

NCID Finance – Chair

Report

I'm going to take this opportunity to thank the North Cedar Improvement District ratepayers for allowing me to represent them on the Board since 2006. Like many others in our community, I realize that this rural, slightly urbanized, area is a wonderful place to live and raise a family. In many ways, this area is a village with people happy and willing to give their neighbours a helping hand when it is needed. I am constantly amazed to meet people who were born in the area, moved away to study and work and that have now, after having successful careers, returned home. Clearly, after experiencing life in many other places in Canada and around the world, they have been drawn back by the beauty and the lifestyle of this area. It is truly a paradise that needs to be nurtured and protected.

Why do I feel the need to tell you something that you already know? Well, simply because our resources have become scarcer than before and we need to be sustainable as a community. Sustainability from a finance perspective, at least the way I see it, requires that we have enough financial resources available to maintain current operation of the district, a buffer or reserves available to address upgrade of the infrastructures and other long-term assets (water mains, reservoir, pump stations, fire trucks, tankers, hoses, ...), and contingency fund available to address unforeseeable and unpreventable repairs (e.g., water main break, pipe burst,...). This requires sacrifices from all stakeholders and of management particularly the drive to get the best bang for the buck, which in economics language we call achieving efficiency in the use of scarce resources. At times, the utmost

goal to be fiscally responsible and accountable to the ratepayers calls for more scrutiny.

[http://www.ted.com/talks/margaret heffernan the dangers of willful blindness](http://www.ted.com/talks/margaret_heffernan_the_dangers_of_willful_blindness)

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What is a Trustee? By definition, it is an individual or an institution with the responsibility to manage something of value, generally assets, on behalf and to the benefit of another party, a community like NCID for example. The legal test of whether a Trustee has failed in his fiduciary duty rests on the biblical notion of *“Do unto others as you would have them do to you.”* In other words, a Trustee is to manage the affairs of the District as if it were their own personal business, and at times, even better than their own. This has been the guiding principle underlying decisions I have made at the Board when it comes to voting on any issue.

As customary, you will receive at the AGM this year the audited financial statements of the District. These statements will show that the financial position of the District is improving and with the surplus we are now able to put money in reserves for amortization and capital projects. It is extremely important to bear in mind that the audited financial statements are not meant to tell whether the District has been getting the best bang for the buck. An economic audit is good for this purpose since it enables us to take a close look at the opportunity costs of all our expenditures. The present report should be seen through these lenses, however, it only scratches the surface.

To put things in perspective, let us start with a simple formula of cost sharing among ratepayers of the funds required to run the District:

cost per ratepayer

$$= \frac{\text{total cost of (labour + material + infrastructure + engineering + lawyers + utilities + fire equipment + trucks + contractors + others)}}{\text{population of rate payers}}$$

The population of ratepayers in Cedar boundaries is 2153 households; of which 58% or 1,254 are on water and therefore pay both water tolls and parcel taxes, the remainder - 899 or 42% - pay only parcel taxes. While inflation rate in Canada hovers around 2% on average, most of the items listed in the formula have increased by much more than that due to the unavailability of fewer substitutes. The chain of command of the District is no different than the typical corporate structure of public ownership. The ratepayers elect a board of seven (7) trustees to run the District. The Board hires an administrator or chief administrative officer (CAO) to run the day-to-day operations. All employees are to receive directives from and execute orders issued by the administrator or by their designate. In addition, the District employs a Fire Chief, one full-time office staff, one part-time employee, one casual employee, and at some points in time during the year one or two maintenance workers. The total number of employees fluctuates between 5 and 7 with 2013 salaries and benefits of 52% or \$418,649 of the \$801,751 water tolls budgeted. From the fire protection side, this bill includes the Fire Chief's salary, honoraria and recognition for around 30 volunteer firefighters, and related benefits of \$183,500 or 20% of the \$934,484 fire rescue and protection costs. Given this sharp contrast in the two salary bills coming from the two separate budgets, ratepayers

should not only expect but demand of those receiving the bulk of the salary to work harder, be efficient, and more loyal to the District than those who volunteer their services. While this may not be the case across all employees, the question then is what ratepayers expect of trustees when they come across situations where volunteers are more productive than paid employees. I will delve a little bit more on this in my analysis below.

There is a powerful message underlying the cost per ratepayer formula above; any increase in cost for items above the line (the numerator) means that shared costs for each ratepayer will also increase unless the number of ratepayers increases or there are other offsets such as grants from other levels of government. This means less disposable income available to meet our other needs at home, most importantly when a large portion of our population are retirees and live on a fixed income or workers are on a fixed salary. Abuse and inefficiencies in the use of resources may be other factors influencing the ability to control costs effectively. These include staff spending beyond their budgeted limits without authorization, reporting late for work, notifying the District of no show at 10:45AM when work starts at 8AM, leaving work early, inefficient allocation and misuse of time, inefficient allocation of resources, improper scheduling, and slacking. All these potentially 'hidden cost' contribute to higher costs for ratepayers.

As a way of example, cutting grass in the private sector might command a wage rate between the minimum wage and \$15 per hour. For the District, this figure fluctuates between \$24 and \$29 per hour plus benefits depending on which operator level does the job. When employees take sick leave, the District has to pay their regular salaries and benefits and also find a contractor to do the job. Similarly, if this occurs with the office staff, then

the remaining staff takes up the slack through working overtime. As evidenced in Table 1 below, these costs have been high over the years. Of the combined 101 sick leave days recorded for 2011 and 2012, one staff alone went on paid sick leave for 94 days. This is in sharp contrast to current employees with sizable sick leave bank time who have used this benefit quite responsibly. That same figure for the operation segment is an average of 45 days over the last four years. This is only one part of the equation, depending on the time a worker has been with the District, 30 days of annual vacations are to be added to the sick leave taken. Typically, an employee can spend three (3) months home without setting foot in the District and still receive a full 12-month salary.

| Table 1 | | | | | | |
|---------------------------------|-----------------|--------|------------|----------------|--------|------------|
| Sick Leave Used by Staff | | | | | | |
| | <i>in Hours</i> | | | <i>in Days</i> | | |
| Year | Operation | Office | Management | Operation | Office | Management |
| 2008 | 194 | 212 | 68 | 26 | 28 | 9 |
| 2009 | 90 | 93 | 88 | 12 | 12 | 12 |
| 2010 | 434 | 53 | 11 | 58 | 7 | 1 |
| 2011 | 282 | 577 | 20 | 38 | 77 | 3 |
| 2012 | 336 | 177 | 15 | 45 | 24 | 2 |
| 2013 | 287 | 6 | 21 | 38 | 1 | 3 |
| 2014 | 16 | 2 | 21 | 10 | 0 | 3 |

Paid sick leave is well documented for its many benefits to both the employer (avoid contamination of the workplace, reduce turnover) and the employee (reduce financial stress during period of suffering). But it can also be abused, mostly when employees no longer want to work for a company

or want to retire or avoid performing their own duties (slackness). The key question is how do you draw the line or can you differentiate between a genuine and a deceitful sick leave? Companies with big pockets and governments have found ways to curb this problem by incurring additional cost in hiring private investigators and auditors in the hope of further reducing major costs. Where limited resources prevent such investigation to take place, trustees have a duty to look into the matter. Here is the conundrum, paid sick leave is part of the collective agreement, workers actually earn paid sick leave at a rate of 1.5 day per month even when they are at home sick. The moment that trustees start looking at sick leave, employees run to their union and grievances are filed for the District to shed more dollars to lawyers. While this has not been the only reason for grievances, Table 2 gives a clear picture as to what has transpired over the years in a small place of 4 to 5 unionized workers. It is worth noting that none of these grievances was filed due to complaints from office staffs.

How did we get from a situation of zero complaint and zero legal fees in 2008 and 2009 to a point of 17 grievances and legal bills of more than \$50,000 plus countless office staff hours attending CUPE Local 401's various requests? Based on my rendition that paid sick leaves among other actions add costs to the District, it is not surprising that money at some point in time had to dry out, and it did in 2011. With three operation staffs on payroll, the Board looked into all possible alternatives and painfully arrived at the decision to let go of the least senior staff. Since then the gates of grievances have been opened. While I cannot discuss here the detail of each grievance, suffice it to say that some of these grievances are devoid of any common sense. These include grievances for discrimination because the

office staff had asked a former employee not to enter the District via the back door, but should instead report to the office, as is common practice in any organization. A number of these grievances are for (a) disciplining workers who refuse to follow orders and constantly violate District’s policy, (b) contracting out even when the employees on the recall list do not have the adequate level of certification to look after and perform work on the water system as per the authorities, and (c) contracting out when the employees on the recall list were working elsewhere and refused to provide their work schedule to the District. The major issue with these grievances is that they cost almost nothing to the union but a lot to the District. The union has incentives to file as many complaints as possible to force the Board into settlement to maintain a status quo that is not favorable to the ratepayers. The irony of it all is that the flow of grievances only runs one way. Foul language, verbal abuse, slammed doors, and blatant disrespect have been the regular treatment inflicted upon Trustees by union executives. Added to that, the lack of knowledge of some trustees as to how the labour dispute resolution process works only exacerbates the problem and therefore leads to hefty legal costs, which has been proven futile. It is not surprising that beneficiaries of any culture of entitlement will resist any change even when they claim that they care about and for the District.

| Table 2 Yearly Grievances | |
|----------------------------------|-------------------|
| Year | Grievances |
| 2008 | 0 |
| 2009 | 0 |
| 2010 | 0 |
| 2011 | 2 |
| 2012 | 7 |

Disclaimer: Newsletter submissions from trustees and staff may reflect personal opinion and are not necessarily supported by District policy.

| | |
|--------------|-----------|
| 2013 | 7 |
| 2014 | 1 |
| Total | 17 |

Going back to the cost sharing formula, factors that can lead to cost reduction for ratepayers are increase in the Cedar population by way of new development and government grants towards infrastructure build ups. I wish that I could say that water conservation in terms of responsible usage could reduce the District's cost, though it does reduce ratepayers' bills. There has been little new development that has taken place lately and grants are hard to come by. There is also the fear that allowing development will compromise the pristine nature of Cedar and potable water may not be sufficient to serve the needs of the existing population. Irrespective of the merits or lack thereof of this argument, the community needs to carefully plan for development to increase density so that costs can be manageable for all. During the budget period, the strategy that I had implemented with the Finance Committee and the staff in 2012 to get the District out of the financial hole was brought back with a twist by the newly elected trustees. What the new trustees suggested for the 2014 budget was to make the 42% of the ratepayers that currently contribute only parcel taxes pay for the portion of the costs related to increase water flow for fire protection. For example, if an extra 3-inch of a pipe is needed when replacing an existing pipe or installing a new pipe to distribute water due to fire code, this cost should be borne by both the water and non-water users. This makes perfect sense except when the concerned trustees insisted that this amount be calculated and billed to the ratepayers for all past works that took place over the years. I objected to this for two reasons. First, it

would have required that the District collect approximately \$500,000 this fiscal year from ratepayers, which would without a doubt hurt every household's finances. Second, under the current bylaws or modus operandi of the District, there is no definite formula to make the non-water users bear the extra cost needed for water protection without hurting the water users which the trustees in question claim have borne all these costs for years. Instead, after various discussions and debates, the Board opted to collect an extra \$96,000 or around \$45 per ratepayer for the whole year to put towards reserves for capital expenditures. The goal is to be able to accumulate enough reserves to build another reservoir, among other capital assets. Acting upon the Finance Committee's recommendation, the Board has increased water tolls by the expected inflation rate. I believe the gradual approach of allocating costs related to fire protection is preferable to any cold turkey approach of catching up with the past by draining households of every penny at once.

Not all were somber during the fiscal year of 2013. The District did manage to complete a number of projects for a total of **\$307,353.23**:

| | | |
|---------------------------|----|------------|
| 1) Fence – Well Site | \$ | 11,010.00 |
| 2) Ground Road Water main | | 94,050.30 |
| 3) Server | | 9,216.36 |
| 4) Rehabilitation Well #3 | | 28,527.50 |
| 5) Rehabilitation Well #1 | | 25,775.00 |
| 6) Pump Motor Well #3 | | 9,840.00 |
| 7) Pump Motor Well #1 | | 10,052.50 |
| 8) Accessory Building | | 118,881.87 |

Thus far, for 2014 we have completed repairs to the Glynneath Reservoir for \$26,059.00. A yield test for water is underway, and thanks to the due diligence of the Director of Area 'A', Alec McPherson, the monies necessary to complete an infrastructure needs study of our waterworks have been provided through the RDN.

Let me leave you with this note! After much debate as to whether individuals are indeed rational in making decision, economists have settled for the concept of near-rationality since it has become evident that one cannot have all available information and this information is quite costly to obtain at times. The near-rationality concept rests on the premise that individuals have a subset of information on which they may or may not act upon when it comes times to make decision. For example, somebody may tell you that it is snowy outside, you may decide whether to wear snow boots or not depending on whether you believe in the severity of the snow. As it may turn out, if you believe that the snow is just temporary and should vanish soon, and you are wrong, you will end up suffering through the snow. There is also the possibility that you may be right, and then you save yourself from carrying heavy boots and snow jackets. This is a long speech to convey to all ratepayers the state of the District, now arming with this information; you may decide what to do. As Margaret Heffernan has beautifully pointed out (see the internet links above) there is a danger when people chose to be willfully blind. You may also believe that the easy way out to the problem the District is facing with the union is to change the Board. That is, to bring new bloods for things to run smoothly. If this is what you have been thinking, you might as well hand over the keys of the District to the union. The union has already made strand in that direction. I can

assure you that it would not take long before the District get bankrupt and taken over by higher government entities. I do know some time emotions run high because of friendship, family ties, brotherhoods, and a sense of objectivity may be lost in the way. Please rest assured that the majority of trustees currently on this Board have no personal agenda, no friendship with either developers, past or present employees, no vendetta against anyone, no debt owing to union executives or other groups, no political ambition for higher offices. We are just volunteers. The total honoraria for 2013 were \$16,431, which works out to be \$2,347.30 per trustee per year, and on a monthly basis about \$195.61 for countless hours of meetings. Our job is to make sure that every dollar is accounted for and the District remains sustainable and welcoming.

While trustees have a duty to monitor the business of the district in good stewardship, ratepayers have the utmost responsibility to be vigilant. This entails a zero tolerance to rumors, participation in regular board meetings to be aware of the issues, asking questions of trustees, making decision to vote trustee to sit on the Board not only on the basis that they were born, have been raised, or are living in the District, or how articulate they are at the AGM. Ratepayers also need to consider the relative educational attainment of candidates and experience in managing budgets. Therefore, a 2-minute speech at the AGM is a poor way to elect a trustee to manage a \$2 million annual cash flow and assets in the range of several millions of dollars. It would have been great to have a nomination period and ample time for ratepayers to do their due diligence before choosing who should represent them on the Board. Perhaps a similar process to electing other levels of government should be employed, that is, a person puts their name

forward for office and through all-candidate forums, the electorate has an opportunity to judge the competency and integrity of the candidate prior to casting their vote.

Respectfully Submitted,

Dr. Rosmy Jean Louis,

NCID Trustee, Chair of the Finance Committee