



County of Elgin - Road Maintenance Agreement Review

Final Report

November 10th, 2021

Table of Contents

Section	Page Number
1 Executive Summary	3
2 Workshop Outcomes	9
2.1 Governance & Communications	10-14
2.2 Scope of Services	16-22
2.3 Funding	24-33
2.4 Reporting & Enforcement	34-41
3 Appendix	42-45
3.1 Advisory Committee Members	42
3.2 A Brief History of the Fee Schedule	44

1

Executive Summary

Project Context and Objectives

Project Context

- As a result of County restructuring that occurred in 1998, the County of Elgin's roads are maintained through the Road Maintenance Agreement (hereafter "RMA" or "Agreement") with several local municipal partners ("LMPs"), who undertake all road maintenance activities on the County's behalf.
- As part of a 2020 review, StrategyCorp noted several issues and concerns regarding the current RMA, and identified that several opportunities to improve it with the opportunity to:

Address past and ongoing issues in roads maintenance

Improve overall trust in the County and Local Municipal Partners' working relationship

Reduce costs and increase staff productivity

Improve customer and resident experience

Provide the foundation for further shared service delivery progress

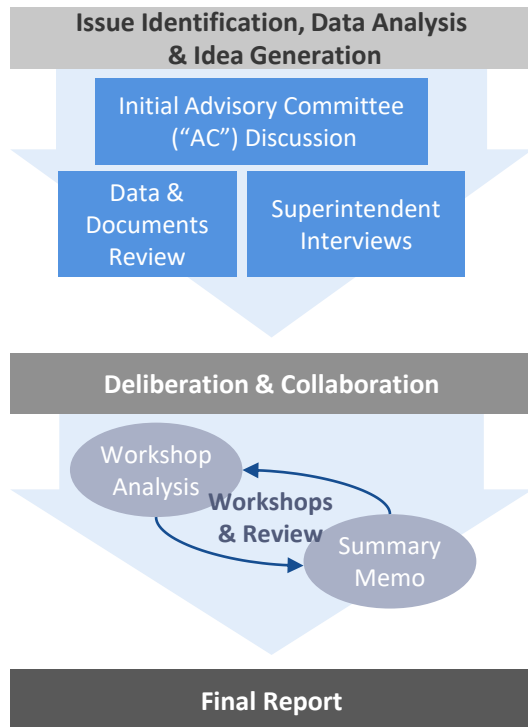
- With the current RMA set expire in 2022, Elgin County is interested in reviewing the RMA based on this recommendation and identifying means to improve the RMA.

Project Objectives

In this context, Elgin County retained StrategyCorp to support it in the review and renewal of the current RMA, including the confirmation of service standards, an assessment of the financial model, and the development of a revised term sheet.

This Report outlines the results of the review including our approach, key findings, recommendations, and high-level term sheet revisions.

RMA Review – Evaluation and Collaboration Process



- The RMA Review was **guided by a cross-functional Advisory Committee (the "AC")** made up of Roads Superintendents, CAOs, and Treasurers from each LMP and the County.
- Through initial discussions with the Committee, individual interviews, and available data and documents, **four main areas of concern were identified:**

Governance & Communication

Scope of Services

Funding

Reporting & Enforcement

- For each area of concern, SCI presented analysis and recommendations that were reviewed and workshopped with the Committee and summarized in a Memo describing the Workshop discussions and outcomes.
- The outcomes from these AC workshops were consolidated into this Final Report and Term Sheet that includes the key findings from the review and contractual and non-contractual recommendations

Key Issues & Workshop Objectives

Governance & Communication

ISSUES

- Misalignment on the nature of the County/LMP service delivery relationship
- Lack of collaborative operational communication and planning
- No standard and transparent mechanism for resolving disputes
- No clear path for proposing and adopting amendments to the RMA

KEY WORKSHOP OBJECTIVE: Align on RMA Principles and establish clear communication and governance structures

Funding Issues

ISSUES

- Some uncertainty around the sufficiency of the formula versus true costs
- Lack of alignment on the true costs of road maintenance activities

KEY WORKSHOP OBJECTIVE: Establish true cost of services and evaluate current funding formula, and inflation indexes

Scope of Services Issues

ISSUES

- Lack of clear service standards
- Misalignment on definition of maintenance services vs. capital repairs
- Municipalities are expected to provide several specialized services that might be more efficiently contracted out by the County

KEY WORKSHOP OBJECTIVE: Confirm scope of services, clarify Schedule C language, and review opportunities for alternative service delivery options

Reporting & Enforcement Issues

ISSUES

- No consistent reporting systems or methodologies across LMPs
- LMPs provide uneven levels of service that often either exceeds or falls short of County expectations
- The County lacks an appropriate mechanisms to enforce RMA obligations

KEY WORKSHOP OBJECTIVE: Align on standard reporting systems, methodologies, and requirements, and enforcement mechanisms

Key Outcomes – Analysis and Workshops

Governance & Communications

- ✓ New governance and communications structures, and guiding principles were established to help manage and oversee the execution of the RMA.

Scope of Services

- ✓ Scope of Service changes to align service standards with County expectations, Schedule C amendments to clarify existing terms, and identification of shared procurement opportunities and considerations.

Funding

- ✓ Comprehensive evaluation of the existing Funding Model is currently not possible given diverse LMPs tracking and reporting methods and data availability.
- ✓ Insufficient evidence was found to support an increase in the fee allocation based on reported LMP spending.
- ✓ Future evaluations of the existing funding model will require cost tracking and reporting by road class, however evaluation of the fee sufficiency will only require accurate, standardized reporting of LMP true costs, to which the parameters were agreed.

Reporting & Enforcement

- ✓ Harmonized and standardized reporting mechanisms and methodologies for road maintenance activity and financial reporting were established.
- ✓ New enforcement protocols and tools were established to promote adherence to service and reporting obligations.

Complete List of Supporting Recommendations



Contractual Recommendations

- I. Add Guiding Principles to RMA.
 - II. Terms of Reference be established for both an Operational and Governance Committee.
-
- I. Schedule C to be defined by service and include service descriptions.
 - II. All relevant County Policies to be appended to the RMA.
 - III. The County to develop a schedule of known drainage systems.
 - IV. Changes to service levels with respect to grass cutting, line painting, and road signs.
-
- I. The existing funding formula remain unchanged.
 - II. The RMA continue to use CPI as its primary inflation index.
-
- I. Regular Municipal Monthly County Roads Reports and Inspection Responses should be harmonized into a single quarterly report.
 - II. RMA should prescribe a standard reporting template and reporting methodologies for Year-End Financials.
 - III. The RMA should direct the County to compile and submit an Annual Compliance Report to the Governance Committee for review.



Non-Contractual Recommendations

- I. Treasurers should attend operational meetings annually to assess shared procurement opportunities.
 - II. The Governance Committee should be rolled into a regular shared services meeting of the CAOs.
-
- I. County should investigate all opportunities for shared contracts, evaluate resource requirement to administer identified contracts, and add administrative fees to all shared contracts, as necessary.
 - II. County should assess inspections of drainage systems, etc., that are not currently defined in the RMA.
-
- I. Pending improved data collection and reporting, amendments to the funding formula could be made during the period of the next agreement, through the Governance committee.
-
- I. The County should investigate a County-hosted GIS linked Asset & Work Order Management Software Solution.

2

Workshop Outcomes

2.1 Governance & Communications

2.2 Scope of Services

2.3 Funding

2.4 Reporting & Enforcement

Governance & Communications – Overview

Section Summary

Defining the Philosophical Approach

Designing Governance and Communication Structures

Key Workshop Findings & Discussions

Findings

- The RMA is designed to facilitate an outcome-based, fixed-fee service delivery model. However, LMPs across the County reported having very diverse understandings, approaches, and outcomes to using County fees to meet their obligations under the Agreement.
- The current, informal governance and communications structure appear to be effective at managing day-to-day operations but does not formally surface and resolve structural or systemic issues with the agreement itself.

Discussion

- The Committee aligned on 5 principles to underpin the philosophical approach to the Agreement.
- The Committee established additional contractual mechanisms to improve operational communications, and how distinct governance committee might better administer oversight and address systemic or long-standing issues with the agreement.

Key Recommendations

Contractual

- I Add Guiding Principles to RMA.
- II Terms of Reference be established for both an Operational and Governance Committee.

Non-Contractual

- I Treasurers should attend operational meetings annually to assess shared procurement opportunities.
- II The Governance Committee should be rolled into a regular shared services meeting of the CAOs.

Defining the Philosophical Approach: Fee-For-Outcomes

The existing **RMA was originally designed to facilitate an outcome-based service delivery model** where LMPs are given an annual fixed fee to provide road maintenance services on County roads.

However, LMPs across the County reported very diverse understandings, approaches, and outcomes to using County fees to meet their obligations under the Agreement. This range of municipal philosophies include:

Maintain all service standards even when schedule fees are exceeded, invoice additional services when possible

Maintain service standards and manage surplus and deficits through an accumulated reserve

Maintain MMS, but only complete as many Schedule C services as annual fee will directly cover



Defining the Philosophical Approach: Guiding Principles

Contractual Recommendations



I The Advisory Committee endorsed the following 5 Guiding Principles to be enshrined as a section of the RMA:

I. The fee schedule must be sufficient to cover the anticipated *average* costs of maintenance activities in an average year.

II. Municipalities will execute all the services outlined in the Agreement to the standards outlined in the Agreement, irrespective of annual operating cost fluctuations.

III. Municipalities will be entitled to the entire amount outlined in the fee schedule irrespective of annual operating cost fluctuations.

IV. Municipalities will have the flexibility to perform the services outlined in the Agreement using any service delivery methods they choose, so long as they meet the minimum standards outlined in the Agreement.

V. Municipalities should be given the control and flexibility to annually appropriate funds received as part of the Agreement to operations and/or reserves at the Municipality's discretion.

Designing Governance and Communication Structures: Key Findings

The current informal governance and communications structures appear to be **effective at managing day-to-day operations**, but do not formally surface and resolve structural or systemic issues with the agreement itself.

The RMA currently lacks sufficient governance mechanisms; issues and concerns with the RMA are surfaced on an ad-hoc basis, and the current operational meetings do not meet all communication needs.

RMA Governance

- Except during RMA renewal discussions every 5 years, the RMA is not governed by a particular group or body to oversee its effectiveness, below County Council.
- The Agreement, and any issues or concerns that arise among LMPs, are directly managed by the County Superintendent and General Manager on an ad hoc basis.

RMA Communications

- Quarterly meetings are currently held between the County and LMP superintendents to discuss status and issues related to County road maintenance and LMP requirements and planning for capital projects.
- All parties indicate a lack of transparency around planned operations on County roads, including both capital and maintenance projects.
- Discussions are largely informal, and issues or concerns related to the RMA itself are not regularly reviewed or discussed in a formal manner.

Governance and Communications Structures: Two-Committee Structure

Contractual Recommendations



- II** The Committee endorsed the creation of two separate committees to support communication related to the RMA with distinct and separate objectives, each with Terms of Reference attached to the RMA.

	Operations Committee	Governance Committee
Mandate & Other Terms	Mandate: Sharing upcoming County capital project and repair plans; identification of shared procurement opportunities; and the coordination of shared service delivery, or County-led services. <ul style="list-style-type: none"> Standard agenda items and pre-publishing requirements Mechanisms for reviewing LMP and County engagement at operational meetings 	Mandate: Assess structural or systemic concerns that arise on a regular basis between renewal cycles and recommend changes to the agreement to County Council, where required; resolve disputes and conflicts that cannot be resolved at the operational level; oversee general compliance with the Agreement.
Participants	County and Municipal Superintendents	County and Municipal CAOs
Frequency	Quarterly	TBD

Non-Contractual Recommendations



Additional Notes:	<p>I Treasurers should attend operational meetings annually to assess shared procurement opportunities that can be brought back to regular treasurers' meetings.</p>	<p>II The Governance Committee should be rolled into a regular shared services meeting of the CAOs. This could occur during standing CAO meetings on a quarterly or bi-annual basis.</p>
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Workshop Outcomes

2.1 Governance & Communications

2.2 Scope of Services

2.3 Funding

2.4 Reporting & Enforcement

Scope of Services – Overview

Section Summary

Defining the Scope of Services and Schedule C

Service-by-Service Assessment Workshop Activity Outline

Schedule C Amendments

Opportunities for Collaborative Procurement

Key Workshop Findings & Discussions

Findings

- Schedule C lacks service descriptions and service standards for many obligatory services.

Discussion

- The committee discussed amendments to service standards to clarify capital and maintenance activities and funding responsibilities.
- One key area of discussion surrounded opportunities for collaborative procurement. The Committee agreed that the County should investigate as many shared service contracts as possible on an “opt-in” basis similar to the *Phragmites Program*, meaning no changes were recommended to the Scope of Services.
- Discussion was also had on the responsibility of identifying deficiencies for systems not identified in the MMS including for drainage facilities, bridges, and culverts.
- The committee also discussed specific “by kilometer” service limits for “rare” events (i.e., washouts) and how those might be accounted for in a per kilometer funding formula.

Key Recommendations

Contractual

- I Schedule C to be defined by service and include service descriptions.
- II All relevant County Policies to be appended to the RMA.
- III The County to develop a schedule of known drainage systems.
- IV Changes to service levels with respect to grass cutting, line painting, and road signs.

Non-Contractual

- I County should assess inspections of drainage systems, etc., that are not currently defined in the RMA.
- II County should investigate all opportunities for shared contracts, evaluate resource requirement to administer identified contracts, and add administrative fees to all shared contracts, as necessary.

Defining the Scope of Services – Schedule Format and Clarifications

Existing LMP maintenance obligations are described in *Schedule C* of the RMA. Work required to meet Schedule C standards that exceed the limits imposed by the Schedule are addressed according to the processes identified in *section 4.5* of the RMA.

Schedule C

- *Schedule C* states that LMP are to meet all MMS legislated standards, and then enumerates all the additional standards that fall outside the MMS LMPs are expected to complete. These standards were originally formatted to accompany a “municipal best practices” schedule that was later removed from the Agreement. The result is that **Schedule C is not currently well formatted to clearly communicate all LMP responsibilities.**

Section 4.5

- *“Road maintenance/repair services in addition to the Scope of Services identified in Schedule “C” may be performed by the Municipality by mutual agreement between the Municipal Superintendent and the County Superintendent...”*

Contractual Recommendations

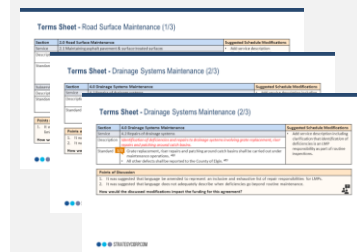


Schedule C should be amended so **standards are organized by service category of all required services** including those prescribed in the MMS, including inspections.

Service-by-Service Assessment – Workshop Activity

Based on the agreed upon Schedule format, **the Advisory Committee conducted a line-by-line review of the Scope of Services.** For each service listed, the following items were discussed:

- i. Confirm service descriptions for each service category.
- ii. Confirm understanding of existing minimum service standards and service level limits including intended purpose of existing stipulations; clarify language, as necessary.
- iii. Discuss opportunities for migration of services to the County or for shared procurement between partners.
- iv. Discuss proposed changes to existing service standards as identified by the County or LMPs in the Scope-of-Services Worksheet.



Services List

1.0 Inspection

- 1.1 Routine Inspections

2.0 Road Surface Maintenance

- 2.1 Maintaining Asphalt Pavement & Surface Treated Surfaces
- 2.2 Maintaining Gravel Shoulders
- 2.3 Sweeping

3.0 Roadside Maintenance

- 3.1 Debris Control
- 3.2 Grass Cutting

3.3 Brush Control

3.4 Tree Maintenance

3.5 Weed Control

4.0 Drainage Systems Maintenance

- 4.1 Cleaning of Drainage Systems
- 4.2 Repairs of Drainage Systems
- 4.3 Ditch Maintenance

5.0 Bridges and Culverts

- 5.1 Structure Cleaning
- 5.2 Erosion Control

6.0 Safety Devices

- 6.1 Road Markings
- 6.2 Road Signs
- 6.3 Guide Rail and Traffic Barrier Systems
- 6.4 Road Closures

7.0 Winter Control

- 7.1 Winter Control

Schedule C Amendments – Clarity and Good Governance

- The following clarifying recommendations are not meant to alter the obligations of either party under the agreement but are designed to clarify the intent of certain stipulations through added language and supporting documents.

Contractual Recommendations



- ✓ **Service descriptions should be added** for each service listed in Schedule C.
- ✓ Where service standards are prescribed by the MMS, **“to be completed as per MMS,” should be added** to the schedule.
- ✓ Where a specific service level limit is described in Schedule C, **a clause referencing section 4.5 of the RMA should be added** to clarify the County responsibility to pay for any additional work necessary to meet minimum service standards.
- II Where Municipalities are expected to provide services with regard to a particular policy referenced in the RMA or Scope of Services, that **policy should be attached at an appendix to Schedule C**, with a provision allowing the County to update these policies between RMA renewal cycles. This includes but is not limited to:
 - i. “No Spray” Policy
 - ii. Road Salt Management Plan
 - iii. Deer Warning Signage Policy

Schedule C Amendments – Drainage Systems

- It was identified that in many cases, such as for drainage facilities, bridges, and culverts, where routine inspection is not prescribed in the MMS, **the existing agreement does not clearly define which party is responsible for the identification of defects on these structures.**

Contractual Recommendations



- III Schedule C should be amended to include a provision requiring the **County to provide a schedule of known drainage structures under the responsibility of LMPs**, and will continuously update that schedule as asset inventories are updated and improved. LMPs will still be responsible for all drainage structures in the municipality.

Non-Contractual Recommendations



- I County should assess *what party is best suited to conduct* inspections of drainage systems, bridges, and culverts and clarify those roles in the terms of the RMA.

Schedule C Amendments – Service Level Changes

Contractual Recommendations



IV

3.2 Vegetation Control

- ✓ The existing minimum standard for full width cutting of the ROW every third year should be removed and replaced with a standard that allows the area between biannual cutting and the property line to naturalize to the extent that it remains free of invasive and noxious weeds, or larger brush and vegetation that impedes sight lines or drainage facilities. Larger vegetation in these areas should also be removed by the municipality before the canopy begins to encroach the road property.

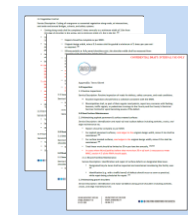
6.1 Road Markings

- ✓ A provision should be added to the schedule for the County to take on responsibility for the costs of re-marking roads following capital re-surfacing or re-paving projects on County roads but that there should be continued collaboration between Municipalities and the County to eliminate duplication of road markings in cases where capital projects are planned, as has been the practice in recent years.

6.2 Road Signs

- ✓ A provision should be added to the scope of services schedule to clarify that where road signs have become deficient over time (i.e., failed reflectivity tests) the County is responsible for the costs of replacing those signs, as has been the practice in previous years. The municipalities should continue to be responsible for replacing damaged or stolen signs, and for regular reflectivity testing as per the MMS.

Draft Schedule C language is appended to the Term Sheet that is the Companion document to this report.



Opportunities for Collaborative Procurement

The committee discussed shared service contract opportunities for a number of municipality-led services that could be taken on by the County. Opportunities for Municipality-led contracts were not favoured by the committee.

- LPMs favoured a contract structure that allows LMPs the opportunity to “opt in” to service contracts procured and administered by the County if the rates prove favorable to their own costs or contracts – Similar to the *Phragmites Program*.
- The County noted that while the *Phragmites Program* has also been successful for the County, it represents an additional administrative workload, and should more contracts be taken on by the County, staff resourcing would become a cost consideration.

Contractual Recommendations



- ✓ **Existing service obligations should remain in Schedule C** so that LMPs have the flexibility to pursue the most cost-effective delivery methods.

Non-Contractual Recommendations



- II The committee agreed that **the County should explore shared contracts for as many services as possible**, though the following services were identified as of special interest:
 - i. Sweeping
 - ii. Road Marking
 - iii. Routine Inspection and Cleaning of Drainage Systems
 - iv. Reflectivity Testing for Road Signage
- ✓ **The County should consider adding an administrative fee to shared contracts** it procures and administers for LMPs based on resource requirements from the County.

2

Workshop Outcomes

2.1 Governance & Communications

2.2 Scope of Services

2.3 Funding

2.4 Reporting & Enforcement

Funding – Overview

Section Summary

Review of Current Reported
LMP Spending

Assessing the Sufficiency of the
Existing Fee Allocation

Fee Schedule Recommendations

Review of Potential Inflation
Indexes

Key Workshop Findings & Discussions

Findings

- Most LMPs do not have consistent reporting on road maintenance costs and use a number of methodologies to report costs to the County, with varying degrees of accuracy.
- Equipment costs represent a significant area of ambiguity, given the subjectivity involved in calculating machine hour costs – previous discussions on RMA funding indicate that funding is intended to cover 75% of OPS-127 machine hour rates.
- SCI evaluated current costs against OPS-127 machine hour rate, and found no evidence that LMPs would report significantly more spending than allocations, even at 100% of OPS-127 rates.
- Based on the level of available data, a comprehensive assessment of funding sufficiency / deficiencies versus costs could not be conducted
- Future evaluation of the funding formula which currently relies on a per kilometer calculation by road class, since LMPs do not track spending by road class, the formula cannot currently be validated.
- While there is some subjectivity in assessing inflation rates in the funding formula, CPI remains the most widely accepted and most relevant benchmark as an escalation factor in the agreements

Key Recommendations

Contractual

- I The existing funding formula remain unchanged.
- II The RMA continue to use CPI as its primary inflation index.

Non-Contractual

- I Pending improved data collection and reporting, amendments to the funding formula could be made during the period of the next agreement, through the Governance committee

Recent LMP Spending on County Roads

SCI reviewed LMP spending on County roads by reviewing LMP's financial reporting to the County, as well as their operating expenses, and compared that to RMA fee allocations for 2018-2020. When reserve transfers are excluded, LMPs only **spent 95% of their allocation in 2020**, and **104% of their allocation on average annually between 2018-2020**. It should be noted that Winter Control spending was notably higher across LMPs in 2018, and lower across LMPs in 2020, as winter controls typically make up the most volatile portion of spending.

Reported LMP Spending in 2020 (Excluding Reserve Transfers)

	Total	Aylmer	Bayham	Central Elgin	Dutton Dunwich	Malahide	Southwold	West Elgin
Total Allocation	\$3,296,220	\$21,864	\$410,794	\$694,704	\$462,362	\$722,593	\$504,225	\$479,678
Spending for all Roads	\$3,357,736	\$16,214	\$378,015	\$593,734	\$476,155	\$596,741	\$558,499	\$450,521
Difference	101%	74%	86%	84%	103%	83%	111%	94%

Reported Spending 2018-2020 (Excluding Reserve Transfers)

3-Year Avg. Difference	102%	113%	92%	113%	104%	99%	109%	96%
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- Based solely on LMP reported spending as compared to County allocation, SCI finds LMP spending does not significantly exceed the current allocation enough to justify a fee increase.

Assessing the Sufficiency of the Existing Fee Allocation

Our Initial Approach

Establish a **true cost-of-services assessment of expenditures** based on the required level of service for each classification of highway in relation to service standards. However, **this would require relatively normalized standards and accuracy in reporting across LMPs** as well as significant visibility and data sharing from all LMPs.

Available LMP Reporting and Data

Most LMPs reported a relatively good, or high degree of accuracy in tracking and reporting, however, **most have been unable to provide detailed reporting on maintenance activities**, and **no LMPs reported tracking maintenance activities by road class**, making any kind of service level-based assessment impossible.

Adapted Methodology

Given LMPs current reporting alone does not seem to support a fee increase, SCI has attempted to review LMP spending by cost center, in an attempt to normalize spending across LMPs, and fully account for both direct and indirect costs, including those that LMPs noted were absent from the funding formula.

Proportion of Cost Centers as Reported LMP Expenditures (3-Year Average)

Average % of Spending		*Aylmer	Bayham	Central Elgin	Dutton Dunwich	Malahide	Southwold	West Elgin
Labour	28%	10%	24%	38%	28%	33%	N/A	36%
Equipment	27%	24%	26%	25%	29%	31%		26%
Materials	42%	66%	30%	22%	44%	16%		30%
Contracts			14%	13%		15%		
Admin/Other	5%	-	6%	1%	-	5%	7%	5%

* Aylmer only has 2020 data available

How LMPs Measure and Calculate Spending – Direct Costs

For **labour**, **materials**, and **contracts**, LMPs all report costs using direct costs, including salaries and invoices. For this reason, and even though LMPs report a range of spending in these areas, this **reporting is considered true-to-cost for the purposes of our assessment**.

	LMP Resource Allocation Tracking	LMP Reporting of Expenses
Labour	<ul style="list-style-type: none"> Most LMPs track labour hours on detailed timesheets, with two LMPs using a work management systems, one LMP does not accurately track labour resources to County or Local roads. 	<ul style="list-style-type: none"> All municipalities report labour costs using direct wages plus an additional percentage for incidentals (including EI, CPP, OMERS, Health and Dental, etc.) this rate varies between LMPs (21%-47%), with some reporting a fixed percentage on all wages, and others reporting actual costs.
Materials	<ul style="list-style-type: none"> Only one LMP reported using their Work Management system to track materials to County or Local roads, all other LMPs reported that unless materials are ordered specifically for a County project, material resource allocation is done based on supervisor estimates only. 	<ul style="list-style-type: none"> All LMPs use invoices to report on materials used on county roads.
Contracts	<ul style="list-style-type: none"> Only one LMP reported using their Work Management system to report materials to County or Local roads, all other LMPs reported that unless materials are ordered specifically for a County project, material resource allocation is done based on supervisor estimates only. 	<ul style="list-style-type: none"> All LMPs use invoices to report on service contractor fees for county roads

How LMPs Measure and Calculate Spending – Indirect Costs

Equipment, administrative, and overhead spending all include some degree of indirect costs or cost estimates. For these cost centers, LMPs have varying degrees of cost tracking and reporting methodologies, so it should be possible to apply best or leading costing practices to available reporting and **normalize reported spending across LMPs that better reflects the true cost of services.**

	LMP Resource Allocation Tracking	LMP Reporting of Expenses
Equipment	<ul style="list-style-type: none"> Most LMPs track machine hours on detailed timesheets, with two LMPs using a work management system, one LMP does not accurately track equipment resources to County or Local roads. 	<ul style="list-style-type: none"> Four LMPs reported using MTO OPS-127 as the source or reference for their equipment rates, one uses a rate based on fuel and maintenance costs, and two LMPs could not directly source their existing rates.
Admin	<ul style="list-style-type: none"> Most LMPs do not directly track administrative resources for managers, supervisors, oversight, etc. Only two LMPs directly track administrative time. 	<ul style="list-style-type: none"> Most LMPs report Administrative spending as a flat rate per service or for all services. Those that track administrative time report it as Labour or Administrative spending.
Other	<ul style="list-style-type: none"> Only one LMP currently tracks and reports some direct or indirect overhead costs, including building maintenance, licenses, utilities, and admin services including phone, radio, and IT. No LMPs separately track or report on insurance costs. 	<ul style="list-style-type: none"> One LMP includes some portion of its overhead spending to the services provided under the RMA. The RMA does not account for additional reported spending for overhead.

Indirect Costs – Equipment and Administration Rates

Equipment – The funding formula for the existing fee allocation model is meant to account for 75% of OPS-127 rates. Three of seven LMPs said they report machine hours based on 100% OPS -127 (MTO) rates, and one LMP reports 70% OPS-127 rates. Generally, **this would indicate some LMP reported costs are inflated compared to the intended scope of the fee allocation of 75% OPS-127 rates.**

EQUIPMENT	Aylmer	Bayham	Central Elgin	Dutton Dunwich	Malahide	Southwold	West Elgin
Tracking	Tracked using Timesheets	Tracked using Timesheets	Tracked using WorkTech (CMMS)	Not effectively tracked	Tracked using WorkTech (CMMS)	Tracked using Timesheets	Tracked using Timesheets
Pricing Rational	100% OPS 127 Rates	100% OPS 127 Rates	Rate based on fuel + maintenance costs	N/A	100% OPS 127 Rates	N/A	70% OPS 127 Rates
E.g. Chevy Silv.*	\$35.25	\$37.55	\$9.44		\$29.00	\$19.60*	\$21.46

*OPS-127 rate: \$30.30

Administration – Most LMPs noted that they do not directly track or report on general effort required to administer the RMA including activities completed by supervisors, treasurers, etc. To account for these expenses, in 2001 County recommended “*that all municipalities incorporate 5% of approved expenditures for administrative overhead.*” **LMPs report varying pricing mechanisms** for reporting administrative expenses.

	Aylmer	Bayham	Central Elgin	Dutton Dunwich	Malahide	Southwold	West Elgin
Tracking	N/A	Timesheets	WorkTech	None	None	None	None
Pricing	N/A	~7%	25% *	5%	~5%	~7%	5%

*As reported to County in 2020

Indirect Costs – Equipment Rate Normalization Exercise

Though most LMPs say they have accurate reporting on machine hours, **only 3 LMPs were able to provide us with an accurate detailed report of machine hours for the past 3 years along with enough detail on fleet to assess the impacts of a rate change** – Bayham, Malahide, and West Elgin.

Bayham Example

- Based on reported machine hours from 2019-2020*, we estimate that the **Municipality's equipment costs would decrease ~15% annually** if they were to charge at 100% of their OPS-127 rates.
- Given the Municipality spends ~28% of its total spending on equipment this would equal an **average annual reduction of 4% in total spending, or 11% less than their 2020 Allocation**.

Malahide Example

- Using reported machine hours from 2018-2020, we estimate that the **Township's equipment costs would increase ~12% annually** if they were to charge at 100% OPS-127 (2016) rates.
- Given the Township spends ~31% of its total spending on equipment this would equal an **average annual increase of 4% in total spending, or 1% more than their 2020 Allocation****.

West Elgin Example

- Using reported machine hours from 2018-2020, we estimate that the **Municipality's equipment costs would increase ~43% annually** if they were to charge at 100% of their OPS-127 rates.
- Given the Municipality spends ~26% of its total spending on equipment this would equal an **average annual increase of 11% in total spending, or 4% more than the Municipality's 2020 Allocation**.

- For the examples shown, this illustrative normalization results in **municipal expenditure at 85-104% of their 2020 allocation**.
- Given the rate variability across LMPs, **SCI cannot draw any conclusions on how a rate change might impact other LMPs**; however, given many LMPs already report using 100% OPS-127 rates, it stands to reason that their change in spending would be limited as well.

*Bayham changed its rates in 2019, and it should be noted that its 2018 equipment spending was far below OPS rates.

**Given Malahide reports already using OPS-127 rates, variation that was found in this experiment could be due to fleet misclassification, outdated rates etc.

Fee Schedule Recommendations

- Reporting by road class is required for the County and LMPs to assess the current funding formula against true cost-of-service, given that it is tied to road classification. Currently, LMPs do not have the capacity to track or report maintenance costs by road class so **funding sufficiency / deficiencies versus costs cannot be comprehensively assessed at this time**, and County is unable to identify LMP costs that are driven by unique road class structures that may be driving up costs for some LMPs.

Contractual Recommendations



- I Based on the current LMP reported spending and reporting methods, the Equipment Charges Normalization Exercise, and overall level of data availability, **no changes to the fee schedule are recommended at this time.**

Non-Contractual Recommendations



- I That **LMPs develop consistent reporting standards and templates** to better inform future reviews of the fee allocation and funding formula.
- II Recommendations for the 2022 RMA should not include requirements to report on road class because to do so would require significant investments in reporting processes or technology for LMPs. **However, future evaluation of the funding structure or base allocation should not be deferred entirely in the absence of road class data. If financial reporting can be standardized to a certain degree in the interim future evaluations may rely on that data to potentially develop alternative funding models.**

Annual Inflation Index Recommendations

Beyond discussions surrounding the base fee for the RMA allocation, LMPs have also historically raised concerns that the **Consumer Price Index** is not the best indication of inflation for the RMA to rely on, and the **Building Construction Price Indexes** would be a better reflection of the actual cost incurred by LMPs. Below is a description of the two indexes, and their comparative percent changes in the last year (*Source: StatsCan*).

Consumer Price Index

- The **Consumer Price Index (CPI)** represents changes in prices as experienced by Canadian consumers. The goods and services in the CPI basket include: food; shelter; household operations, furnishings and equipment; clothing and footwear; transportation; health and personal care; recreation, education, and reading; and, alcoholic beverages, tobacco products, and recreational cannabis.
 - Across Canada, this **increased 2.2% from** March 2020-2021.

Building Construction Price Indexes

- The **Building Construction Price Indexes BCPI** measures change over time in contractors' prices to construct a range of new commercial, institutional, industrial and residential buildings. The contractor's price reflects the value of all materials, labour, equipment, overhead and profit to construct a new building.
- In Toronto, the BCPI for Non-Residential Buildings increased **3.3%** from Q1 2020-2021.

- **The CPI is typically viewed as the best overall indicator of inflation across the Canada;** while the BCPI may reflect some aspects of LMPs changing prices under the RMA, it is not perfectly analogous due to both material and regional differences (i.e., the BCPI measures price changes in metropolitan areas only).

Contractual Recommendations



- II The RMA **continue to use CPI** as its primary inflation index.

2

Workshop Outcomes

2.1 *Governance & Communications*

2.2 *Scope of Services*

2.3 *Funding*

2.4 Reporting & Enforcement

Reporting & Enforcement – Overview

Section Summary

Inspections and Activity Reporting

Annual Financial Reporting

Enforcement Mechanisms

Key Workshop Findings & Discussions

Findings

- LMP compliance with submitting reporting on road maintenance activities is inconsistent, with the majority of LMPs not providing timely or detailed reporting on work performed or materials used.
- Compliance with financial reporting is high, but provides limited value do to lack of standardized reporting.
- The County does not have an effective way of enforcing service standards across the County, demonstrated by the variable service levels provided by LMPs.

Discussion

- The Committee discussed standard methodologies for calculating labour, equipment, material, contract, and admin costs, with the goal of reporting / approximating true costs as accurately as possible.
 - Evaluation of costs will rely on reporting of true cost in hours (for labour and equipment), to validate reported spending.
- The Committee supported the recommendation that a shared digital reporting platform be introduced outside the language of the RMA to reduce reporting burden for LMPs and improve data collection and analysis for the County. Such a system would allow for road specific reporting on maintenance activities and enable evaluations of maintenance activities and costs by road class.

Key Recommendations

Contractual

- I Regular Municipal Monthly County Roads Reports and Inspection Responses should be harmonized into a single quarterly report to County.
- II RMA should prescribe a standard reporting template and reporting methodologies for Year-End Financials.
- III The RMA should direct the County to compile and submit an Annual Compliance Report to the Governance Committee for review.

Peripheral

- I The County should investigate a County-hosted GIS linked Asset & Work Order Management Software Solution.

Inspections and Activity Reporting – Quarterly Inspections

Quarterly Inspections	Existing Terms	Current Practice	Compliance and Outcomes
	<ul style="list-style-type: none"> The County shall perform Quarterly Inspections accompanied by the Municipal Superintendent with respect to the Scope of Services and provide the result of those inspections in an Inspection Report (Schedule E) to LMPs with direction to repair any deficiencies. LMPs are required to make all noted repairs within 60 days of receiving an Inspection Report and provide written confirmation of work performed to address deficiencies. 	<ul style="list-style-type: none"> The County conducts regular inspections quarterly, and provides the results to the LMPs – however, the practice of including a municipal representative was suspended by Council a few years ago. In 2020, the County identified on average 1.5 deficiencies per 10 km of roads across the County, with individual LMPs ranging from an average of zero to 3.8 deficiencies per 10 km of County roads. While the majority of LMPs provide written confirmation of work within 60 days, most exceeded that time frame at least once in 2020. 	<ul style="list-style-type: none"> ➤ LMPs deliver variable road maintenance service levels across the County, as measured by number of deficiencies. ➤ Inspections occasionally result in contested identified deficiencies and LMP compliance in providing written confirmation of work completed in response to an inspection report is inconsistent. ➤ The County does not have an effective way of enforcing service standards across the County.

Inspections and Activity Reporting – Activity Reporting

	Existing Terms	Current Practice	Compliance and Outcomes
Monthly Reporting	<ul style="list-style-type: none"> LMPs are required to submit Monthly Road Maintenance Invoices (Schedule G) that includes the allocated payment as described in Schedule D as well as invoices for work completed outside on the base allocation, as well as a Monthly County Road Report (Schedule F) that includes a description of works performed the previous month by service and road number, planned work for the coming month, and a summary of materials used for winter controls. 	<ul style="list-style-type: none"> LMPs regularly submit invoices in a timely manner, however supporting documentation is not always present. For the year of 2020, only 3 LMPs submitted monthly reports in a timely manner, 3 submitted all their 2020 reports in 2021 at the request of the County, and 1 has not submitting any reports for 2020. <ul style="list-style-type: none"> 5 of 7 LMPs reported the number of winter events and volume of materials applied to County roads. LMPs provided varying degrees of detail in reports, including on work completed and where it occurred. 	<ul style="list-style-type: none"> ➤ LMP compliance with reporting on road maintenance activities is inconsistent, with the majority of LMPs not providing timely or detailed reporting on work performed. ➤ The majority of LMPs do provide detailed monthly reporting on materials used, though often reporting is provided retroactively. ➤ The County does not have access to an accurate record of work performed for liability or asset management planning purposes.

Inspections and Activity Reporting – Recommendations

Contractual Recommendations



- I The RMA must clearly establish the minimum level of reporting required by the County - specifically for liability and insurance purposes – given the administrative burden of current reporting systems. It is therefore recommended that **County Road Reports and Inspection Responses be harmonized into a single quarterly LMP report** that includes the following:
- i. **Description of activities** by service and road number completed since the previous report.
 - ii. **Planned activities** by service type and by road number for the next reporting period.
 - iii. **Number of Winter events**, and **volume of materials** used in Winter Controls.
 - iv. Description of work performed in **response to previous Inspection Report**.

Non-Contractual Recommendations



- I The adoption of a **County-hosted GIS linked Asset & Work Order Management Software Solution** to track and report on specific road maintenance activities and condition remains a key recommendation moving forward. The County has already taken steps to allocate necessary funding to implement such a system. Most LMPs do not use a CMMS to track and report maintenance activities, making all specific reporting based entirely on manual or ad hoc processes to accurately recount activities.

Annual Financial Reporting

	Existing Terms	Current Practice	Compliance and Outcomes
Annual Reporting	<ul style="list-style-type: none"> LMPs are required to submit Year-End Financial Statements detailing total repair/maintenance costs in respect of County Roads, for the previous calendar year, including line items in respect of winter control, material costs, and patrol costs. 	<ul style="list-style-type: none"> All LMPs submit Year-End Financial Statements, and 5 of 7 include all required line items. Every LMP uses a different template for its submitted financial report, includes different costs, and calculates them differently. 	<ul style="list-style-type: none"> ➤ LMP compliance with Annual Financial Reporting is high, but since reporting it is not standardized, provides limited value or insight to the County. ➤ The County is unable to effectively evaluate the sufficiency of fee allocations, or the value of LMP contracts.

Contractual Recommendations



- II The RMA should prescribe a standard template and reporting methodology for Year-End Financials.

Annual Financial Reporting – Recommendations (1/2)

Contractual Recommendations



- ✓ A template for Year-End Financial Reporting should **require costs be reported by a set list of service categories and cost centres** as outlined below and attached as a Schedule to the RMA.
- ✓ **Reported work hours for Labour and Equipment costs should be included** in Year-End Financial Reports as supporting documentation.

Example		Labour (Hourly breakdown Appended)	Equipment (Hourly breakdown Appended)	Materials & Contracts	Admin	Other	Totals
	Inspection/ Patrol	\$	\$	\$	\$	\$	\$
	Road Surfaces	\$	\$	\$	\$	\$	\$
	Roadside	\$	\$	\$	\$	\$	\$
	Drainage Systems	\$	\$	\$	\$	\$	\$
	Bridges/ Culverts	\$	\$	\$	\$	\$	\$
	Safety Devices	\$	\$	\$	\$	\$	\$
	Winter Control	\$	\$	\$	\$	\$	\$
	Totals	\$	\$	\$	\$	\$	\$

- *Beyond the scope of the 2022 RMA, the County and LMPs should investigate the feasibility of leveraging the Asset & Work Order Management System to facilitate financial reporting by road class to allow for evaluation of the existing funding model in the future.*

Annual Financial Reporting – Recommendations (2/2)

Funding Workshop Findings

- **Direct costs (i.e., labour, materials, contracts) are accurately reflected in true cost reporting**, as these cost centres include few additional costs that may be associated with delivering the RMA.
- **The use of full OPS-127 rates for equipment use is leading practice for government contracts** as these rates have been designed to account for all the direct and indirect costs associated with owning and operating a given piece of equipment **including fuel, repairs, depreciation, financing, storage, insurance, overhead, and even profit**. Given most LMPs already use this rate, total LMP spending is unlikely to increase significantly across LMPs.
- **A flat rate for administrative costs continues to be the most practical solution** given most LMP's lack of tracking or visibility into how these costs actually apply to delivery of the RMA.

Contractual Recommendations



- ✓ The following standard methodologies for required cost centres should be added as a section or subsection of the RMA.
 - i. **Labour costs** should be reported as true costs of *salary and benefits paid out*.
 - ii. **Equipment costs** should be reported as *machine hours using OPS-127 rates* most recently published by MTO.
 - iii. **Material and Contract costs** should be *reported as invoiced* to the Municipality by the vendor.
 - iv. **Administrative costs** should be reported *a flat fee of up to 5%* of the LMPs total annual allocation.
 - v. **All other expenses**, including major maintenance works, should be reported as “Other” and should be accompanied by supporting documentation on the reported costs.

Enforcement Mechanisms

	Existing Terms	Current Practice	Compliance and Outcomes
Reporting Enforcement	<ul style="list-style-type: none"> Should LMPs fail to submit required documentation, including Monthly Reports, Inspection Response, Financial Reports, etc. the County may withhold 10% of the value of any then current invoice and all subsequent invoices until the LMP meet their reporting obligation. 	<ul style="list-style-type: none"> In practice, the County does not utilize this enforcement mechanism against LMPs due to the significant political implications of doing so. 	<ul style="list-style-type: none"> ➤ RMA reporting is currently up to the County Superintendent to enforce and since punitive measures may damage working relationships, the available mechanism is ineffective.

Contractual Recommendations



- III The County should compile an **Annual RMA Compliance Report** for the Governance Committee to review and assess for enforcement and performance improvement opportunities across the County. This report should include the following components:
- Individual and summary results of Quarterly Inspections
 - Overall LMP response to noted deficiencies
 - Summary of LMP compliance with reporting requirements and deadlines
 - LMP and County engagement in Operational Committee meetings

3

Appendix

3.1 Advisory Committee Members

3.2 A Brief History of the Fee Schedule

Appendix A – Advisory Committee Members

Municipality	Name	Position
Elgin County	Julie Gonyou	CAO
	Brian Lima	General Manager Engineering, Planning & Enterprise / Deputy CAO
Aylmer	Andy Grozelle	CAO
Bayham	Lorne James	Treasurer
Central Elgin	Paul Shipway	CAO
Dutton Dunwich	Tracy Johnson	Treasurer
Malahide	Matt Sweetland / Ryan DeSutter	Director of Public Works / Interim Director
Southwold	Paul Van Vaerenbergh	Public Works Superintendent
West Elgin	Lee Gosnell	Manager of Operations and Community Services

3

Appendix

3.1 *Advisory Committee Members*

3.2 **A Brief History of the Fee Schedule**

Appendix B – A Brief History of the Fee Schedule

- 1997 ● Fees for the RMA were established based on the County's historical maintenance costs between 1993-1996. The resulting fee schedule provided LMPs with an average of \$2650/km of County roads maintained based on the services required on each road.
- The rate was roughly broken down by service along the following ratios: Bridges & Culverts (3%); Roadside Maintenance (29%); Hardtop (9%); Winter Control (42%); Safety Devices (18%).
 - This rate assumed the County's historic wages and payroll burden, service standards, and 50% of MTO M-135 equipment rates given the equipment provided to LMPs by the County.
- 2001 ● Fee schedule was amended to redistribute funds based on traffic volumes on County roads, without increasing overall maintenance payments for the County using estimated maintenance requirements for different road classes (M5, M8, M11, M14).
- 2003 ● Fee allocation was adjusted with a one-time additional 2% on top of inflation for roads in urban areas.
- 2006 ● Fee allocation was adjusted with a one-time additional 10% on top of inflation, to reflect a theoretical increase in equipment rates from 50% to 75% MTO MRA-135 (now OPS-127) equipment rates.
- 2012 ● Fee allocation in increased by 3% for Class 4, 6% for Class 3, 12% for Class 2 , and 24% for Class 1 roads over 2011 rates.

2021 ●

2021 Maintenance Allocation per Kilometer of County Roads

Road Type	Class 1	Class 2	Class 3	Class 4
Rate	\$ 6,877	\$ 5,545	\$ 4,951	\$ 4,671



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