

July 29, 2013

To: His Worship the Mayor
and Members of City Council

Re: Interim Extra-Municipal Servicing Policy and Fee Structure

RECOMMENDATION OF THE EXECUTIVE COMMITTEE

- JULY 17, 2013

1. That the *Attachment 1 - Interim Extra-Municipal Servicing Policy* (the “Interim Policy”) be approved effective July 29, 2013.
2. That the *Attachment 2 - Interim Extra-Municipal Servicing Fees and Surcharges* attached to this report be approved effective July 29, 2013.
3. That the City Solicitor be instructed to prepare the necessary amendments to *The Regina Water Bylaw No. 8942* and *The Sewer Service Bylaw No. 5601* to accommodate the new interim extra-municipal servicing fees and surcharges.
4. That the City Solicitor be instructed to prepare the necessary amendments to *The Regina Administration Bylaw No. 2003-69* to authorize the Deputy City Manager, Community Planning and Development or his or her delegate to sign agreements relating to the provision of water, sewer and/or stormwater connections outside of City limits, provided the agreement is not with another municipality.

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Dr. Greg Argue, representing Strategy by Design addressed the Committee.

The Committee adopted a resolution to concur in the recommendation contained in the report. Recommendation #5 does not need City Council approval.

Mayor Michael Fougere, Councillors: Bryon Burnett, John Findura, Jerry Flegel, Shawn Fraser, Bob Hawkins, Terry Hincks, Wade Murray, Mike O'Donnell and Barbara Young were present during consideration of this report by the Executive Committee.

The Executive Committee, at its meeting held on July 17, 2013, considered the following report from the Administration:

RECOMMENDATION

1. That the *Attachment 1 - Interim Extra-Municipal Servicing Policy* (the “Interim Policy”) be approved effective July 29, 2013.

2. That the *Attachment 2 - Interim Extra-Municipal Servicing Fees and Surcharges* attached to this report be approved effective July 29, 2013.
3. That the City Solicitor be instructed to prepare the necessary amendments to *The Regina Water Bylaw No. 8942* and *The Sewer Service Bylaw No. 5601* to accommodate the new interim extra-municipal servicing fees and surcharges.
4. That the City Solicitor be instructed to prepare the necessary amendments to *The Regina Administration Bylaw No. 2003-69* to authorize the Deputy City Manager, Community Planning and Development or his or her delegate to sign agreements relating to the provision of water, sewer and/or stormwater connections outside of City limits, provided the agreement is not with another municipality.
5. That E12-40 be removed from the outstanding list for Executive Committee.

CONCLUSION

The Interim Policy and the associated fee structure are only applicable to potential direct retail customers outside of City limits (e.g., private land/property owners or development proponents). Inter-governmental agreements or wholesale agreements with third party servicing providers shall be examined outside the scope of the Interim Policy and the associated fees structure. Examination of inter-governmental or wholesale agreements shall consider the same elements and implications as evaluated within the scope of the Interim Policy.

The fundamental principles underlying the Interim Policy is service extensions beyond the City limits must not result in:

- (a) incompatibility with the City's immediate or planned future growth;
- (b) an additional financial burden on the City; or
- (c) an additional financial burden on development within City limits by inadvertently subsidizing growth outside of City limits.

From this perspective, the Administration is recommending in this Interim Policy that any new servicing requests received by the City must meet the requirements outlined in the Interim Policy and as is provided in this report in order to be approved.

In conjunction with the Interim Policy, the Administration is proposing the fee structure relating to the provision of serviced connections outside of City limits be updated to ensure parity exists between development within and outside of City limits. The updated fee structure will:

- (i) be set up to result in a net neutral cost to the City for reviewing, processing and ultimately approving a service connection outside of City limits;
- (ii) set rates that consider the current and future capital and operational costs incurred by the City. This is consistent with the requirements placed on developers acting within City limits who are required to pay all the capital costs of servicing either directly or through servicing agreement fees and development levies; and

- (iii) ensure the customer shall be responsible for all costs and liability arising from any third-party approvals, easements, engineering services, construction, operation and maintenance associated with the connection to the City's system that may be required.

As part of the fee structure, a connection fee equivalent to the fee placed on development within City limits through Servicing Agreement Fees and Development Levies (SAF) will be initiated. This fee will be calculated based on the size of development in hectares, which is consistent with the SAF policy used for all types of developments within City limits. However, the City is aware developments suited to be located outside City limits typically have large areas of unserviced activity combined with lower intensity of use on the site with a lesser number of employees as compared with developments suited to be inside City limits. A comprehensive review of the SAF policy is proposed to be conducted in 2014, and ways to calculate the fees may be included in the scope of the review and re-examined. The option however, exists within the interim policy where if the applicant can demonstrate in situations where the serviced development area of an approved use suited to be located outside City limits is smaller and requires limited servicing; the one-time connection fee may be reduced to a smaller area than of the entire development land parcel. Alternatively, the applicant can subdivide the parcel so the connection fee will only be applied to the exact portion of the property on which the City's services will be used.

BACKGROUND

On May 14, 2012, Council approved report CR12-66, which outlined a work plan intended to address the regional planning issues facing the City, including regional servicing, growth management, and the roles of the various municipalities and the Provincial government.

In order to advance the regional servicing issue, the Administration was directed to establish a cross-departmental team to formulate an interim policy with respect to the provision of services outside of City limits. This team included representation from Community Planning & Development Division, City Operations Division, Governance and Strategy including Communications, Finance through Utility Billing and Legal. As part of its work, the team has developed the Interim Policy and the updated fees associated with requests for the provision of water, wastewater and/or stormwater services including the provision of service via septic hauling outside of City limits that are detailed in this report.

Another team is in the midst of a comprehensive regional water and wastewater servicing study, which will provide additional information and details surrounding capacity, planning and funding issues that may be present with the provision of servicing outside of City limits from a long-term perspective. The Administration will apply an approved Interim Policy until the regional servicing study is completed in early 2014 and subsequent amendments or a replacement of the Interim Policy would be drafted and proposed for approval later in 2014. The report, E12-40 was discussed at the private Executive Committee meeting on September 5, 2012. With the Executive Committee's direction, the Administration circulated the report to the Rural Municipality (RM) of Sherwood, the Ministry of Government Relations and the Regina and Regional Home Builders Association (RRHBA) for feedback. The report is updated incorporating the comments received. The major changes to the report include:

1. A statement was added to clarify the Interim Policy and fee structure is only applicable to potential direct retail customers outside of City limits (e.g., private land/property owners or development proponents). Inter-governmental agreements or wholesale agreements with third party servicing providers shall be examined outside the scope of the Interim

Policy and fee structure. Examination of inter-governmental or wholesale agreements shall consider the same elements and implications as evaluated within the scope of the Interim Policy.

2. Recommendations toward the provision of services to residential developments outside of City limits have been changed. The requests for servicing new residential developments outside of City limits will be considered within the process equivalently to non-residential developments and thus be evaluated as per the proposed criteria outlined in the Interim Policy.
3. The review of an owners' or development proponents' requests for permission to discharge septic tank wastewater into the City's sewer system via City's the Septage Receiving Station has been added to the scope of the Interim Policy. The associated policy and fees were clarified.
4. The Communication section of the report has been updated and the feedback from the stakeholders is Attachment 4 of this report.

DISCUSSION

(1) Existing Policy and Procedures

A cross-departmental team has completed a comprehensive review of the current policy and process for reviewing requests made for the provision of services outside of City limits. More details are contained in Attachment 3 of this report. The major findings are summarized as follows:

(a) City Bylaws and Policies

The existing bylaws relating to the provision of services outside of City limits include *The Regina Water Bylaw No. 8942* and *The Sewer Service Bylaw No. 5601*. A policy focusing on water connections titled *Policy Regarding Water Connections Outside City Limits* has been in place since 1991.

(b) Delegated Authority

The Deputy City Manager, City Operations has executed most of the extra-municipal service agreements due to the signing authority pursuant to *The Regina Administration Bylaw*, Schedule E, clause 4(b). Complex cases, such as the water supply contract signed with the RM of Sherwood for collectively providing water to Sherwood Industrial Park, have required approvals from City Council.

(c) Evaluation Criteria

In the absence of a comprehensive servicing analysis and regional growth framework, the Administration and Council have responded to the servicing requests on a case-by-case basis, depending on the City's current capacity to provide services. Land use considerations, such as compliance with the City's *Official Community Plan* (the "OCP") and the District Plan, were also factors in the approval process.

However, there has been a lack of consistent criteria and tools for staff to determine the full implications of these servicing requests. In addition, there was no comprehensive, consistent and coordinated internal decision-making framework for assessing and responding to the requests received. Any future decision-making framework should be based on an evaluation of short-term and long-term servicing capacity, and an assessment of the impacts on other aspects of city infrastructure and assets, such as roadway maintenance and improvements, fire services, recreational facilities and future growth scenarios.

(d) Existing Agreements

The City currently has two agreements directly signed with the Rural Municipality of Sherwood No. 159: one for providing water collectively to the Sherwood Industrial Park; and one for firefighting services. The City also has 84 active water supply agreements/contracts with individual third party customers in the RM.

The City has an agreement with Brandt Industrial Ltd. for a connection to the City's sewage works.

The City currently has no stormwater service agreement with customers outside of City limits.

The City currently has no formal agreements in place with the RM of Sherwood (nor any other rural municipality) to address tax revenue sharing, recreational capital funding compensation models, larger regional servicing partnerships or growth management strategies.

The proposed Interim Policy and Procedures discussed further below would not impact or amend the existing agreements between the City and individual third party customers in the RM unless the extra-municipal customer wishes to amend the agreement.

(e) Fee Structure

According to *The Regina Water Bylaw No. 8942*, for premises connected to the City water system but are located outside of City limits, the regular water usage rates set out for customers within the City, plus an additional surcharge as determined by the City, shall apply to those premises.

According to *The Sewer Service Bylaw No. 5601*, persons residing outside of City limits may apply to the City for a connection to City's sewer system or for permission to discharge by other means to the City's sewer system, and that person shall pay a sewer service charge at such rates as may be determined by Council.

Historically, the provision of water and sewer service to users outside of City limits have been provided for a nominal connection fee, plus a 75% surcharge above the regular rates for the services being provided. However, it is unknown at this time whether or not the surcharges would offset the full cost of providing capital improvements or other services such as transportation, fire protection or recreation that result from development outside of City limits. It also unknown what the full extent of subsidization by the City in the surrounding RM and beyond is today for all City services provided, however the intent is to move towards a full cost recovery model through the mechanisms appropriate to the services provided.

(2) Proposed Interim Policy and Procedures

(a) City Bylaws and Policies

The Interim Policy has been constructed to assess future servicing requests outside of City limits based on an evaluation of net benefits to the City and the region, and considering the City's best short-term and medium-term interests.

This Interim Policy is intended to be a temporary measure that will be ultimately superseded by a long-term servicing strategy and policy in alignment with a broad regional planning approach.

Amendments to the *The Regina Water Bylaw No. 8942* and *The Sewer Service Bylaw No. 5601* will be required if the Interim Policy is approved.

(b) Delegated Authority

The Planning and Development Act, 2007 (Saskatchewan) allows a municipality providing service(s) to a property in another municipality to enter into a servicing agreement directly with the developer and to recoup the capital costs of that service.

The Administration recommends Council provide delegated authority to approve or deny applications that may be received for servicing outside of City limits in accordance with the Interim Policy and as is provided in this report. However, if it is unclear whether or not an application can result in net benefits to the City and the region, City Council's direction or decision will be required.

(c) Evaluation Criteria

A two-level decision making framework is proposed in order to evaluate requests to provide servicing to new development outside of City limits:

- The first-level is a filter to quickly exclude any applications that would conflict/compete with the City's growth or result in immediate engineering/technical challenges for the City to provide service; and
- If an application can meet the basic criteria of the first-level, it will then be evaluated based upon the principle of net benefit to the City and the region as set out in the prescribed evaluation criteria listed in Appendices B and C to this report.

The Administration is proposing any servicing requests received by the City for new developments must meet all of the following requirements in order to be approved:

- (i) The development will not result in a conflict with the City's OCP and the District Plan;
- (ii) The development is deemed to be more suitable to be located outside of City limits;
- (iii) The development will not result in immediate engineering/technical difficulties for the City to provide service; and

- (iv) The development will result in a net benefit to the City and region based on a set of evaluation criteria as listed in Appendices B and C.

Each application is to be considered on its own merits. Approval or denial of any application shall not bind the City to approval or denial of any other application.

(d) Agreements

Once the City accepts the servicing applications and receives the applicable fees, the City and the service proponent will go into the process of reaching an Extra-Municipal Servicing Agreement. The City approved plans, as well as applicable external approvals, will form the schedules in the agreement.

The Extra-Municipal Servicing Agreements shall specify the conditions associated with the extension of the City's water, domestic sewer and/or stormwater services and related management systems to the proposed development land located outside of City limits, such as each party's obligations and the approved flow rate/meter size.

The City makes no guarantee with regards to the quantity, quality, pressure or uninterrupted availability of the service(s) provided; and reserves the right to interrupt or permanently terminate the service(s).

The initial term of permission provided to either a landowner or developer proponent requesting for discharging septic tank wastewater into the City's sewer system is until mid-2015, during which time the City will undertake an overall review on its septic hauling policy. The City reserves the rights to revoke or suspend the permissions within that period.

The proposed Interim Policy and Procedures would not impact or amend the existing agreements between the City and individual third party customers in the RM unless the extra-municipal customer wishes to amend the agreement in a manner such that any of the following conditions occur;

- The use of the land has been changed;
- The land has been subdivided;
- The water consumption has increased significantly above the original intended provision of service, or an alteration to the connection is required to provide a greater level of service; and/or
- The type of service requested has been changed or additional types of services are requested.

(e) Fee Structure

In the absence of tax revenue sharing and/or capital funding compensation, there is no funding source to recover the City's additional on-going and capital costs arising from the impacts of service extensions on City infrastructure and assets. If the users of City services outside of City limits do not contribute to recovering the additional capital, operating and maintenance costs resulting from the impacts on the City's infrastructure, these costs will have to be collected from residents and businesses within the City through increased mill rates, utility rates and development fees.

For extra-municipal connections to the City's water, sewer, and/or stormwater systems, the servicing fees and surcharges structure recommended by the Administration consists of the following components:

(i) Application Review Fee

This is a new fee which has not been applied in previous applications. It is intended to recover the City's staffing and overhead costs associated with the application review process.

(ii) Administration Fee

This is a new fee which has not been applied in previous agreements. It is used to recover the City's staffing and overhead costs incurred for activities such as agreement preparation, design review, legal review, agreement execution, and inspection and management of agreement obligations prescribed upon the proponent and the City.

(iii) One-time Connection Fee

This is a new fee which has not been applied in previous agreements for providing services outside of City limits.

The one-time connection fee will be equivalent to the fee placed on development within City limits through SAF. Similar to SAF, it is intended to recover the City's growth related capital costs for utilities, roads, and parks and recreational facilities. The connection fee recognizes that the extension of services beyond City limits would result in a reduction of capacity available to internal developments, and would impact the City's road network, parks and recreational facilities. It also ensures that development beyond City limits does not place a disadvantage upon development within City limits. As such, the one-time connection fee equivalent to the SAF is calculated based on the estimated capital costs of growth related infrastructure over the next 20 years as it pertains to sewage, water or drainage works; roadways and related infrastructure; parks; and recreational facilities. Costs are indexed for inflation and a rate is determined using a forecasted estimate of revenue as a result of development area in hectares and the associated fees collected.

The connection fee will be calculated based on the size of development in hectares. This is consistent with the SAF policy used within City limits. Currently, all developments within the City limits are charged the same SAF rates based on the property size, regardless of the land use type, density and consumption rate/discharge amount. On a simplified level, the SAF rate and subsequently the one-time connection fee is the cost of providing services divided by the number of hectares that will benefit from those services, to determine a cost per hectare.

However, the City is aware that developments suited to be located outside of City limits typically require larger areas of unserviced land and lower intensity of use with fewer employees than urban developments and as such, the property size may not be relative to the use of the services. It is noteworthy that a comprehensive review on the

SAF policy is proposed to be conducted in 2014, and ways to calculate the fees may be re-explored. As an interim solution to this concern, an option is included within the interim policy where, if the applicant can demonstrate in situations where the serviced development area is smaller than the entire area of the developed land parcel and represents a lower intensity of use and level of service, the one-time connection fee may be reduced based on a smaller development area. Alternatively, the applicant has the option to subdivide the parcel so that the connection fee will only be applied to the exact portion of the property on which the City's services will be used.

(iv) Ongoing Usage Surcharge

In addition to the regular rates, the ongoing usage surcharge will be used to recover the additional operational and maintenance costs for the provision of services outside City limits. Increased ongoing costs include activities such as the trips made to capture meter readings, inspections and repairs made outside the normal in-city processes.

Water and Sewer Surcharge

The surcharge for the provision of water and/or sewer service will remain equivalent to 75% of the regular rate (i.e., daily base rate based on meter size plus consumption charge based on meter reading), which has been in place since the 1960s. However, exact costing data used to develop the surcharge in relation to the cost of supporting servicing outside of City limits is not available, and has not been revisited to date. Without a comprehensive regional servicing analysis, it is unknown at this time if the surcharge is enough to offset the City's costs, and the policy does not include a recommendation of amending the surcharge level at this time.

Stormwater Surcharge

For the provision of stormwater service, there is no past practice outside of City limits. To keep consistence with the surcharge level for water and/or sewer services, the Administration is proposing that a surcharge equivalent to 75% of the regular rate (i.e., Drainage Infrastructure Levy Rates based on the size of the property) be adopted for stormwater services if it is requested and approved.

In addition to the extra-municipal servicing fees and surcharges, the customer will also be responsible for all costs and liability arising from the approvals, easements, engineering services, construction, operation and maintenance associated with the connection to the City's system(s). Moreover, any service fees and charges that are applicable to the users within City limits pursuant to *The Regina Water Bylaw No. 8942* and *The Sewer Service Bylaw No. 5601* are also applicable to the users outside of City limits.

(f) Fees for Septic Tank Wastewater Discharge

For the provision of septic tank wastewater discharge service, an Application Review Fee will apply to the service proponent for recovering the City's costs on application screening. If a serviced connection is also requested for the same existing or proposed new development, only the greater value of the Application Review Fee would apply.

Moreover, the City will directly charge the haulers holding a permit from the City. An annual fee based on the carrying capacity of the hauling vehicle will be applied pursuant to Schedule "A" of *The Sewer Service Bylaw No. 5601*. The landowners or development proponent having the permission from the City to discharge their septic tank wastewater to the City's system should contact a hauling company regarding the fees for haul service as this is outside the scope of the Interim Policy.

(3) Recent Requests

Over the years, the City of Regina has been approached by surrounding rural and urban municipalities, organization, developers and individual land owners and residents requesting that City water, sanitary sewer, and/or stormwater services be extended beyond the City's boundaries. In recent years, the City has seen an increase in the number of requests for City services to these developments, many of which are seemingly urban-style industrial developments requiring water, wastewater and stormwater services. The City is also aware of several major residential developments outside of City limits where the developer would like to pursue City servicing, although no formal applications have been received to date.

It is in the view of the Administration that, most, if not all, of these urban-style developments outside of City limits would compete with City growth, and would put additional strain on the City's ability to provide services to support its own internal growth.

RECOMMENDATION IMPLICATIONS

Financial Implications

The conservative nature of the Interim Policy may be perceived to result in lost revenue opportunities in the short-term. For example, a development that might have been approved previously may not satisfy the new interim criteria, meaning that the City will forgo the 75% surcharge it could have obtained from this development. The 75% surcharge may not be sufficient to offset the full cost of providing the capital improvements and other services, and thus could potentially result in a net loss. However, the financial impact on the City is more likely to be positive as the fees established as part of the Interim Policy would ensure to recover the City's capital and on-going costs for each service extension case approved. Even if a revenue loss actually occurs in the short-term, it is anticipated this potential loss will be outweighed by positive benefits in the long-term.

The Interim Policy and fee structure will provide a consistent approach and decision-making framework for the City to utilize while it takes the time to properly develop a planned regional approach and revenue sharing servicing model based on the long-term costs/benefits for the City.

Environmental Implications

Intensive development in a rural municipality could result in a loss of arable land or natural habitats in the region. In addition, individual developments on the periphery of the City with large scale onsite servicing could have a negative impact to the City and the underground aquifer system if not adequately managed. There is the risk development in the RM of Sherwood will proceed with water cisterns and septic systems will become problematic for the City as it expands. The City currently provides very low cost septic haul disposal services for RM development, but the Administration will be undertaking an overall review on the City's septic

hauling policy. Should the City discontinue the septic hauling service, the RM would have to build its own facility or find an alternate disposal facility willing to take septic waste. The City has become aware that the RM is planning to build a sewage lagoon to service industrial developments north of the City limits and a sewage treatment plant to service a proposed large residential area just southeast of City limits. These pose a potential concern related to stream water quality and odour control mitigations.

Strategic Implications

The recommendations presented in this report are consistent with the Corporate Strategic Plan with respect to growth management and affordability, and the OCP community priority regarding regional cooperation. The recommendations are also strategically aligned with the Government of Saskatchewan's desire to have regional planning partnerships.

The City of Regina is under no obligation to provide services for any type or level of development that a rural municipality chooses to approve. It is preferable for a rural municipality to reconsider any intense land use scenarios which are being pursued that require servicing from the City. However, refusal to consider regional servicing may result in the development of alternative services from other providers and a reduced level of cooperation with surrounding municipalities. A strategic plan for responding to servicing requests external to City limits should consider the potential for others providing servicing to developments external to the City. Exploration of partnerships may also be prudent. As there are presently no provincial or private service providers in close proximity to the City's boundaries, it is unlikely developers can seek alternative servicing while a more comprehensive regional servicing study is being completed.

Strengthening City infrastructure and managing public assets will be achieved through effective financial management. Appropriate fee structuring enables the City to recover the costs and provide reliable water, wastewater, stormwater and roadway infrastructure for all customers, ensuring other funds remain available for other City priorities and supports the goals of Strategic Focus.

Accessibility Implications

There is no accessibility implications related to the recommendations.

COMMUNICATIONS

The draft Interim Policy and the draft Executive Committee report were sent to the Minister of Government Relations on September 14, 2012, requesting their feedback. On September 17, 2012, as part of the Memo of Understanding discussions with the RM of Sherwood's Administrator, a summary of the draft Interim Policy was shared. The Administrator indicated they understand the rationale behind the Interim Policy and the approach being proposed by the City. On September 20, 2012, the draft Interim Policy and the draft Executive Committee report were sent to the RM of Sherwood, requesting their feedback. The Regina and Regional Home Builders Association (RRHBA) was also consulted and requested for feedback at a meeting on September 20, 2012. All of the written responses received to date are Attachment 4 of this report.

A communications strategy has been developed for the ongoing regional servicing study to address potential issues and focuses on engaging key stakeholders in surrounding communities. This plan will provide recommended channels to ensure information is communicated to stakeholders in a clear and timely manner.

DELEGATED AUTHORITY

The disposition of this report requires City Council approval.

Respectfully submitted,

EXECUTIVE COMMITTEE



Joni Swidnicki, Secretary