



CENTRAL YORK FIRE SERVICES

January 21, 2015

JOINT CENTRAL YORK FIRE SERVICES AND CORPORATE SERVICES REPORT - FINANCE 2015-03

TO: Joint Council Committee
SUBJECT: Cost Sharing Method to Improve Funding Stability
ORIGIN: MFIP Intern

RECOMMENDATIONS

THAT Joint CYFS/Corporate Services Report – Financial Services – 2015-03 dated January 21, 2015 regarding a proposed cost sharing method to improve funding stability be received and the following recommendations be adopted:

1. THAT the Joint CYFS apply a four year rolling weighted average to the current Cost Allocation Methodology.
2. AND THAT the Consolidated Fire and Emergency Services Agreement be amended to incorporate this rolling weighted average approach to the Cost Allocation Methodology (with the wording as displayed in Appendix A) and that the Mayor and Clerk of each municipality be authorized to execute the amendment.

COMMENTS

Purpose

Both Aurora and Newmarket are satisfied with the current cost share determinants; however, they have identified that the current funding method is producing undesirable, volatile year to year cost shares.

Budget Impact

This recommendation will make the CYFS contributions more stable. There are no additional costs to implementing this funding method.

Summary

This report recommends implementing a four year weighted average to determine cost shares, where the most recent year is weighted at 40% and the other three years are weighted at 20% each. This method would reduce the cost share volatility by two thirds with no extra costs and a negligible cost share variance from the status quo.

Background

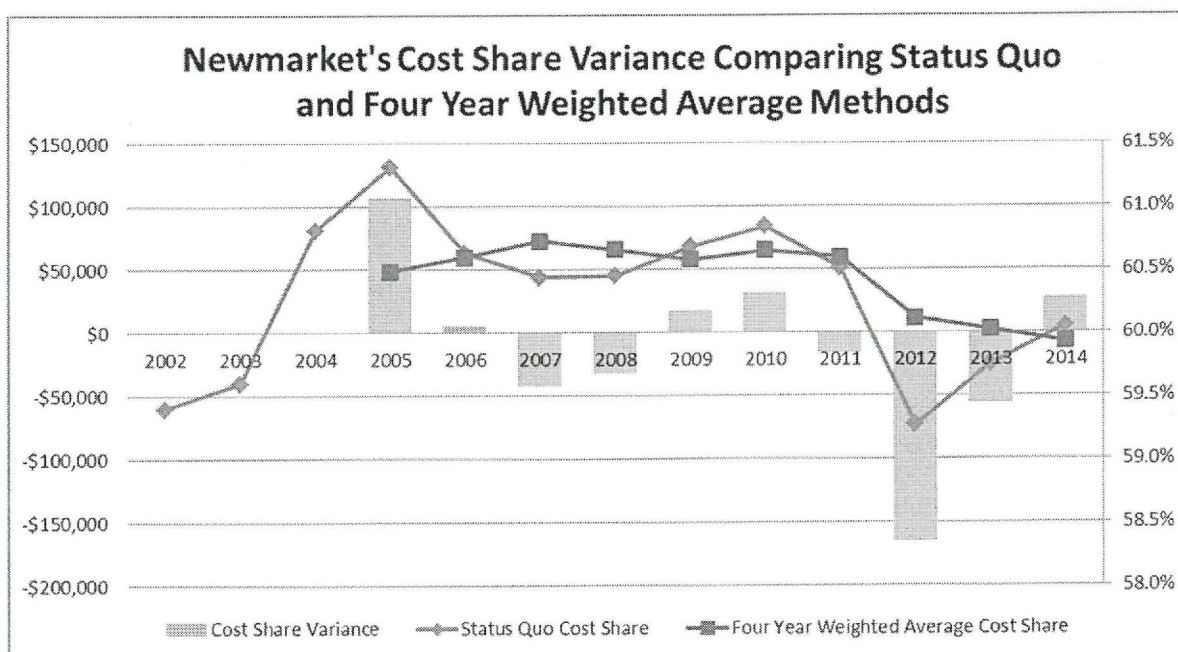
The current funding model uses call volume, population, and assessment value as the determinant of cost shares. The cost shares of the CYFS are set by using the determinant statistics of two years prior. For example, to set the 2014 cost shares, 2012 statistics were used. Using only one year to allocate the cost shares creates volatility as this makes cost shares very sensitive to changes in statistics, like a large development being added to the assessment value. Both municipalities and JCC have identified this volatility as undesirable.

Analysis & Options

Many methods were tested, such as using a four year average of growth rates, using four, eight, and twelve years of known data to project cost on an annual and a four year basis, and using negotiation to enter set terms at fixed rates. Methods were tested for stability, fairness, and efficiency.

In terms of stability, the four year weighted average method was among the lowest with the rate of slope change. This method reduces the rate of change year over year from 0.40% to 0.13%, a reduction of nearly two thirds. Under the current method, contributions have varied by as much as \$161,000 over one year. Using the proposed method, contributions would have varied at most by \$63,000 over one year. In terms of fairness, the four year average method creates the lowest contribution variance from the status quo out of all tested methods. If implemented in 2005, this method would have had a net \$6,000 contribution variance per year on average. To put the number in perspective, \$6,000 is 0.025% percent of the current 2014 CYFS budget. This variance is expected to remain small due to the cost drivers growing at similar rates in the long run for both municipalities. In terms of efficiency, the four year weighted average is a low cost and simple method of determining cost shares.

The graph below demonstrates the annual funding variance from the status quo. A positive variance means Newmarket would have paid less with the four year weighted average than with the status quo. The graph also demonstrates the increase in cost share stability.



IMPACT ON THE MASTER FIRE PLAN

As recommended by the 2014 Fire Department Master Plan, this report offers a solution to the year to year cost share fluctuation.

CONSULTATION


The Treasurers for both Aurora and Newmarket collaborated in developing the recommendation and are both supportive of the proposed change.

BUDGET IMPACT

This report has no direct impact on the consolidated CYFS Budget, although the individual municipal shares would change. It is anticipated that these changes will be minor and more than offset by stability and predictability of contributions.

CONTACT

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MM:FW/nh
Attachment

Appendix A - Cost Allocation Methodology Wording (1 pg.)

APPENDIX "A" - 2015-03

Existing wording:

Cost Allocation Methodology

Costs of operating the amalgamated fire service will be paid by each municipality based on the average of the following 3 calculations, equally weighted, at December 31, (and/or of each year). Payments will be made quarterly on February 15, May 15, August 15 and November 15

- Total assessment of municipality / Total assessment of both municipalities
 - Total population of municipality / Total population of both municipalities
 - Total calls for emergency response of municipality / Total calls for emergency response of both municipalities
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Proposed revised wording:

Cost Allocation Methodology

Costs of operating the amalgamated fire service will be shared by apportioning the approved budget for the year (expressed as a percentage rounded to two decimal points) as follows:

1.
 - a. 40% of the Annual Percentage for the period two years prior to the budget year; plus
 - b. 20% of the Annual Percentage for the period three years prior to the budget year; plus
 - c. 20% of the Annual Percentage for the period four years prior to the budget year; plus
 - d. 20% of the Annual Percentage for the period five years prior to the budget year.

2. For purposes of the formula in (1) above, "Annual Percentage" means:

the amount of the average of the following three calculations, equally weighted, as reported at the end of the referenced calendar year period:

- a. Total assessment (excluding fully exempt and linear properties) of the municipality divided by Total assessment (excluding exempt and linear properties) of both municipalities
- b. Total population of municipality as reported by York Region divided by Total population of both municipalities
- c. Total calls for emergency response located within municipality divided by total calls for emergency response within both municipalities (excludes calls outside of the boundaries of Newmarket or Aurora such as 404, mutual aid, automatic aid, or contracted services)

Newmarket will invoice Aurora quarterly with payments to be made on February 15, May 15, August 15 and November 15 of the budget year.