

Compensation for Elected Officials – 2010 Market Survey Results

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| Date: | July 30, 2010 |
| To: | Executive Committee |
| From: | City Manager and City Clerk |
| Wards: | All Wards |
| Reference Number: | |

SUMMARY

This report summarizes the findings of the external consultant(Hay Group) on the market survey of elected officials' compensation, as directed by City Council in 2006 and Executive Committee in 2009 and makes recommendations about Councillors' and Mayor's salary for the next term as well as future terms.

The Hay Group report observed that the city's current annual adjustment has not kept pace with the comparator market adjustments, as evidenced in the Mayor's salary position in the comparator group. An appropriate mechanism needs to be in place that provides for annual adjustments so that competitive market position is maintained. The staff report recommends a mechanism for annual salary adjustments beginning January 1, 2011.

In addition, the Hay Group report observed that the City should consider a modified pay policy that is not solely dependent on the residents per Councillor factor and on the notions, intents and changes of others, and that appropriately reflects the size, complexity, diversity and responsibility of the Toronto government, relative to other orders of government and not just municipalities.

As a result, the staff report provides recommendations for the level of compensation for elected officials beginning December 1, 2010, based on the current pay policy, as well as a modified pay policy that will be effective with the 2014 Term of Council. In addition, the staff report recommends a time frame and mechanism for future compensation review reports.

RECOMMENDATIONS

The City Manager and City Clerk recommend that City Council

1. Receive the report from the Hay Group (Attachment 1), providing the market survey of compensation for Councillors and for the Mayor in a comparator group;
2. Approve the salary for Councillors at \$99,620, beginning December 1, 2010 in accordance with the Hay Group findings;
3. Approve the salary for the Mayor at \$183,604, beginning December 1, 2010 in accordance with the Hay Group findings;
4. Approve that during the term of office, the compensation for elected officials be adjusted annually to the same rate as the cost of living adjustment for the City's management and non-union employees, beginning January 1, 2011;
5. Approve that effective with the 2014 Term of Council, the pay policy for Members of Council be one which reflects the complexity, diversity, size and responsibility of Toronto as Canada's largest City and sixth largest government, using a salary benchmark methodology as described in Attachment 2;
6. Approve that an external consultant be retained to conduct a market survey of the comparator municipal group and the report on the review results and the benchmark calculations be presented to Council in the third year of the new Council Term (2013).

Implementation Points

A new Council will be formed on December 1, 2010. Members of the new Council will be paid the salary as approved by the current City Council.

Financial Impact

Approval of the recommendations will result in a financial impact of \$1,477.84 (including \$1,319.50 in increased salary and \$158.34 in increased benefits) in the 2010 operating budget of the Mayor's Office and will be absorbed within the budget. There is no financial impact on the Council budget as the Councillor salary remains unchanged.

The financial impact for the 2011 operating budget for the Mayor's Office will be \$17,734.08 (including \$15,834.00 in increased salary and \$1,900.08 in increased benefits) which will be addressed in the 2011 operating budget process.

The financial impact of the proposed cost of living adjustment is unknown at this point, as the cost of living adjustment for management and non-union employees for 2011 has not yet been determined.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of July 25, 26 & 27, 2006, City Council discussed the "Compensation Review: Elected Officials" report and approved the following recommendations:

- A study be done prior to the beginning of each term to determine the compensation of City Councillors and the Mayor in an appropriate comparator group defined by a specialist consultant;
- The salary level of Councillors and the Mayor be set at the greater of their current compensation or at the 75th percentile of the comparator market group as at January 1st of each new term. For January 1, 2007, the 75th percentile is that which is presented for the comparator group in the Mercer Human Resources Consulting report, specifically Councillors (\$95,000) and Mayor (\$160,000);
- During the term of office, and beginning January 1, 2008, compensation be adjusted annually to the Statistics Canada cost of living index for Toronto, as calculated by the Deputy City Manager and Chief Financial Officer and based on the previous year's average;
- That City Council thanks members of the Mayor's Salary Review Panel for their efforts and report.

www.toronto.ca/legdocs/2006/agendas/council/cc060725/pof6rpt/c1057.pdf

At its meeting on January 27 and 28, 2009, City Council considered Members motion MM30.1 titled "2009 Salary Freeze for the Mayor and Toronto City Council" and referred the motion to Executive Committee. At its meeting on April 7, 2009, Executive Committee referred the item EX31.28 to the City Clerk with a request that she commence work on the study so that findings can be reported in time for the beginning of the next term.

www.toronto.ca/legdocs/mmis/2009/cc/bgrd/mm30.1.pdf

At its meeting on January 26 and 27, 2010, City Council referred Member's motion MM45.1 "2010 Salary Freeze for Mayor and Councillors" to the Executive Committee. At its meeting on March 1, 2010, Executive Committee noted and filed the letter (February 1, 2010) from City Council, EX41.10 entitled "1010 Salary Freeze for Mayor and Councillors".

<http://www.toronto.ca/legdocs/mmis/2010/ex/decisions/2010-03-01-ex41-dd.htm>

At its meeting on May 11 and 12, 2010, City Council referred Members motion MM49.6 "Review of Councillor's salaries" to Executive Committee. At its meeting on June 14,

2010, Executive Committee noted and filed the letter (May 17, 2010) from City Council, EX45.35 entitled "Review of Councillors' Salaries".

<http://www.toronto.ca/legdocs/mmis/2010/ex/decisions/2010-06-14-ex45-dd.htm>

ISSUE BACKGROUND

Pursuant to City Council and Executive Committee direction, the City Clerk's Office worked closely with Human Resources and Purchasing and Materials Management Divisions and issued a Request for Proposal No. 9119-10-7050 for "Consulting Services to Conduct a Compensation Review for Elected Officials" on February 9, 2010. The Hay Group was the successful proponent for the Request for Proposal and began work on the compensation review for elected officials in March 2010.

The City Clerk wrote to Members of Council on April 16, 2010, advising members of the study and introducing the Hay Group as the specialist consultant.

COMMENTS

Elected Officials Compensation

Elected Officials perform a critical role in the government of the City of Toronto. Toronto is Canada's largest City, sixth largest government and a large, complex and diverse organization.

The *City of Toronto Act, 2006*, recognizes Toronto as a mature order of government. In its preamble, the Act said:

"The Assembly recognizes that the City of Toronto, as Ontario's capital city, is an economic engine of Ontario and of Canada. The Assembly recognizes that the City plays an important role in creating and supporting economic prosperity and a high quality of life for the people of Ontario. "

The preamble went on to say:

"The Assembly recognizes the importance of providing the City with the legislative framework within which the City can build a strong, vibrant and sustainable city that is capable of thriving in the global economy. The Assembly recognizes that the City is a government that is capable of exercising its powers in a responsible and accountable fashion."

Toronto, is not just Canada's largest city, but also a city that is an order of government, unlike other municipalities. Compensation for elected officials of the City of Toronto, therefore, must recognize the uniqueness of the City.

The Mayor's Salary Review Panel, in its report in July 11, 2006, pointed to the need to establish a compensation philosophy for elected officials:

“Organizations need a compensation philosophy in order to establish the rationale and process for maintaining fair and reasonable compensation for the skills and commitment that make the organization successful. At this point, however, the City of Toronto addresses compensation for its elected officials on an ad hoc basis, and for the most part, in a very reactive manner. Determining appropriate compensation for elected officials is a very complex task, made even more difficult by the public nature of the role, the numerous stakeholders who wish to observe or comment on the process, the perceived conflict of interest and by the political sensitivity of the issue. The development of a compensation philosophy would assist the City in moving away from the continuing debates and opinions on what is “fair” and “reasonable”.”

Report from the Hay Group

Attachment 1 is the report from the Hay Group on the City of Toronto 2010 Elected Officials Compensation Study.

The major findings of the report are summarized below:

Comparator Group

The Hay Group used the 2006 comparator group as the base and added more regions and municipalities, including the City of Montreal and the Halifax Regional Municipality. Details of the comparator group are shown on page 4 of the Consultant Report.

Market Study for Councillors

Based on the information collected regarding the compensation for Councillors in the comparator group, the current salary for City of Toronto councillors is at the P77.5 level. Using the residents per Councillor methodology, in 2006, Toronto Councillors were placed at the P75 level. Toronto councillors are now at the P81 level. The details of the Councillor salary market review can be found on pages 7 and 8 of the Consultant Report.

Market Study for the Mayor

Based on the information collected regarding the compensation for the Mayor in the comparator group, the current salary for the Mayor is at the P46 level. This is because the salary level of the mayors and chairs of comparator municipalities increased by 4.25% each year, while the Mayor's salary of the City of Toronto increased by an average of 1.6% per year.

The details of the Mayor market study can be found on pages 9 and 10 of the Consultant Report.

Observations

The Hay Group report made two observations regarding the City's pay principle and annual salary adjustment mechanism.

The report said:

"Based on the results of this study and various other contextual insight, Hay Group believes that the City should consider a modified pay policy that is not solely dependent on residents per Councillor and the notions, intents and changes of others, and ensure that it appropriately reflects the size, complexity, diversity and responsibility of the Toronto government relative to other orders of government and not just municipalities.

In addition, the City's current annual adjustment has not kept pace with the comparator market adjustments. It is critical that an appropriate mechanism be in place that provides for annual adjustments to ensure competitive market position is maintained."

Salary Level for 2010 Term of Council

Based on the Hay Group report and under the City's current pay principle of the salary level being set at the greater of their current compensation or the 75th percentile of the comparator market group, the salary for Councillors effective December 1, 2010 will be at the current level of \$99,620, while the salary for the Mayor, effective December 1, 2010, will be \$183,604.

During the 2010 term, the salary for Councillors will be at 54% of the Mayor's salary. This ratio will be corrected in the 2014 term under the new salary benchmarking methodology.

Modified Pay Principle

The Hay Group report discussed whether the P75 pay philosophy, established by the previous consultant report using the factor of residents per Councillor and adopted by Council in 2006, was the right guide post for establishing the appropriate level of compensation for councillors and the Mayor of the City of Toronto.

One of the obvious drawbacks of a P75 approach is that it is solely dependent on the decisions of the other comparator group municipalities. As evidenced in the Hay report, the Mayor's salary, which was established at the P75 level in 2006, has fallen to the P46 level in four years. The Mayor of the City of Toronto, however, has the largest voter base of any politician in Canada.

Population is just one factor. Many other factors should be considered, such as size, diversity, complexity and responsibility of Toronto as Canada's largest municipal

government and a mature order of government. The determination of a pay principle, thus, requires broader consideration.

Ideally, the philosophy for the compensation for elected officials should include the following principles:

- Appropriately reflect the size, complexity, diversity and responsibility of the City of Toronto
- Recognize the City as a mature order of government
- Is not entirely dependent on the decisions of other organizations
- Enable the City to attract a wealth of talents to become elected officials
- Properly recognize the critical role of Council and the Mayor in City government and the City's impact on the provincial, federal and global economies.

Proposed Salary Benchmark Methodology

Staff propose that Council consider for the 2014 Term of Council a methodology that takes into the account the role of the Mayor and of Councillors as the leaders of a mature order of government with roles and responsibilities that impact on the economic vitality of Toronto, Ontario and Canada.

A Salary Benchmark Methodology is proposed, based on using three benchmarks:

1. A municipal benchmark, which will be based on the results of the market survey of elected officials in a comparator group. The highest salary of a Mayor or Regional Chair will be used.
2. A federal benchmark, using the salary of a federal minister.
3. A provincial benchmark, using the salary of an Ontario minister.

The Mayor's salary will be the average of the three benchmark salaries. The Councillor's salary will be pegged at 60% of the Mayor's salary.

If this Salary Benchmark Methodology were applied for the 2010 Term of Council using the municipal comparator group data from the Hay Group study and the current federal and provincial benchmarks, the Mayor's salary would be at \$196,411 and the Councillor's salary would be at \$117,846.

Annual Adjustment

The existing policy, approved by Council in May 2006, is that the salary for Members of Council be adjusted annually to the Statistics Canada cost of living index for Toronto, as calculated by the Deputy City Manager and Chief Financial Officer and based on the previous year's average.

As evidenced in the Mayor's salary market review, the current salary adjustment is disconnected to the annual salary adjustments of the comparator group. The Hay Group observes that it is critical for the City to adopt an appropriate alternative strategy that

provides for annual adjustments to ensure competitive market position with the comparator group.

Staff have researched other municipalities' methodologies on how the salaries for Members of Council are adjusted. There are wide variations in the adjustment formulas, one example linking the increase paid to elected officials to the cost-of-living increase for the management staff of the municipality.

The advantage of having an internal reference point for annual adjustment is that this is entirely within the control and jurisdiction of Council. Thus, staff recommend that effectively January 1, 2011, the salary for Councillors and for the Mayor be adjusted annually to the rate of the cost of living adjustment for management and non-union employees.

Timeframe and Mechanism for Future Compensation Reports

In considering the 2006 report, City Council directed that a study be done prior to the beginning of each term to determine the compensation of City Councillors and the Mayor in an appropriate comparator group defined by a specialist consultant.

If Council approves the proposed salary benchmark methodology for establishing the level of compensation for the Mayor and for Councillors, then the consultant in future would gather information on market data for the municipal benchmark.

In order for this matter to be considered in a timely manner for the 2014 Term, staff recommend that the report on the compensation level for elected officials be reported to City Council in the third year of the new Council term (2013).

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ATTACHMENTS

Attachment 1: City of Toronto 2010 Elected Officials Compensation Study by the Hay Group

Attachment 2: Salary Benchmark Methodology Effective 2014 Term of Council