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By: JW

OPP COSTING ADVISORY REPORT

Town of Orangeville

April 21, 2017

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April 21, 2017

The Town of Orangeville
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RE: OPP COSTING ANALYSIS

The Town of Orangeville has engaged BDO Canada LLP, as independent financial and business advisors, to review and comment on the presentation by staff of the Town of Orangeville entitled OPP Costing Analysis dated April 3, 2017.

As the Town's auditors, we acknowledge that we do work closely with the Treasurer and treasury staff. For the purposes of this assignment, we selected a senior staff member from both (a) outside the audit team as well as (b) outside the local community. Craig Lukassen, a senior manager with our London office financial advisory group assisted with this engagement.

Craig and I will be pleased to present our comments and address any questions council may have at Monday night's meeting. If we can be of further assistance, please do not hesitate to contact us.

Yours truly,

Sally Slumskie, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants

Craig Lukassen, CPA, CA, CBV, CFF
Senior Manager
BDO Canada LLP
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EXECUTIVE SUMMARY

Overall, we comment that the Treasurer did a tremendous amount of work in preparing the financial analysis presented to council. His analysis was extensive. He gathered data from various sources, spoke to other municipalities, validated his assumptions and incorporated contingencies. Based upon our review, his assumptions were valid and his analysis thorough.

The analysis prepared by your treasurer is essentially a financial projection. We refer to the CPA Canada Handbook for the definition of a projection, as follows:

“A projection is future-oriented financial information prepared using assumptions that reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions that are consistent with the purpose of the information but are not necessarily the most probable in management's judgment.”

Further, we remind council that we were engaged to “review and comment”.

“Since a financial forecast or projection is based on assumptions regarding future events, actual results will vary from those forecast or projected and the variations may be material. Accordingly, the public accountant cannot provide assurance about the achievability of the financial forecast or projection.”

Our review, again in reference to the CPA Canada Handbook included:

- *Reviewing the computations that translate assumptions into the financial projection.*
- *Inquire how management developed its assumptions.*
- *Considering whether there appear to be any obvious omissions or internal inconsistencies in the assumptions and whether the assumptions appear to be inappropriate in the circumstances.*
- *Considering whether the time period obviously appears to extend beyond the point in time for which the financial projection can be reasonably estimated.*

We found no exceptions in the computations and related assumptions. We do, however feel that the time period extends beyond a point in time for which a financial projection can be reasonably estimated. We suggest that the analysis be limited to 5 years, or the year 2022.

Our review comments only on analysis completed by Orangeville staff and accordingly is not intended to provide an evaluation of the OPP billing model, nor be a service comparison and evaluation of the OPP and OPS service models.

For Council's information, we highlight that we believe the most significant assumption and variable in the analysis relates to number of service calls under the OPP Billing Model in the post transition period. In our view, while the approach taken by Orangeville staff in this regard makes sense, as this information is forward looking and is reliant on the actual service calls, it is an area of uncertainty.

The financial analysis presented indicates that policing services for the Town of Orangeville will cost the Town much less under the OPP Billing Model. This of course raises the question, "how can this be"? We believe much of the cost difference relates to the change in the way the municipality will be billed for the services which it receives. In this regard, we recommend a further meeting and discussion with the OPP.

INTRODUCTION

We understand that the Town of Orangeville (the “Town”) has a local police force, Orangeville Police Services (“OPS”), and that Orangeville Council (“Council”) is contemplating a transition to the Ontario Provincial Police (“OPP”) and in this regard, requested and received an OPP costing.

In the event of a transition to OPP, we understand there are two different billing methodologies, being:

- i. For the calendar year in which a transition occurs and the three subsequent years (the “Transition Period”), the Town is billed based on the number of full time staff equivalents allocated to the Town; and
- ii. Past the Transition Period, the Town is billed based on:
 - o A flat per property amount;
 - o A variable amount based on service calls; and
 - o An amount for additional/ancillary services requested/required by the Town.

We understand the costing provided by the OPP was for the calendar year in which a transition occurs.

Council requested that Orangeville staff prepare a financial analysis and projections on the Transition Period, and post Transition Period.

We refer to the CPA Canada Handbook for the definition of a projection, as follows:

A projection is future-oriented financial information prepared using assumptions that reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions that are consistent with the purpose of the information but are not necessarily the most probable in management's judgment.

This analysis presented some significant challenges, the two most significant being:

- i. The OPP costing presentation only addressed the Transition Period. Although the post Transition Period (OPP billing model) was mentioned in the OPP presentation, the projected cost under this model was not addressed; and
- ii. Reasonably estimating future revenues and expenditures.

We have been engaged to review and comment on the financial analysis and projections prepared by Orangeville staff.

We have not been engaged to review or comment on anything further, such as:

- The service models of the OPP or the OPS;
- Service comparisons between the OPP and the OPS; and
- Billing models of the OPP.

Scope of Review

In performing our review and analysis, we have reviewed and relied upon the following documents and information:

- a) OPP Municipal Policing Billing Model Overview dated June 28, 2016;
- b) OPP Costing Analysis dated April 3, 2017 prepared by Orangeville staff;
- c) Supporting financial analysis to the OPP Costing Analysis dated April 3, 2017 completed by Orangeville staff;
- d) The Town of Orangeville Contract Policing Proposal prepared by Sergeant Kevin Hummel of the OPP dated February 13, 2017;
- e) Costing Proposal for the Town of Orangeville presentation by Sergeant Kevin Hummel and Staff Sergeant Nicol Randall on February 13, 2017; and
- f) 2015 - 2017 Estimated OPP Municipal Policing Costs, obtained from <http://www.opp.ca/index.php?&lng=en&id=115&entryid=58179f628f94acf555bef561> on April 11, 2017.

In addition, we had discussions with Mr. Marc Villeneuve, Treasurer of the Town of Orangeville relating to the financial analysis completed by Town staff.

Methodology

To arrive at our comments, we categorized our review of the analysis by Town staff into five areas:

- a) Review and comment on the underlying assumptions of the OPS amount;
- b) Review and comment on the underlying assumptions of the OPP amounts during the Transition Period;
- c) Review and comment on the underlying assumptions with regard to one time costs associated with the change from OPS to OPP;
- d) Review and comment on the OPP projections past the Transition Period; and
- e) Review and comment on the contingencies incorporated in the financial analysis.

Further details and explanations regarding our methodologies can be found in the Financial Review section of our report.

FINANCIAL REVIEW

Within the attached schedules, we have utilized the figures from the OPP Costing Analysis prepared by Orangeville staff dated April 3, 2017, and have adjusted the presentation for ease of review.

Review of Assumptions

1. OPS Figures

The OPS figures used in Town staff's analysis, utilizes the five-year budget submitted to Council, adjusted to include replacement of capital items (i.e. vehicles, facility, etc.).

Although actual expenditures in recent years were lower than budget, as the budgeting process in determining prospective budgets should be zero based (driven by needs versus historical results), we comment that it is reasonable and conservative to use the budget submitted by the Police Services Board to Council, adjusted upward to include replacement of capital items.

2. OPP - Transition Period

The OPP figures used in Town staff's analysis, are made up of the following components:

- i. Estimated Gross Policing Costs as provided by OPP in their February 13, 2017 presentation, increasing 3% per year.
- ii. Other operating expenditures, being:
 - o Costs of operating the Police Services Board, derived from the budget submitted by OPS;
 - o Costs of operating the Police Building, derived from the budget submitted by OPS;
 - o Retiree benefits, derived from the budget submitted by OPS;
 - o Administrative costs, representing internal Town charges amongst departments, derived from historical allocations;
 - o Costs associated with outsourcing dispatch for other municipal services (i.e. fire department, water/waste, etc.); and
 - o Costs associated with alarm monitoring.
- iii. Revenues, derived from the budget submitted by OPS then adjusted downward;
- iv. Capital replacement costs, derived from facilities which are anticipated to be kept should a transition to OPP occur; and
- v. Annual contingency amount for items which may not have been considered.

Overall, we comment that the methodology and utilization of source data used in Town staff's analysis is in our view reasonable. However, we did note a few areas in which Town staff could extend their analysis, specifically the following areas:

- In estimating future increases to Gross Policing Costs, Town staff considered the 2016 and 2017 percentage increase to costs which OPP recovers from municipalities (0.8% and 1.2% respectively), anticipated increases in employee compensation and included a contingency, in arriving at a 3% increase. As the costs OPP recovered from municipalities relate to the billing model which will be in effect post the Transition Period, we comment that to test the assumption utilized, Town Staff could have also considered the percentage increase of total OPP province wide costs (which we have calculated to be 3.7% for the most recent year) and the anticipated increase in employee compensation which are part of the total OPP province wide costs (which we understand to be 1.90% in 2017 and 1.75% in 2018).
- We understand that in estimating costs associated with outsourcing dispatch for other municipal services (\$80,000), a discussion was had with another municipality which uses a third party for dispatch services, to get a general idea as to cost. We comment that at least a discussion with the potential provider, if not a formal quote should be requested from a provider of dispatch services.

3. One Time Costs

The one time costs used in Town staff's analysis, are made up of the following components:

- i. Uniform, equipment and vehicle initial costs as provided by OPP in their February 13, 2017 presentation;
- ii. Uniform and equipment year one adjustment as provided by OPP in their February 13, 2017 presentation;
- iii. Communication equipment initial costs as provided by OPP in their February 13, 2017 presentation;
- iv. Facility and technology changes, derived from discussions with OPP then adjusted upward;
- v. Disposal of vehicles and equipment; and
- vi. Severance.

We comment that the methodology and utilization of source data used in Town staff's analysis is in our view reasonable. While we note a few areas in which Town staff can extend their analysis going forward (i.e. a formal plan for the facility and technology changes and associated quote), these areas appear to be impractical to pursue further at the current stage.

4. OPP Post Transition Period

Past the Transition Period, the OPP billing model is based on:

- i. A flat per property amount;
- ii. A variable amount based on service calls; and
- iii. An amount for additional/ancillary services requested/required by the Town.

Accordingly, there are items which are uncontrollable by the Town (i.e. the flat per property amount and variable amount based on service calls) and an item which is controllable (i.e. the additional/ancillary services requested/required).

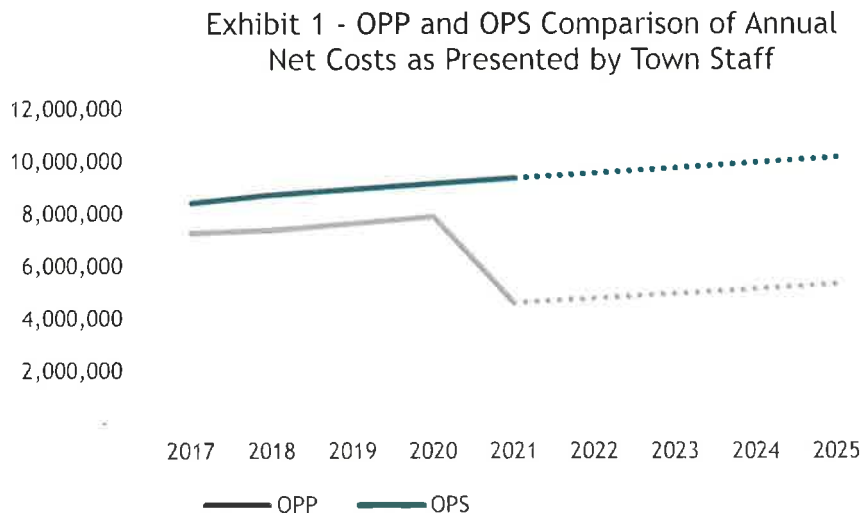
The OPP projection used in Town staff's analysis, is made up of the following components:

- i. A charge of approximately \$416 per property with approximately 11,000 properties in 2017, increased by 3% annually. The per property charge is built up from:
 - o OPP flat billing per property for 2017 based on the 2017 OPP Municipal Policing Billing General Information;
 - o Billing for service calls, based on the correlation between Crime Severity Index (as published by Statistics Canada) and per property billings by OPP, for municipalities who are policed by OPP and have their Crime Severity Index published, with a contingency of \$20 per property; and
 - o Other costs based on anticipated court security staffing (i.e. 7 staff at approximately \$85,000 each which includes benefits).
- ii. Other operating expenditures, being:
 - o Costs of operating the Police Services Board, derived from the budget submitted by OPS;
 - o Costs of operating the Police Building, derived from the budget submitted by OPS;
 - o Retiree benefits, derived from the budget submitted by OPS;
 - o Administrative costs recovered, representing internal Town charges amongst departments, derived from historical charges;
 - o Costs associated with outsourcing dispatch for other municipal services (i.e. fire department, water/waste, etc.); and
 - o Costs associated with alarm monitoring.
- iii. Revenues, derived from the budget submitted by OPS then adjusted downward;
- iv. Capital replacement costs, derived from facilities which are anticipated to be kept should a transition to OPP occur; and
- v. Annual contingency amount for items which may not have been considered.

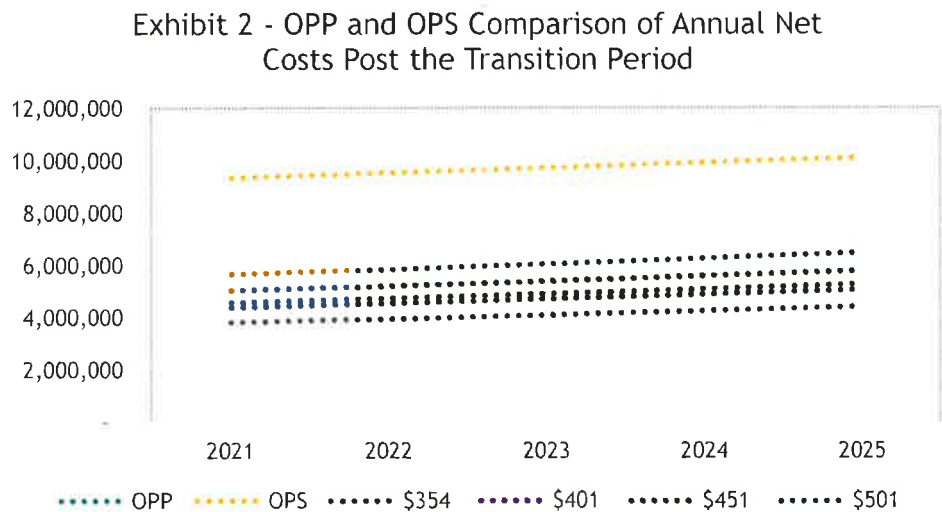
As the assumptions for ii., iii., iv. and v. are consistent with the assumptions utilized in the OPP Transition Period, we refer to that heading above for our comments. Accordingly, we have limited our comments to the assumptions for i. below.

Overall, we found the methodology and utilization of source data used in Town staff’s analysis to be reasonable. As the service call per property is the assumption with the greatest impact we do note Town staff could have highlighted more effectively their sensitivity analysis which included all communities policed by OPP for Council.

For ease of comparison, we have presented this data in chart format which follows.



We adjusted the above graph, to include the sensitivity analysis post the Transition Period as completed by Town staff.



5. Contingencies

We note that Town staff have included the following contingencies related to a transition to OPP in the financial analysis, as summarized on Schedule 6:

- One time
 - o Severance; and
 - o Facility and technology changes.
- Annual
 - o Annual contingency for items which may not have been considered;
 - o Contingency for annual OPP increase; and
 - o Contingency related to the per property cost.

We note that we have considered the contingencies within our comments under the headings above, and accordingly have no further comments.

We also note that Town staff have identified but not attempted to quantify the amount of revenues or savings of the following items related to a transition to OPP:

- Miscellaneous revenues;
- Legal fees which will no longer be incurred; and
- WSIB cost reductions as a result of the police force not being included in the employee makeup.

We comment that we are in agreement with the identification of these items and that they appear to be impractical to pursue further and quantify at the current stage.

CONCLUSION & RECOMMENDATIONS

The assumptions utilized and analysis completed by the Town's staff as included in the presentation on April 3, 2017 is in our view reasonable, based on our understanding as outlined in our report.

From a high level, we conceptually understand the variance between the OPP and OPS costs during the Transition Period, as the OPP has a dispatch group and would not need staff who currently provide this service for OPS.

The analysis presented by the Town's staff for the period post the Transition Period follows the OPP billing model. However we cannot explain why such a significant cost variance exists.

We do believe much of the cost difference relates to the change in the way the municipality will be billed for the services which it receives. In this regard, we recommend a further meeting and discussion with the OPP.

Comparison of Transition Period Figures

Schedule 1

Figures presented have been obtained from the OPP Costing Analysis prepared by Orangeville staff dated April 3, 2017. BDO has revised the presentation for ease of review.

	Notes	2017		2018		2019		2020	
		OPP \$	OPS \$	OPP \$	OPS \$	OPP \$	OPS \$	OPP \$	OPS \$
OPP Net Costs									
Estimated Gross Policing Costs									
OPP	Note 1	7,816,621		8,051,120		8,292,653		8,541,433	
OPS	Note 2		9,765,451		10,215,899		10,523,711		10,779,949
Other Impacts									
Other Operating Expenditures	Schedule 2	323,933		333,338		343,025		353,002	
Less Revenues	Schedule 3	(1,104,583)	(1,558,121)	(1,238,681)	(1,714,825)	(1,238,681)	(1,766,270)	(1,238,681)	(1,819,258)
Annual Capital Replacement Costs	Note 3	112,779		115,035		117,335		119,682	
	Note 4		203,317		220,998		178,903		184,248
Annual Contingency	Note 4	100,000	-	100,000		100,000		100,000	
Total other impacts		(567,871)	(1,354,804)	(690,309)	(1,493,827)	(678,321)	(1,587,367)	(665,997)	(1,635,010)
Annual Net Costs before One-Time Items		7,248,750	8,410,647	7,360,811	8,722,072	7,614,332	8,936,344	7,875,436	9,144,939
1st Year Adjustment for # of Months	Note 5	(6,040,625)	(7,008,873)						
		1,208,125	1,401,775						
One-Time Costs	Schedule 4	3,761,925	-						
Total Annual Costs		4,970,050	1,401,775	7,360,811	8,722,072	7,614,332	8,936,344	7,875,436	9,144,939
Difference between OPP and OPS		1,161,897		1,361,261		1,322,012		1,269,503	

Notes:

- 1 2017 amount from the OPP February 13, 2017 presentation, increased by 3% annually.
- 2 Per OPS budget submitted to Council.
- 3 2017 per Town staff analysis, increased by 2% annually.
- 4 Per Town staff analysis.
- 5 Calculated to be two months, as we understand there is a six month period to transition to OPP, from when a decision is made (i.e. if a decision is made in April, the transition would occur in October).

Buildup of Other Operating Expenses

Schedule 2

Figures presented have been obtained from the OPP Costing Analysis prepared by Orangeville staff dated April 3, 2017. BDO has revised the presentation for ease of review.

	Annual Increase		
	0%	3%	
Police Service Board (Note 1)	\$	\$	
Office Supplies			312
Telephone			1,862
Cellular			5,000
Professional Fees			50,000
Memberships			3,121
Workshops			932
Conferences			210
Meals			-
Award Presentations			824
Police Building (Note 1)			
Insurance			3,914
Service Agreement			3,090
Utilities: Gas			11,198
Utilities: Hydro			26,285
Maintenance Supplies			11,330
Maintenance and Repairs			6,180
Mat Service			2,472
Equipment			2,060
Grounds Maintenance			9,785
Janitorial Services			39,140
Uniform (Note 1)			
Retiree Benefits			53,279
Administrative Costs Recovered (Note 2)			
Treasury Services	9,000		
Human Resource Services	17,700		
Information Technology Services	130,000		
Admin Cost Recovered	(146,261)		
Outsourcing costs for dispatch (Note 3)			
Fire			75,000
Pw, Water/Waste			5,000
Other			
Alarm monitoring			2,500
Sum			Total
2017	10,439	313,494	323,933
2018	10,439	322,899	333,338
2019	10,439	332,586	343,025
2020	10,439	342,563	353,002
2021	10,439	352,840	363,279
2022	10,439	363,426	373,865
2023	10,439	374,328	384,767
2024	10,439	385,558	395,997
2025	10,439	397,125	407,564

Notes:

- 1 Per OPS budget submitted to Council.
- 2 Per historical allocations amongst Town departments.
- 3 Per Town staff discussed with other municipalities who have third party providers, adjusted upward.

Buildup of Revenue Figures

Schedule 3

Figures presented have been obtained from the OPP Costing Analysis prepared by Orangeville staff dated April 3, 2017. BDO has revised the presentation for ease of review.

Utilized for OPS (Note 1)	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$
Costs Recovered - Auctions	(1,030)	(1,061)	(1,093)	(1,126)	(1,159)
Costs Recovered - Paid Duty	(20,600)	(21,218)	(21,855)	(22,510)	(23,185)
Costs Recovered - Reports	(75,000)	(77,250)	(79,568)	(81,955)	(84,413)
Prov Grants - Court Security	(804,583)	(938,681)	(966,842)	(995,847)	(1,025,722)
Prov Grants - Uniform Officers	(178,779)	(184,143)	(189,667)	(195,357)	(201,218)
Partner Contrib Court Security	(100,000)	(103,000)	(106,090)	(109,273)	(112,551)
Municipal Service Agrmts	(91,450)	(94,193)	(97,019)	(99,929)	(102,927)
Admin Cost Recovered	(225,649)	(232,418)	(239,391)	(246,573)	(253,970)
Security Checks	(60,000)	(61,800)	(63,654)	(65,564)	(67,531)
Other Revenues	(1,030)	(1,061)	(1,093)	(1,126)	(1,159)
	(1,558,121)	(1,714,825)	(1,766,270)	(1,819,258)	(1,873,836)

Utilized for OPP (Note 2)

Costs Recovered - Auctions	-	-	-	-	-
Costs Recovered - Paid Duty	-	-	-	-	-
Costs Recovered - Reports	-	-	-	-	-
Prov Grants - Court Security	(804,583)	(938,681)	(938,681)	(938,681)	(938,681)
Prov Grants - Uniform Officers	(160,000)	(160,000)	(160,000)	(160,000)	(160,000)
Partner Contrib Court Security	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Municipal Service Agrmts	-	-	-	-	-
Admin Cost Recovered	-	-	-	-	-
Security Checks	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
Other Revenues	-	-	-	-	-
	(1,104,583)	(1,238,681)	(1,238,681)	(1,238,681)	(1,238,681)

Notes:

1 Per OPS budget submitted to Council.

2 Per OPS budget submitted to Council, adjusted downward for 2017 and 2018. 2019, 2020 and 2021 figures are consistent with 2018.

One Time Costs

Schedule 4

Figures presented have been obtained from the OPP Costing Analysis prepared by Orangeville staff dated April 3, 2017. BDO has revised the presentation for ease of review.

	Notes	From OPP \$	From Town Staff \$	Contingency \$	Total \$
Uniform and Equipment - Year One Adjustment	Note 1	(78,057)	-	-	(78,057)
Uniform, Equipment and Vehicle Initial Costs	Note 1	985,126	-	-	985,126
Communication Equipment Initial Cost	Note 1	30,000	-	-	30,000
Facility and Technology Changes	Note 2	-	300,000	200,000	500,000
Disposal of Vehicles/Equipment	Note 3	-	(100,000)	-	(100,000)
Severance	Note 3	-	1,492,373	932,483	2,424,856
		<u>937,069</u>	<u>1,692,373</u>	<u>1,132,483</u>	<u>3,761,925</u>

Notes:

- 1 OPP February 13, 2017 presentation.
- 2 Per discussions with OPP, then adjusted upward.
- 3 Per Town staff analysis.

Comparison of Post Transition Period Figures

Schedule 5

Figures presented have been obtained from the OPP Costing Analysis prepared by Orangeville staff dated April 3, 2017. BDO has revised the presentation for ease of review.

	Notes	2021		2022		2023		2024		2025	
		OPP \$	OPS \$	OPP \$	OPS \$	OPP \$	OPS \$	OPP \$	OPS \$	OPP \$	OPS \$
OPP Net Costs											
Estimated Gross Policing Costs											
OPP	Note 1	5,241,618		5,398,867		5,560,833		5,727,658		5,899,487	
OPS	Note 2		10,964,407		11,183,695		11,407,369		11,635,516		11,868,227
Other Impacts											
Other Operating Expenditures	Schedule 2	363,279		373,865		384,767		395,997		407,564	
Less Revenues	Note 5	(1,238,681)	(1,873,836)	(1,238,681)	(1,911,313)	(1,238,681)	(1,949,539)	(1,238,681)	(1,988,530)	(1,238,681)	(2,028,300)
Annual Capital Replacement Costs											
	Note 3	122,076		124,517		127,007		129,548		132,139	
	Note 4		268,464		273,833		279,310		284,896		290,594
Annual Contingency	Note 4	100,000	-	100,000		100,000		100,000		100,000	
Total Annual Costs		4,588,292	9,359,035	4,758,567	9,546,216	4,933,926	9,737,140	5,114,521	9,931,883	5,300,508	10,130,520
Difference between OPP and OPS		(4,770,743)		(4,787,649)		(4,803,214)		(4,817,362)		(4,830,012)	

Notes:

- 1 2021 based on 2017 per property amount (\$415.74) and 2017 properties (11,202), increased by 3% annually.
- 2 Per OPS budget submitted to Council (2021) increased by 2% annually.
- 3 2017 per Town staff analysis, increased by 2% annually.
- 4 Per Town staff analysis.
- 5 2021 amounts per Schedule 3, with the OPP remaining flat and OPS amount increased 2% annually.

Contingencies

Schedule 6

Figures presented have been obtained from the OPP Costing Analysis prepared by Orangeville staff.
BDO has revised the presentation for ease of review.

	One Time	Annual
	\$	\$
Severance	932,483	-
Facility and Technology Changes	200,000	-
Annual contingency for items which may not have been considered	-	100,000
Contingency for annual OPP increase	-	113,408
Contingency related to the per property charge	-	197,138
	<u>1,132,483</u>	<u>410,546</u>