aamdc
trade • jubilee
Partners in Advocacy & Business

Equitable Economics: Inter-Municipal Financial Partnerships

Discussion Paper

Acton Consulting Ltd.

Friday, April 4, 2008

EXECUTIVE SUMMARY

1.0 Introduction

Now more than ever municipalities are feeling increased pressure to provide a high level of service to their residents. However, providing these services is often very difficult when operating with modest budgets and limited human resources. Through inter-municipal collaboration, municipalities across Alberta can negate part of this difficulty by working together to meet the demands of citizens while retaining their autonomy.

This paper examines three different approaches to inter-municipal agreements: cost sharing, delivery sharing and revenue sharing. An overview of these is discussed and a high level framework for constructing such agreements is provided.

2.0 Current Environment

Alberta's economy is booming. While this growth helps bring prosperity and strength to the province, it also causes issues in dealing with increased demand for programs and services. New infrastructure is required to support growth, while existing infrastructure continues to deteriorate. Problems also arise with attracting and retaining a skilled labour force to different industries as well as many regions in the province. In addition, a steadily increasing population places more pressure on municipalities to provide infrastructure, services, and housing.

The financial limitations facing municipalities have resulted in an increased need for regional collaboration. Prior to 1995, regional planning commissions controlled much of the land planning decisions in the province for municipalities. Today, regional cooperation can be witnessed through a grass roots approach. Many municipalities recognize the benefits linked to inter-municipal agreements and have taken steps to jointly provide services to increase efficiency and effectiveness.

3.0 Agreement Frameworks

While individual agreements can vary greatly, the general steps to construct an effective arrangement can be outlined. Depending on the nature of the situation, a certain type of agreement may work better than another.

Revenue sharing agreements involve two or more municipalities splitting revenue from a specific source over a set timeframe. Alternatively, delivery sharing agreements involve municipalities jointly delivering services through splitting costs according to specific criteria. A cost sharing agreement entails one municipality compensating another for the negative impacts it produces, or being responsible for a portion of the costs that generate a positive impact.

To determine which arrangement works best, a municipality should focus on the predictability of the location of the initiative and number of partners likely to achieve a net benefit from the project.

4.0 Recommendations

Based on the guiding principles in the paper, a number of recommendations for municipalities as well as the Government of Alberta have been constructed.

Recommendations to municipalities:

1. Develop complementary plans.

2. Determine the overall cost impact of projects or programs.
3. Determine objective formulas for inter-municipal financial partnerships.
4. Use cost sharing or delivery sharing agreements.
5. Develop dispute resolution mechanisms.

Recommendations to the Government of Alberta:

6. Generally support cost sharing or delivery sharing rather than revenue sharing.
7. Conduct further research on cost sharing standards.
8. Support the enhancement of the existing AAMDC/AUMA Cost Sharing Toolkit.
9. Develop templates to outline shared accountabilities between municipalities.
10. Enhance expertise in Municipal Affairs to assist municipalities in developing inter-municipal financial partnership arrangements.

Recommendations to the AAMDC:

11. Enhance the AAMDC/AUMA Cost Sharing Toolkit.
12. Create a repository for inter-municipal financial partnership agreements.
13. Advocate on behalf of AAMDC members for the implementation of cost or delivery sharing agreements rather than revenue sharing agreements.

Table of Contents

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

1.0 Introduction

Municipal collaboration is becoming an increasingly important aspect to local governance. More and more pressure is being placed on municipalities to provide elevated service levels to residents, while funding and the resources to do so is limited. In recent years, the ability to effectively deliver these services and improve the quality of life for citizens has been made easier through cooperation with one's neighbours. The development of inter-municipal financial partnerships has benefited municipalities through enhanced efficiency and capacity to provide services and facilities to residents. By pooling together their resources, municipalities are able to achieve results that would not be feasible independently.

However, the increased need for municipal cooperation brings about several challenges to municipal autonomy. By definition, collaboration with adjacent municipalities limits each municipality's ability to build its own vision for the future. As well, a certain level of competition exists among municipalities that must be overcome in order to successfully construct these agreements. Perhaps most challenging are the unintended impacts that can occur from one jurisdiction's development on their neighbours and regional partners. Alberta's unprecedented growth has caused many municipalities to look outside their borders for revenue sources to support service and infrastructure demands related to their neighbour's development. In order to be effective, municipalities need to begin thinking about planning and sustainability in a broader context that includes their neighbours.

At a high level, there are three approaches to inter-municipal financial partnerships: cost sharing, delivery sharing and revenue sharing agreements. However, there is no clear consensus on definitions for these terms. This can cause issues when establishing a sound framework for these arrangements. Section 1.1 provides the working definitions for this paper.

1.1 Definitions

Inter-municipal financial partnerships can include sharing in various aspects of an initiative, including cost, delivery or revenue sharing agreements. In order to evaluate the strengths and weaknesses of each, it is important to identify the fundamental elements of each. Because these arrangements can be quite complex and highly variable, the following definitions are based upon characteristics that comprise the core of the three arrangements.

The idea of effective inter-municipal sharing can be summarized as one of three possible types of ventures.

1. Cost Sharing

This model is founded on the concept of being a good neighbour. Any program, service, or facility developed by a municipality will impact adjacent municipalities positively and negatively. New initiatives may benefit neighbouring municipalities, through new jobs or increased recreational opportunities, but often come with associated costs (e.g. deterioration of roads, escalating demand for core services, etc.).

Cost sharing arrangements are built upon the notion that municipalities are entitled to the benefits they create from development, but should take responsibility for the impacts they produce. If a municipality experiences detrimental effects resulting from another's development, the developing municipality should compensate for these effects.

2. Delivery Sharing

Alternatively, if a municipality directly benefits from the infrastructure and services provided by another (such as enhanced service delivery for fire protection, recreational opportunities, etc.), an agreement should be formulated to partner with the other municipalities for the costs linked to these benefits. These shared service agreements can also be developed to share project costs for joint-use facilities or services. In this way, cooperating municipalities can work together to determine the associated costs of an initiative. These costs can be divided based on a number of factors, such as usage rates or availability of service.

3. Revenue Sharing

A revenue sharing arrangement between Alberta municipalities is an approach that has historically been used because of the relative simplicity of calculation. These agreements are focused on the idea of inter-municipal cooperation, where municipalities share the benefits generated from a specific project. The shared revenue is then used to cover each municipality's associated costs. Revenue projections are irrelevant to most agreements as allocations are typically calculated as a set percentage.

Revenue sharing agreements are made between two or more municipalities who agree to share revenue from a specific source (i.e. property taxes, user fees) over a certain time frame. As stated above, arrangements are usually created based on a fixed percentage of the revenue stream that is generated from a specific land asset or project.

As Alberta's economy continues to flourish, development will expand regionally and impacts across municipal boundaries will intensify. As well, property taxes are an important revenue stream for many municipalities, which can cause disputes between neighbours and slow the pace of development. Therefore, working together through revenue sharing agreements may assist to deal with uncertainty in a region.

1.2 Guiding Principles

To guide our analysis of these concepts, the following principles should shape the development of inter-municipal arrangements. They are based on a balanced approach that takes the differing values of stakeholders into consideration.

Voluntary – Inter-municipal financial partnerships should be at the discretion of the participating municipalities. Such arrangements work best where municipalities can negotiate the details themselves. Municipalities are in the best position to determine how to deliver quality and cost effective services to ratepayers.

Autonomy – Municipalities are autonomous entities and have the right to determine how best to meet the interests of their ratepayers.

Right to Benefit – A municipality must have the right to develop resources within their jurisdiction and enjoy the associated benefits. One municipality cannot limit the growth of another municipality. Furthermore, a municipality has the right to utilize its tax revenue to maintain and/or enhance services to its ratepayers.

Cooperative – Municipalities must work collaboratively to establish inter-municipal financial partnerships to benefit both organizations. Inter-municipal financial agreements must consider opportunities within urban and rural jurisdictions.

Transparent – Inter-municipal financial partnerships must be open and understood by all affected parties. Transparency applies at all levels of stakeholder interaction.

Objective – Inter-municipal financial partnerships must be based on real, tangible, measurable factors.

Flexible – Inter-municipal financial partnerships must be adaptable to reflect changes in economic, environmental, geographic and social conditions.

Citizen Focused – Inter-municipal financial partnerships should be focused on enhancing service delivery to ratepayers. Certain services can be delivered at a lower cost when coordinated and delivered by more than one municipality. Examples include public transit, utilities and public waste management.

Accountable – Inter-municipal financial partnerships should provide the opportunity for participating municipalities to have input into how services are delivered and the financial partnership agreement is administered. This will ensure that the needs of all ratepayers are being met.

2.0 Current Environment

Through background research and consultation with a number of Albertan municipalities, we have identified some significant trends and issues related to inter-municipal financial agreements. As well, insets are provided throughout the paper summarizing examples of effective inter-municipal agreements in Alberta.

2.1 Trends

In 2006, Alberta's economy grew by almost 7 per cent compared to the previous year and is predicted to be one of Canada's top growing economies for the foreseeable future. This strong economy continues to bring prosperity to the province and its residents. Each year, thousands of people move to Alberta to take advantage of its prosperity and high quality of living.

Major Construction

High oil prices have helped ensure that economic activity in the province continues to thrive, causing unprecedented construction activity in the energy sector and related industries. As of August 2007, major construction projects across Alberta totalled approximately $225 billion. More than half of these projects were related to the oil sands (about $148 billion), while the infrastructure sector was second at $17 billion.

Working Together # 1 – Fire Protection Services

- **Beaver County** **- Village of Ryley**
- **Town of Tofield** **- Village of Holden**
- **Town of Viking**

Beaver County and nearby communities have developed a shared service agreement to jointly deliver fire protection services in the area. Specific costs linked to operating the fire department have been identified and divided among the partners.

A formula was developed to share costs equitably. Costs are spit based on parcel count (33%), population (33%), and usage (33%). These criteria are objective and easily measurable.

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

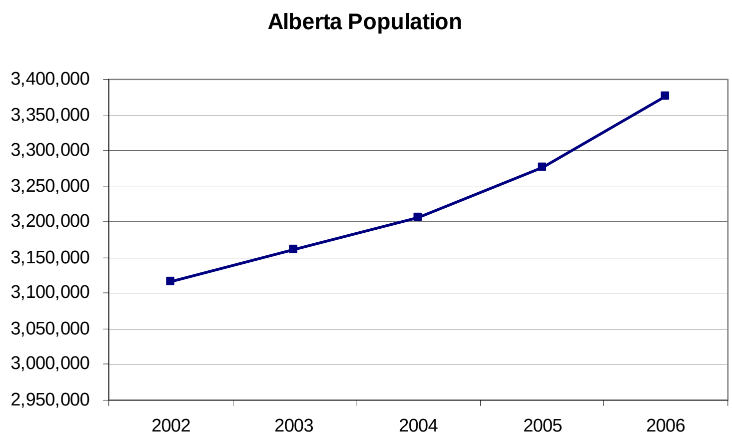
Table 2.1 Inventory of Major Alberta Projects (August, 2007)

Sector	# Total Projects	Value of Projects($millions)
Oil Sands	52	$147,782
Infrastructure	293	$16,503
Institutional	194	$11,725
Pipelines	34	$8,687
Power	31	$7,910
Commercial/Retail	106	$7,814
Other	301	$23,988
Total	**1011**	**$224,409**

Source: Inventory of Major Alberta Projects, Summary August 2007
Alberta Employment, Immigration and Industry

For Alberta's municipalities, provincial economic success and prosperity also brings several challenges. As communities throughout the province continue to grow, their residents demand increased levels of service. Many municipalities struggle to keep up to this demand with their limited resources. In addition, the large construction projects listed above have produced a considerable migration of workers to the province who are looking to take advantage of Alberta's current job market. This migration causes significant demand for the development of infrastructure to support the increase in population.

Table 2.2 Population of Alberta, 2002-2006



Source: Statistics Canada

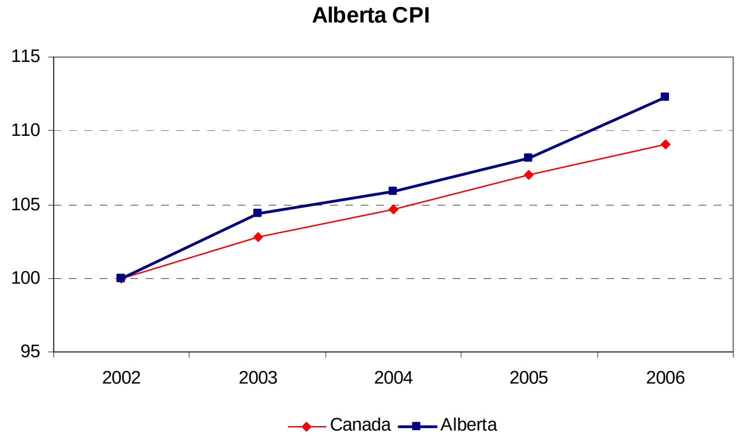
Infrastructure

Alberta's booming economic climate not only requires the construction of new infrastructure to support the various facets of growth, but creates difficulty in dealing with the backlog of deferred maintenance on existing infrastructure. Municipalities are challenged with managing their limited human and financial resources effectively to maintain their inventory of roadways, buildings, and physical equipment.

The Governments of Alberta and Canada have lent support through a number of recent infrastructure programs: the Canada Alberta Gas Tax Transfer (formerly the New Deal for Cities and Communities), the Alberta Municipal Infrastructure Program and, most recently, the Municipal Sustainability Initiative. However adding to the problem of deferred maintenance is a shortage of labour required to maintain municipal infrastructure. Major projects draw a large portion of the labour force, leaving municipalities with limited options for finding workers. This can result in significant cost escalation in areas where contractors may be difficult to secure.

Housing
Over the past five years, Alberta's consumer price index has risen almost 15 per cent, outpacing Canada over the same time frame. The main driver for this increase is the rise in shelter and housing costs. Combined with the rapid pace of population growth in many areas of the province, municipalities are faced with issues related to providing affordable housing to residents.

Table 2.3 – Alberta and Canada CPI, 2002-2006



Source: Statistics Canada

Regional Collaboration
Prior to 1995, Alberta was divided into regional planning commissions that were responsible for the planning and development in their respective regions. However, in 1995, the *Municipal Government Act* (*MGA*) was amended to remove the planning commissions. Municipalities were given more autonomy to determine their own future.

Many municipalities welcomed this change as they had lost confidence in the regional planning process or found it to be detrimental to their prosperity. However, municipalities still understood the importance of inter-municipal cooperation, and thus some developed their own agreements.

Today, there is a greater awareness of the need for municipal cooperation. Although not in the same sense as the regional planning commissions, municipalities recognize that inter-municipal collaboration can provide a higher level of programs and services to their residents. While the type and scale of arrangements being formed varies greatly, overall trends show that many municipalities are being proactive in trying to find solutions to regional issues.

In addition, a larger component of grant funding from other orders of government is being allocated towards inter-municipal collaboration. Programs such as the Municipal Sponsorship Program (MSP) provide incentives when municipalities collaborate with their neighbours. Cooperation, especially in Alberta's economic climate, is becoming an essential component to local governance.

2.2 Issues

Through a series of interviews with Alberta municipal officials, a number of issues regarding the provision and funding of municipal services and programs have been identified. Some of these issues are a result of current municipal practices that need improvement, while others are due to a lack of information or a clear understanding of how to construct inter-municipal arrangements.

Working Together # 2 – Cost & Revenue Sharing Agreement

- **Sturgeon County**
- **City of St. Albert**

Recently, the City of St. Albert was looking to expand its commercial development but required land from neighbouring Sturgeon County to do so.

Both municipalities realized the benefits of commercial expansion in the area, and worked together to construct an agreement. The partners identified various cost components linked to the development and agreed to share revenue generated from property taxes. Through mediation, an agreement was formed that allowed them to share costs and revenues of the commercial development which benefits both municipalities.

Lack of comprehensive planning.
For the most part, past planning exercises undertaken by Alberta municipalities have not considered the upfront costs associated with the critical infrastructure required to support the development outlined in the plan. As a result, municipalities are forced to rely on local property taxes to fund the burden of new infrastructure.

Perceived obligation to share costs.
For municipal developments that have a perceived or real benefit to neighbouring municipalities, it is often believed by the developing municipality that the associated delivery and infrastructure costs should be shared with their neighbours. While this may be the case, there is often difficulty in agreeing to and collecting objective data to support the case.

Lack of information to quantify costs of one municipality to another.
The idea of cost sharing agreements is generally well received by Alberta municipalities, but it can be difficult to implement. Our interviews with Alberta municipal administrators suggest that only limited work has been done to determine the cost impacts of development in one municipality on another.

Limited focus on non-traditional financing.
Numerous examples of joint service delivery throughout the world exist. However, most of these arrangements are funded on a user pay basis, through property taxes or government grants. There are few examples regarding the development and implementation of cost sharing among municipalities to fund service delivery based on validated, objective data.

Preference for revenue sharing.
Historically, revenue sharing has occurred because it is easier to calculate than the costs to be shared. Typically, agreements provide for the sharing of tax revenue based on a negotiated percentage. Participants during the interviews for this paper suggested that most agreements tend to hover around a 50%-50% arrangement often due to similar populations of the partners involved. However, sharing revenue does not reflect the varying levels of contribution by municipalities for various projects.

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

Sustainability is critical.
Municipalities recognize the importance of building relationships and agreements that will contribute to the overall strength and prosperity of the region in the long-term. Formal agreements work towards this goal by providing practical and predictable roles and responsibilities for partnering municipalities over a number of years.

3.0 Types of Agreement Frameworks

There are a variety of forms that inter-municipal arrangements can take. The success of these arrangements depends on a multitude of factors, including the willingness to collaborate, type of program or service, and specific regional circumstances. Therefore, a number of alternatives exist for Alberta's municipalities.

3.1 Getting Started

Regardless of the type of arrangement, municipal partnerships must be developed such that each municipality can take action to address their community's needs. Sustainable agreements outline a solid framework for a project or service, where independent municipal decision making is replaced by support for regional collaboration for these initiatives. These outcomes can be achieved if the vision, objectives and strategies of each municipality are aligned and focused on providing benefits to citizens.

In order to be successful, municipalities looking to form inter-municipal partnerships should perform a number of critical activities. These activities are aligned with the guiding principles outlined earlier.

1. **Have a clear vision for your municipality's future.** Inter-municipal arrangements will not be successful unless each party has an idea of where it would like to be in the years to come.

2. **Develop strong relationships and trust with your neighbours.** Establishing good relationships with your neighbours may seem obvious, but sometimes it can be difficult when differences in viewpoints exist. Successful efforts in the past have used methods as simple as joint council meetings to open dialogue and build trust. It is important to look for parallels in each other's perspective as a starting point to build upon.

3. **Establish regional goals and expectations.** When the foundations for a good working relationship have been built, collaborate with your neighbours to determine regional objectives that will benefit all citizens. This can include:
    a. Identifying and discussing the similarities and differences in your municipalities.
    b. Trying to reduce duplication and overlap across the region.
    c. Ensuring there is equal representation from all participating parties.

4. **Consider the potential growth patterns of future development in the region.** Think about the short-term and long-term trends of the region, and any issues that may arise as a result. This includes any possible residential, commercial, and industrial development that will affect the region in coming years.

5. **Identify areas of joint service delivery.** Through discussions with municipalities in your area, look for places where inter-municipal financial partnerships will derive benefits for each municipality. List the costs and benefits of a collaborative effort to jointly delivery services.

3.2 Distinguishing Among Inter-municipal Financial Partnerships

Sometimes it can be difficult to determine which approach will work best in certain situations. This section provides a high level conceptual model based on the level of predictability and the anticipated number of municipalities expected to benefit from the initiative. The discussion then goes on to highlight the strengths and challenges of inter-municipal financial partnerships (cost, delivery and revenue sharing).

3.2.1 A Conceptual Model

The challenge to the development of these agreements is the ability to forecast the locations of where costs and benefits from these projects will result. In hindsight, this often seems obvious but when placed in the moment when agreements are negotiated, the level of predictability is crucial in selecting the most appropriate model. The various partnership definitions can be viewed based on their level of predictability and the number of municipalities expected to benefit.

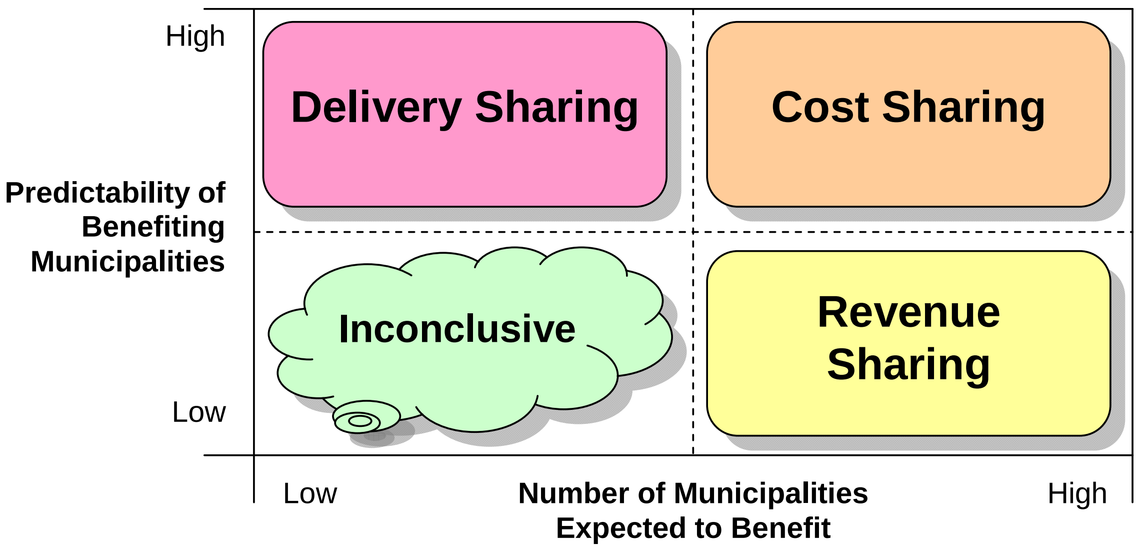


Figure 1.1 - Partnership Models

Figure 1.1 illustrates the general direction related to each of these options. The level of predictability regarding who will benefit among partners is often one of the key considerations. As we have seen in a number of industry attraction partnerships, such as the Industrial Heartland or the Joint Economic Development Initiative (JEDI), it was impossible to predict in which municipality industry would choose to invest, but it was understood that development would concentrate benefits in one municipality. That is, one municipality would 'win' and others would 'lose'. As a result, partners decided to promote the region as a whole and share associated revenue as a risk mitigation technique to ensure that they were not competing with each other. This formed the basis of a revenue sharing agreement.

In other initiatives, such as the Fire Protection Services Agreement among Beaver County and its neighbours, it was highly predictable where the benefits of the project would result. The very nature of the agreement determined that fire protection would be available equitably to all municipalities; thus, the delivery sharing model was adopted.

Limited work has been conducted to date regarding projects that have highly predictable results and benefits focused to a single municipality. These initiatives typically provide a net benefit to one municipality, while at best causing no additional requirements on their neighbours. More often though unintended impacts on neighbouring municipalities result in increased costs without a compensating benefit. In these instances, the increased costs, due to such impacts as increased traffic flows or service demands, should be quantified and shared by the generating municipality, forming the basis of a cost sharing arrangement.

It is difficult to provide direction in instances where the level of predictability is low and the anticipated benefit is centered in one municipality. These instances require further study to determine if financial partnerships are warranted.

3.3 Partnership Models

As stated, inter-municipal financial partnerships can be developed in a number of forms. This section provides a discussion of the general strengths and challenges of each.

3.3.1 Delivery Sharing

Shared service arrangements involve two or more municipalities working together to jointly delivery services to citizens. In this way, municipalities are able to divide the costs among partners, creating efficiencies and lowering overall costs. Shared service agreements also allow for costs to be split according to specific criteria, such as usage rates or population. These agreements work well for projects or services that do not have foreseeable profit potential, such as road maintenance or water and sewage treatment operations, but provide direct benefit across the involved municipalities.

Such agreements are very versatile and can be applied to many situations. If well defined, these arrangements offer a fair and balanced approach to the sharing of services among multiple municipalities.

Table 3.1 – Strengths and Challenges of the Delivery Sharing Model

Strengths	Challenges
▪ Economically efficient	▪ Requires more detailed calculations
▪ Creates a uniform quantity and quality of service across the region	▪ Increased data collection and reporting requirements

Based on the experiences of Albertan municipalities shared through our interview process, shared service agreements can be effective for a number of programs or services, including:

- Public Utilities (i.e. water, sewage, electricity, waste management)
- Transportation Services
- Recreational Facilities
- Emergency Services
- Seniors Accommodation
- Libraries

Working Together # 3 – JEDI

- **City of Wetaskiwin**
- **County of Wetaskiwin**
- **Town of Millet**

These three municipalities joined together to establish JEDI, which stands for Joint Economic Development Initiative.

Each municipality understands that new development, regardless of specific location, produces benefits for all partners. To take advantage of this, they work together to promote healthy economic growth across the entire region. The members support the JEDI through a revenue and cost formula based on population.

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

3.3.2 Cost Sharing Model

The cost sharing agreement differs from the delivery sharing model in certain aspects. This model focuses on impacts on one's neighbours as the result of a new project or service in a municipality. The impact on neighbouring municipalities can be positive, negative, or both.

This model uses these impacts to determine which costs should be shared between the municipalities. If one municipality produces negative effects on its neighbours, then it should be responsible for a portion of the costs to minimize those effects. Alternatively, if one municipality produces indirect benefits for its neighbours, then the neighbours should be responsible for a portion of the costs of producing those benefits.

Table 3.2 – Strengths and Challenges of the Economic Rent Model

Strengths	Challenges
▪ Rewards risk	▪ Difficult to assess impacts on neighbours
▪ Compensates impacted partners	▪ Enhanced accountability for municipalities

The cost sharing model can be effective for the following programs or services:

- Commercial or industrial development localized in one municipality
- Construction of new residential development in one municipality

3.3.3 Revenue Sharing Model

The revenue sharing model is based upon the idea that municipalities should share revenue from a specific source in order to bring strength and prosperity to the entire region. Revenue sharing arrangements are beneficial for municipalities when there is a certain degree of uncertainty with a project or service opportunity. For example, municipalities may work together in order to attract business/industrial development to the entire region. Further, if it is uncertain where specifically in the region development will occur, revenue sharing arrangements can ensure cooperating partners receive some benefit regardless of location.

Table 3.3 – Strengths and Challenges of the Revenue Sharing Model

Strengths	Challenges
▪ Easier to calculate and manage	▪ Reduces autonomy
▪ Encourages regional cooperation	▪ Tends to over compensate junior partners
	▪ Compensation is based on negotiation not true costs

Revenue sharing agreements can be effective for the following programs or services:

- Regional development with no obvious jurisdictional location
- Urban residential expansion into rural areas

However, appreciation for revenue sharing is not universal. In the paper, 'Local Government Resource Handbook' prepared by Service Nova Scotia and Municipal Relations, the authors are critical of revenue sharing agreements:

> *The redistribution of municipal tax revenue … is often not practical under inter-municipal agreements because the mandate of elected municipal officials is to represent local interests and not voters in adjoining units. Making municipal tax redistribution a condition of inter-municipal agreements can be akin to imposing taxes in one municipal unit to finance projects or services in other units.*

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

3.4 Regional Commissions

Regardless of the partnership model that is pursued, municipal collaboration may extend beyond individual agreements. Certain regional issues can be best handled through establishing a regional agency. For example, it may be beneficial for the municipalities in an area to form a regional water commission to attract and retain a specialized labour force to perform the necessary duties of water treatment.

The *Municipal Government Act* (*MGA*) section 602.02 states that commissions can be established by the Lieutenant Governor in Council, on the recommendation of the Minister, by regulation. The regulation identifies the municipal authorities that are members of the commission and specifies the services that the commission is authorized to provide.

Regional commissions can be useful in circumstances where a partnership will produce economies of scale. Economies of scale exist when per unit costs of delivering services decline as the population base served increases. Typically, services where economies of scale are found have large infrastructure costs. For example, if a number of municipalities are too small to attract or retain residents or industrial development alone, a regional commission can be used to jointly deliver these services across the region.

Establishing a regional commission may be appropriate for:

- Services requiring specialized labour
- Projects with large infrastructure costs
- Strict regulatory environments
- Significant regional economic development

4.0 Developing Agreements under Each Model

Through discussions with Albertan municipalities, a number of key steps were identified as critical factors for all involved parties to work through in building a successful agreement. Sections 4.1, 4.2 and 4.3 provide high level frameworks on how to construct an inter-municipal financial agreement. They do not provide a detailed plan, but highlight the necessary steps to build a solid foundation for your agreement.

4.1 Delivery Sharing Model

Step 1: Determine costs to be considered.
Before you begin to develop your shared service agreement, you should meet with the involved parties and develop a list of all costs that are associated with the program or service. This may include costs such as:

- Equipment or capital assets
- Operational costs
- Fuel
- Replacement
- Training and development
- Repair and maintenance
- Consumables

Step 2: Determine the service areas to be used.
The service areas can be dependent on a number of factors. However, you should use objective data wherever possible, such as historical usage rates, distance from a service or standard

response times. If there is limited objective data, collaborate with your partners and use subjective mapping to determine the service areas.

Step 3: Determine objective cost criteria.
Collaborating with your partners, identify a list of measurable and objective costs that can be used to structure the agreement. Ensure that the costs you identify have a real relationship to the program or service. Criteria can include but is not limited to:

- Population – Is the program/service available to all residents?
- Usage rates – Who has historically used the program/service?
- Equalized assessment – Is use tied to property ownership?

Step 4: Estimate cost responsibilities.
Once you have established the service areas and cost criteria, you will need to work with your partners to develop reasonable cost responsibilities for each municipality. These will be based upon the cost criteria you have established. The table below provides an example cost break down based on the services to be shared.

Table 4.1 – Example cost breakdown

	Waste Management	Ambulance	Rec. Centre
Municipality A	45%	33%	50%
Municipality B	45%	33%	25%
Municipality C	10%	33%	25%

Step 5: Track data.
Now that you have developed the shared service agreement, it is important to track the relevant costs you have identified. For example, if you have created an arrangement to build a new arena in the region and usage rates are part of the formula, you will need to measure the usage rates of the new facility from each municipality.

Step 6: Adjust contributions.
Based on the objective data that you have tracked, make any necessary adjustments to the contribution levels of the partners to ensure the agreement remains fair and balanced.

Step 7: Evaluate agreement.
Work with your partners to establish a method to evaluate your agreement. Depending on the timeframe of the agreement, it may be helpful to undertake an evaluation on an annual basis. If there is a set end date, you may wait until the agreement had ended. The information you gather will be invaluable when developing new agreements in the future. Ask questions such as:

- Did the arrangement enhance service delivery?
- Were the objectives realistic, and were they achieved?
- Did each municipality meet their obligations?
- What could have been done differently to improve agreements in the future?

4.2 Cost Sharing Model

Step 1: Determine the impact of your project or service opportunity on neighbours.
When a new project or service opportunity has been developed that is likely to impact the neighbouring municipalities, hold a meeting with the affected parties to discuss the project/service. Outline the project or service and work together to determine the possible impacts the initiative will

have on each other. This can include negative impacts such as traffic congestion or pollution, or positive impacts such as increased commercial and industrial spin-off.

Step 2: Determine objective and measurable cost criteria to assess impact.
For the impacts that you have identified, develop a number of objective cost criteria that can be used to measure those impacts. Collaborate with your neighbours to ensure that these criteria can be measured and tracked over time. For example, if you have identified increased traffic on neighbouring roadways as a potential impact, undertake a vehicle count before and after the project or service has been implemented. From this you can assess the impact of additional traffic due to the new project or service.

Step 3: Develop a compensation method.
Compensation will depend on the impacts of development. If the developing municipality creates negative impacts on its neighbours, it should provide compensation. Alternatively, if the developing municipality creates positive impacts on its neighbours, then the neighbours should compensate that municipality for providing the program or service. Using the criteria you have established, discuss with your partners the most effective and equitable way to compensate for the impacts of the project or service.

Step 4: Track data.
Once the foundation of the agreement has been established, it is important to track the relevant costs you have identified. For example, if you have created an arrangement where the developing municipality compensates its neighbours for increased traffic on its roads, measure and track road maintenance data for those roads.

Step 5: Adjust contributions with last payment.
Based on the objective data that you have tracked, make any necessary adjustments to the compensation levels of the partners to ensure the agreement remains fair and balanced.

Step 6: Evaluate agreement.
Work with your partners to establish a method to evaluate your agreement. Depending on the timeframe of the agreement, it may be helpful to undertake an evaluation on an annual basis. If there is a set end date, you may wait until the agreement had ended. The information you gather will be invaluable when developing new agreements in the future. Ask questions such as:

- Did the arrangement enhance service delivery?
- Were the objectives realistic, and were they achieved?
- Did each municipality meet their obligations?
- What could have been done differently to improve agreements in the future?

4.3 Revenue Sharing Model

Step 1: Determine revenue streams to be considered.
The first step in building a revenue sharing arrangement is for all involved parties to determine the revenue streams that will be included in the agreement. Revenue may be generated from existing areas or from future development. Some examples include:

- Residential property taxes
- Business or industrial development taxes
- User fees

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

Step 2: Determine the partnership area to be used.
The partnership area should be defined by the possible locations for the development and the areas to be impacted as a result.

Step 3: Determine objective criteria.
Collaborating with your partners, identify a list of measurable and objective criteria that can be used to structure the agreement. Think about the most effective way to allocate revenue streams that is considered fair to each partner. This could involve:

- Distribution based on population
- Fixed percentage allocation
- Equalized assessment

Step 4: Determine responsibilities.
Once you have established the partnership area and agreement framework, you will need to work with the other partners to develop reasonable responsibilities for each municipality. These will be based upon the objective criteria you have established.

Step 5: Distribute revenue.
After developing the revenue sharing arrangement, track the flow of revenue you have identified. Compare the actual revenue against any forecasts to determine if the criteria you have established are fair and balanced across the municipalities.

Step 6: Evaluate agreement.
Work with your partners to establish a method to evaluate your agreement. Depending on the timeframe of the agreement, it may be helpful to undertake an evaluation on an annual basis. If there is a set end date, you may wait until the agreement had ended. The information you gather will be invaluable when developing new agreements in the future. Ask questions such as:

- Did the arrangement meet the initial revenue objectives?
- Were the objectives realistic?
- Did each municipality meet their obligations?
- What could have been done differently to improve agreements in the future?

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

5.0 Recommendations

The alternatives presented in this paper offer a number of approaches to inter-municipal agreements that can be effective in different situations. The following recommendations are based upon the guiding principles and the most practical and sustainable solutions for such arrangements.

5.1 Recommendations to Municipalities

Recommendation 1: Develop complementary plans.
Municipalities entering into an inter-municipal financial partnership should have complementary plans. This may include an Inter-municipal Development Plan, Municipal Development Plan or a strategic plan for a specific service.

Recommendation 2: Determine the overall cost impact of projects or programs.
Municipalities should consider the overall cost impacts of their initiatives. It is important that potential cost impacts be quantified for all stakeholders, not just other municipalities, but provincial government organizations, such as Alberta Transportation as well. If a multi-party agreement is required, it is critical that there is agreement before any development commences. The costs of capital, transportation infrastructure and maintenance/operating should be shared by the impacted municipalities based on objective cost criteria.

Recommendation 3: Determine objective formulas for inter-municipal financial partnerships.
Municipalities must work collaboratively with their neighbours to construct objective criteria and formulas for developing their inter-municipal agreement. A successful agreement will stem from a formula that is derived from measurable criteria that are directly linked to the costs or revenues of a project/service that is considered fair to all participants.

Recommendation 4: Use cost sharing or delivery sharing agreements.
Our research has shown that cost sharing or delivery sharing agreements, in comparison to revenue sharing, can be used in a greater number of situations and areas. When correctly formulated, cost/delivery sharing arrangements allow municipalities to work together while still retaining autonomy and independence.

Recommendation 5: Develop dispute resolution mechanisms.
Municipalities should recognize that inter-municipal arrangements may not always work as planned. There may be circumstances that arise causing disputes to occur over the agreement. Municipalities should build dispute resolution mechanisms into the agreement to resolve issues quickly and effectively.

5.2 Recommendations to the Government of Alberta

Recommendation 6: Generally support cost sharing or delivery sharing rather than revenue sharing.
The Government of Alberta should adopt a position of supporting cost sharing or delivery sharing over revenue sharing. While more difficult to formulate, municipalities should be encouraged to explore cost or delivery sharing arrangements with neighbouring municipalities. Cost sharing or delivery sharing provide a more equitable mechanism in most areas of cooperation. The applicability of revenue sharing is limited to very specifics instances where the placement of an opportunity can be in multiple locations. In such a case, a revenue sharing agreement is an effective risk mitigation method. However, as distributions in revenue sharing models are based on arbitrary percentage allocations, they do not appear to reward partners on objective grounds.

Recommendation 7: Conduct further research on cost sharing standards.
The Government of Alberta should work with municipal associations and municipalities to further research cost sharing standards. The concept of taking responsibility for the impacts of development to a neighbouring municipality is generally accepted. However, calculating the compensation is a difficult task. Such research should include a series of case studies to determine the true cost of one municipality to another. Specific case studies could include the following scenarios:

- Industrial projects in areas neighbouring urban centres to determine impacts on transportation infrastructure.
- Impacts of rural industrial projects on affordable housing and social service provision in adjacent urban areas.
- Positive economic impacts resulting from rural residential areas on urban centres.

Recommendation 8: Support the enhancement of the existing AAMDC/AUMA Cost Sharing Toolkit.
The Government of Alberta should provide funding for the enhancement of the existing toolkit developed through the work of the AAMDC-AUMA Rural-Urban Cost Sharing Task Force. It should be refined to provide municipalities with a way to evaluate the models outlined in this paper for various situations. Using a cost-benefit analysis, municipalities should work together to assess their desired level of commitment (financial and effort) to determine if a cost sharing or delivery sharing arrangement would be appropriate for future projects. This toolkit should also provide methods for determining how costs will be shared using the three models explored in this paper.

Recommendation 9: Develop templates to outline shared accountabilities between municipalities.
Inter-municipal financial partnerships should provide a framework for participating municipalities to ensure the effective management of agreements. To ensure the needs of ratepayers are met, all municipalities must have the opportunity to participate in an inclusive and collaborative governance framework. It is important that the sample frameworks take into account differences among partners and varying levels of commitment.

Recommendation 10: Enhance expertise in Municipal Affairs to assist municipalities in developing inter-municipal financial partnership arrangements.
The Government of Alberta should establish expertise within the Municipal Affairs advisory positions to assist municipalities in exploring inter-municipal financial partnerships. Such agreements are complex and have significant financial impacts. Municipal Affairs is in a unique position to offer advice to all Alberta municipalities. This expertise would assist municipalities in determining the applicability of various forms of agreements and their development.

5.3 Recommendations to the AAMDC

Recommendation 11: Enhance the AAMDC/AUMA Cost Sharing Toolkit.
Using financial support provided by Recommendation 8, the existing toolkit should be refined to provide municipalities with a way to evaluate the models outlined in this paper for various situations. Using a cost-benefit analysis, municipalities should work together to assess their desired level of commitment (financial and effort) to determine if a cost sharing or delivery sharing arrangement would be appropriate for future projects. This toolkit should also provide methods for determining how costs will be shared using the three models explored in this paper.

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

Recommendation 12: Create a repository for inter-municipal financial partnership agreements.

The AAMDC should develop a searchable on-line repository to share inter-municipal financial partnership agreements among all the municipalities in the province. This site would allow participants to upload their agreements and search those of others as a means to share past efforts in an easy and cost effective manner.

Recommendation 13: Advocate on behalf of AAMDC members for the implementation of cost or delivery sharing agreements rather than revenue sharing agreements.

Where inter-municipal financial partnerships will be established, the AAMDC should encourage the Government of Alberta and Alberta municipalities to support the development of cost or delivery sharing agreements rather than revenue sharing agreements. Revenue sharing agreements should be limited to use as a risk mitigation tool in highly unpredictable circumstances.

6.0 Action

The following provides an overview of the actions suggested to enact these recommendations.

Table 6.1 – Plan for Action

	Activity	Purpose	Actor	Timeframe
1	Communicate this report to members.	To share the experiences of members and raise awareness of inter-municipal financial partnership agreement techniques.	AAMDC	Upon acceptance by the AAMDC Board
2	Apply the ‘Recommendations to Municipalities’.	To enhance the effectiveness and equity of current and future inter-municipal financial partnership agreements.	Members	Upon receipt of communication
3	Develop standards for cost sharing.	To give municipalities some standard tools for determining the potential impacts to others that may be created due to their initiatives.	GOA	Upon acceptance by the AAMDC Board
4	Develop templates to outline shared accountabilities between municipalities.	To enhance the effectiveness and equity of current and future inter-municipal financial partnership agreements.	GOA	Upon acceptance by the AAMDC Board
5	Establish expertise in Municipal Affairs to assist municipalities in developing financial partnership arrangements.	To assist municipalities in determining the applicability of a financial partnership agreement and its development.	GOA	Upon acceptance by the AAMDC Board
6	Fund the enhancement of the AAMDC/AUMA Cost Sharing Toolkit as mentioned in Recommendation 8.	To promote the distribution and use of best practices in inter-municipal financial partnership agreements.	GOA	Upon completion of Activities 3 and 4.
7	Conduct the enhancement project for the Cost Sharing Toolkit.	To promote the distribution and use of best practices in inter-municipal financial partnership agreements.	AAMDC	Upon acceptance by the AAMDC Board and receipt of funding from GOA

Alberta Association of Municipal Districts & Counties
2510 Sparrow Drive Nisku, AB T9E 8N5 Phone (780) 955.3639 Fax (780) 955.3615 Web www.aamdc.com

8	Develop an online repository for inter-municipal financial partnership agreements.	To promote the distribution and use of best practices in inter-municipal financial partnership agreements.	AAMDC	Upon acceptance by the AAMDC Board
9	Advocate to the Government of Alberta and Alberta municipalities for municipalities to establish cost and delivery sharing agreements.	To increase awareness of the benefits of cost and delivery sharing agreements.	AAMDC	Upon acceptance by the AAMDC Board

7.0 Appendices

Appendix A – Participating Organizations & Information Sources

The following AAMDC members and Information Sources were contacted and provided information that was incorporated into this discussion paper.

Municipalities

- Beaver County
- County of Stettler
- County of Wetaskiwin
- Sturgeon County
- County of Lethbridge

Additional Stakeholders

- Municipal Affairs (Brian Quickfall, Michael Merritt, Gary Sandberg, Bill Diepeveen)
- Sustainable Resource Development (Brad Pickering)
- City-Region Studies Centre, University of Alberta (Douglas Knight)
- Alberta Urban Municipalities Association

Information Sources

- AUMA Position Paper, Multi-Jurisdictional Planning, February 22, 2007.
- The Fiscal Implications of Land Use: A "Cost of Community Services" Study for Red Deer County, Miistakis Institute, April 2006.
- Local Government Resource Handbook, Service Nova Scotia and Municipal Relations, December 2006.
- Statistics Canada