



# Staff Report

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## Finance and IT Services

**Report To:** Special Committee of the Whole  
**Meeting Date:** May 27, 2019  
**Report Number:** FAF.19.059  
**Subject:** Inter-functional Transfer Policy  
**Prepared by:** Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

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### A. Recommendations

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THAT Council receive Staff Report FAF.19.059, entitled "Inter-functional Transfer Policy";

AND THAT Council direct staff to compile the 2020 to 2022 Proposed Budgets using Option X with a 5 or 10 year phase in period;

AND THAT Council direct staff to bring back an Inter-Functional Policy implementing Option X.

### B. Overview

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During the 2019 budget deliberations, Council requested a review of how the Town calculates inter-functional transfers. This report looks at three options for Council's consideration.

### C. Background

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Inter-functional transfers are the cost of a service that one Town division supplies to another Town division. For example, Human Resources is responsible for payroll for the entire corporation.

The Town has other inter-functional transfers that are not included in this report as staff are recommending that no changes be made to the way they are calculated. These transfers include equipment rental between divisions that are similar to a fee for service that would be paid to an outside contractor. For example, the Cemetery rents the Roads and Drainage back-hoe for certain activities. The Cemetery is then charged a per hour rate for the use of the equipment. Staff are not recommending a change to these types of transfers.

Before considering how to calculate inter-functional transfers, the first decision is around what divisions are charged out and what divisions pay. Attachment #1 breaks down all of the Town's divisions into three categories: Administration (charged out), Operating (Taxation divisions that will pay), and User-Fee (non-taxation divisions that will pay).

The following are three options for Council's consideration:

1. Option #1 Salaries and Benefits Only -charges out only the salaries and benefits of the administration divisions to the four user-fee divisions based on their percentage of the overall corporate salaries and benefit budget.
2. Option #2 Full Cost Recovery (By Budget Percentage) - charges out the full cost of the administration divisions to the operating and user-fee divisions based on their percentage of the overall corporate budget.
3. Option #3 Full Cost Recovery (By Allocation Method) - charges out the full cost of the administration divisions to the operating and user-fee divisions in the corporation using a set allocation method.

## D. Analysis

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### Option #1

Similar to how the current inter-functional transfers are done, this option would see the user-fee divisions being charged for the salaries and benefits for the administration divisions. The reason for only charging out the salaries and benefits is the user-fees rely on the expertise of those administration employees. In addition, each user-fee is allocated part of the salaries and benefits of the Director and other employees as applicable.

Harbour – will be charged 1.44% of all administration salaries and benefits as well as 12.88% of the Director of Community Services and the Community Services Administrative Assistant.

Building – will be charged 6.91% of all administration salaries and benefits as well as 41.29% of the Director of Planning and Development Services.

Water – will be charged 7.42% of all administration salaries and benefits as well as 25.66% of the salaries and benefits of all employees within the Infrastructure and Public Works division.

Wastewater - will be charged 5.17% of all administration salaries and benefits as well as 18.18% of the salaries and benefits of all employees within the Infrastructure and Public Works division.

The chart below shows the new inter-functional transfers for 2020 as well as the impact on both the 2019 user-fees revenues and 2019 the tax levy.

Division	2019	2020	\$ Change	Impact on User-Fee	Impact on Tax Levy
Harbour	\$ 37,939	\$ 78,862	\$ 40,923	\$ 6.30	(0.26%)
Building	\$ 168,231	\$ 304,172	\$ 135,941	\$ -	(0.85%)
Water	\$ 403,377	\$ 388,995	\$ (14,382)	\$ -	0.09%
Wastewater	\$ 336,643	\$ 272,800	\$ (63,843)	\$ -	0.40%
<b>Total</b>	<b>\$ 946,190</b>	<b>\$ 1,044,828</b>	<b>\$ 98,638</b>		<b>(0.62%)</b>

Harbour User-Fees – to fund an additional \$40,923 it would require an increase in the annual mooring fees of \$6 per foot.

Building User-Fees – no change has been included as this amount is lower than 2016, 2017 or 2018 surpluses realized by Building and therefore the current fees can handle this increased costs.

Water User-Fees - no change has been included to this small decrease as this represents 0.4% of Water’s annual revenues, the transfer to the Rate Stabilization Reserve would be increased for 2020.

Wastewater User-Fees - no change has been included, staff had forecasted a 2% increase to the consumption fees for 2020 in the 2019 Approved Budget, and this increase would not be required.

**Option #2**

This option takes the full cost of the administration divisions and allocates it to the operating and user-fee divisions based on the percentages of the overall corporate budget. This method gives a better indication of the cost of the operating divisions during budget deliberations.

Division	2019	2020	\$ Change	Impact on User-Fee	Impact on Tax Levy
Harbour	\$ 37,939	\$ 185,511	\$ 147,572	\$ 22.70	(0.92%)
Building	\$ 168,231	\$ 309,824	\$ 141,593	\$ -	(0.89%)
Water	\$ 403,377	\$ 956,316	\$ 552,939	23%	(3.46%)
Wastewater	\$ 336,643	\$ 723,990	\$ 387,347	26%	(2.42%)
<b>Total</b>	<b>\$ 946,190</b>	<b>\$ 2,175,640</b>	<b>\$ 1,229,450</b>		<b>(7.69%)</b>

Harbour User-Fees – to fund an additional \$147,572, it would require an increase in the annual mooring fees of \$23 per foot.

Building User-Fees – no change has been included as this amount is lower than 2016, 2017 or 2018 surpluses realized by Building and therefore the current fees can handle these increased costs.

Water User-Fees – the consumption fee for water would need to be increased by 23%.

Wastewater User-Fees – the consumption fee for wastewater would need to be increased by 26%.

**Option #3**

This option assigns each administration department an allocation method to then be costed out to the operating and user-fee divisions. Similar to Option #2 the full cost of the administration divisions are costed out. This option would be similar to what a manufacturing company would

do to cost out the administration divisions. This option would also allow a truer cost to the operating and user-fee divisions during the budget deliberations.

In Option #2, the percentage of the overall corporate budget is used to allocate out the administrative divisions. With Option #3, a slightly different allocation method is used for each administrative division, as follows:

- Council - based on percentage of corporate budget;
- Office of the Clerk - based on percentage of corporate budget;
- Office of the Chief Administrative Officer - based on number of employees;
- Communications and Economic Development - based on percentage of corporate budget;
- Human Resources - based on number of employees;
- Financial Services - based on percentage of corporate budget;
- Information Technology - based on number of employees;
- Corporate Administration - based on percentage of corporate budget;
- Town Hall Maintenance and Loan - based on number of employees in Town Hall;
- Infrastructure and Public Works Division - based on number of employees (paid by Water and Wastewater only);
- Planning and Development Services - 1/3 of the Director of Planning and Development Services' salary and benefits (paid by the Building Division only); and
- Community Services - 1/8 of the Director of Community Services and Community Services Administrative Assistant's salary and benefit (paid by the Harbour only).

Division	2019	2020	\$ Change	Impact on User-Fee	Impact on Tax Levy
Harbour	\$ 37,939	\$ 145,495	\$ 107,556	\$ 16.55	(0.67%)
Building	\$ 168,231	\$ 428,033	\$ 259,802	\$ 0	(1.63%)
Water	\$ 403,377	\$ 816,126	\$ 412,749	17%	(2.58%)
Wastewater	\$ 336,643	\$ 604,282	\$ 267,639	20%	(1.67%)
<b>Total</b>	<b>\$ 946,190</b>	<b>\$ 1,993,935</b>	<b>\$ 1,047,745</b>		<b>(6.56%)</b>

Harbour User-Fees – to fund an additional \$107,556, the Harbour would require an increase in the annual mooring fees of \$17 per foot.

Building User-Fees – no change has been included as this amount is lower than 2016, 2017 or 2018 surpluses realized by Building and therefore the current fees can handle these increased costs.

Water User-Fees – the consumption fee for water would need to be increased by 17%.

Wastewater User-Fees – the consumption fee for wastewater would need to be increased by 20%.

### **Other Items**

Included in the Facility Maintenance division is the annual cost to operate Town Hall, OPP Detachment, Ravenna Hall, LE Shore Memorial Library, Craigleith Heritage Depot, and the Craigleith Community Centre.

Town Hall maintenance has been included in the calculations for Options 1-3, as all divisions have staff members in Town Hall. For the other facilities, staff is recommending that the actual costs to operate the applicable facilities be fully charged out to the OPP division, Blue Mountains Public Library, and Community Services under all three options.

## **E. The Blue Mountains Strategic Plan**

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The Blue Mountains Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence  
Objective #4: To Be a Financially Responsible Organization

## **F. Environmental Impacts**

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N/A

## **G. Financial Impact**

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Each option comes with a reduction in taxation as these expenses are being moved to the user-fee funded divisions. The reduction ranges from \$98,638 (or 0.62% of the annual tax levy) to \$1,387,112 (or 8.68% of the annual tax levy). Staff are recommending that Council give direction on which option to move forward with, after which staff will bring back a subsequent report with the revised policy.

If Council wishes to move forward with either Option #2 or #3, a phase in period will be required to avoid large (20%+) increases in one year to the user-fee rates. The chart below looks at what the estimated required increase to each user-fee would be for the four different options. This is a high level calculation done for illustration purposes, the impact can change due to changes in the 2020 budget. Please note these increases are above any increase that was forecasted in the 2019 Approved Budget:

Division	Impact on User-Fee
<b>Option 2 – Five Year</b>	
Water	3% annually
Wastewater	5% annually
Harbour	\$5 per foot
<b>Option 2 – Ten Year</b>	
Water	2% annually
Wastewater	4% annually
Harbour	\$4 per foot
<b>Option 3 – Five Year</b>	
Water	2% annually
Wastewater	3% annually
Harbour	\$3 per foot
<b>Option 3 – Ten Year</b>	
Water	1% annually (starting in 2022)
Wastewater	3% annually (starting in 2022)
Harbour	\$1 per foot

Please note that an impact on the user-fee for Building has not been included as a full review of the fee would be required, and the new transfers included in that review.

For the Facility Maintenance transfers, the chart below looks at the impact on the divisions that will be funding these expenses. Please note that there is no impact to the tax levy as these expenses are being transferred from tax to tax divisions.

Division	Facility Costs	Impact on Division Budget
Blue Mountain Public Library	\$ 99,780	11.63%
Ontario Provincial Police	\$ 43,910	1.63%
Community Services	\$ 25,395	6.47%
<b>Total</b>	<b>\$ 169,085</b>	

## **H. In consultation with**

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Ruth Prince, Director of Finance and IT Services  
Katherine Dabrowa, Budget Analyst

## **I. Public Engagement**

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The topic of this Staff Report has not been subject to a Public Meeting and/or a Public Information Centre as neither a Public Meeting nor a Public Information Centre are required. Comments regarding this report should be submitted to Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets at [finance@thebluemountains.ca](mailto:finance@thebluemountains.ca).

## **J. Attached**

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1. Attachment #1 – Division Classifications

Respectfully Submitted,

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Sam Dinsmore  
Deputy Treasurer/Manager of Accounting and Budgets

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Ruth Prince  
Director of Finance and IT Services

For more information, please contact:  
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## Division Classifications

<b>Division</b>	<b>Classification</b>
Water	User-Fees
Wastewater	User-Fees
Building	User-Fees
Harbour	User-Fees
Council	Administration
Office of the CAO	Administration
Clerks	Administration
Communication and Economic Development	Administration
Human Resources	Administration
Financial Services	Administration
Information Technology	Administration
Corporate Administration	Administration
Town Hall Maintenance	Administration
Town Hall Loan	Administration
Fire	Operating
By-Law	Operating
Short Term Accommodation	Operating
Roads and Drainage	Operating
Infrastructure and Public Works	Operating
Garbage Collection	Operating
Landfill	Operating
Waste Diversion	Operating
Cemetery	Operating
Community Services	Operating
Transit	Operating
Tomahawk	Operating
Parks and Trails	Operating
BVCC	Operating
Blue Mountains Public Library	Operating
Facility Maintenance	Operating
Planning	Operating
Development Engineering	Operating