salaries to off-set the increased taxes.

There may be some appeal to requiring receipts and paying expenses based on submissions, but Council needs to carefully consider the additional burden on the organization on monitoring and processing expenses. It is also important that the community be aware that elected officials in Oak Bay receive very little in the way of equipment or services paid by the District. Basically, the Mayor receives a phone and all members of Council are provided an iPad. In many communities members of Council receive health benefits, phones, lap tops, mileage, etc.

Should Council simply wish to maintain existing base compensation levels and off-set tax law changes in 2019 the simplest and what appears to be the "emerging municipally-preferred" approach would be to increase the Mayor's compensation by 12.53% and Councillors' compensation by 10.13%.

Base Salary Review

A limited review of "like-size" municipalities makes it very evident that elected officials in Oak Bay are compensated significantly less than their peers. This fact may be based on history, philosophy or other factors, but it is a fact. It appears obvious that change is required, but by the same token Oak Bay is so far behind that "fixing" the structure at one time could be challenging.

Mayor & Councillor Compensation Based on "Like" Communities

Municipality	2016 Annual Expenses ($ millions}	2016 Census Population (thousands)	Mayor - Current Annual Base Salary($)	Councillor - Current Annual Base Salary ($)	Councillor salary as percent of mayor salary
Oak Bay	35.8	18.1	29,833	12,660	
Esquimalt	32.3	17.7	49,236	19,695	40%
Cranbrook	40.0	20.0	55,240	20,139	36%
Pitt Meadows	29.4	18.6	74,316	27,868	38%
Port Alberni	37.0	17.7	40,432	17,920	44%
Salmon Arm	28.5	17.7	53,725	21,660	40%
Squamish	56.7	19.5	75,330	32,392	43%
White Rock	35.4	20.0	83,220	33,290	40%

*excerpt from study conducted for the City of Esquimalt

As municipalities struggle to address Council compensation the evolving best practice is to develop policies based on the best information available related to community size, budget, etc. This is by no means a perfect model, but it is at minimum rationale and based on relative comparators. There will always be different philosophical and political perspectives in the community and amongst Council. Attached to this report is a draft "Remuneration Policy" that is simply intended to be an example of a policy/process that Council might wish to consider. A final Oak Bay model could look entirely different.

Process Options for Establishing Base Remuneration Rates

Over the years Municipalities in BC have tried many different processes to determine compensation rates. There is no one "preferred" model that has risen to the fore other than to say that outcomes are now being largely based on data such as population, budget, etc. Essentially, there are three main approaches:

1. Establish a Citizens Committee
2. Hire a Consultant to Recommend
3. Have staff Conduct a Review

Many of the pros and cons of these approaches are inherently philosophical and political and beyond the scope of staff comment. From an administrative perspective a Council compensation policy would be best as it would allow staff to prepare budgets with more certainty and the issue of "always" addressing compensation would not utilize scarce staff resources.

As difficult as it is Council has a legal obligation to establish remuneration rates. There is no easy or right way. Once Council has indicated some ideas for moving forward staff will prepare the necessary process and financial information to assist Council in its deliberations.

STRATEGIC IMPACT

This report supports the Council priority of being well managed and well governed to serve our residents.

OPTIONS

1. That Council provide direction to staff on how it wishes to proceed with respect to both base remuneration and the pending changes to federal tax law that will take effect in January 2019 and will have the effect of reducing locally elected officials' compensation.

2. That this report be received for information.

FINANCIAL IMPACT

Once Council has provided additional direction staff will prepare any necessary financial information to assist Council in its deliberations.

RECOMMENDATION

That Council provide direction to staff on how it wishes to proceed with respect to both base remuneration and the pending changes to federal tax law that will take effect in January 2019 and that will have the effect of reducing locally elected officials' compensation.

Respectfully submitted,

Debbie Carter, Acting CAO

Report prepared by:

Warren Jones, Director of Corporate Services

ATTACHMENT

Attach. 1 – Draft Remuneration Policy, July 6, 2018