

Report to Council



Date: January 24, 2022
To: Council
From: City Manager
Subject: Sanitary Sewer Connection Area Program Financing Framework and Bylaw Amendments
Department: Utility Services

Recommendation:

THAT Council receives, for information, the report from Utility Services dated January 24, 2022, with respect to the Sanitary Sewer Connection Area Program Financing Framework and Bylaw Amendments;

AND THAT Bylaw No. 12305 being amendment No. 38 to the Sewerage System User Bylaw No. 3480 be forwarded for reading consideration;

AND THAT Bylaw No. 12316, being the Septic Removal Specified Area Reserve Fund Bylaw, be forwarded for reading consideration;

AND FURTHER THAT Council direct staff to bring forward future amendments to Bylaw No. 11540 to fully adopt the proposed sanitary sewer connection area program financing framework.

Purpose:

To approve updates to the sewer connection area program financing framework, amend Bylaw No. 3480, and establish a new reserve fund.

Background:

The City has been attempting to provide public sewer service to lots serviced with private, on-site septic systems for over thirty years. Neighbourhoods originally planned for septic systems were not necessarily conceived with the intent of being serviced by public, gravity sanitary sewers, resulting in cost-prohibitive retrofit solutions. To address these challenges, the City has adopted multiple initiatives to accelerate the elimination of septic systems to improve water quality in Okanagan Lake and its tributaries and to provide a safe and reliable sanitary service to all Kelowna residents. The City has applied multiple times for associated Provincial grants and been rejected multiple times. Grant rejection justifications in past submissions mainly stemmed from two items: 1) no reserves collected, and 2) matching funding was contingent on a successful Local Area Service (LAS) process which requires a majority approval by property owners. As a result, the current sanitary sewer connection area

(SSCA) program has not been meeting community needs and expectations. A significant program revision is required to address current realities.

On November 22, 2021, Council was informed that the City had received a \$9M grant from the Investing in Canada Infrastructure Program (ICIP) - Green Infrastructure Environmental Quality Program to install new sanitary sewer in areas currently using septic systems. This is the first successful grant for new sewer in areas on septic since 2008, when sewer construction was completed for a large portion of Rutland. Council was also presented with rationale and notice of anticipated changes to the SSCA program financial framework. The grant award has enabled reimagining of the current SSCA program, and updates to the financial framework, design, cost estimate, and philosophical changes necessary to update the program have been identified.

Historically, estimates of urbanized septic fields in the City were approximately 2,500. Recent assessments have found that there are 1,700 lots on septic in the sewer connection area program with no immediate opportunity to connect. Many of these systems are over 40 years old and approaching lifecycle failure requiring significant property owner investment. The discrepancy in values is attributed to recent development, private connections, and updates to the City's servicing policies for lots within the Agricultural Land Reserve (ALR). Additionally, some commercial and industrial lots currently included in the program are to be removed, leaving developers to construct their directly attributable works. The proposed changes in this framework aim to provide sanitary sewer service to the property line for those 1,700 urbanized lots currently relying on septic systems.

Based on a thorough review of current and past practices, legal opinions, relevant bylaws and policies, a new financing framework is proposed to restimulate the SSCA program. Each element of the proposed framework is supported by recent legal reviews of authorities granted by the *Community Charter* and/or the *Local Government Act*.

To develop the new financing framework and address many of the challenges, the following guiding principles are proposed:

1. **FAIR** - Fees collected under the authority of the revised bylaw must be fair.
2. **EFFICIENT** - Providing the greatest opportunity for sewer service connections and decommissioning of private, onsite sewage systems.
3. **FLEXIBLE** - Provide flexibility to accelerate sanitary sewer installation when coordination with development or capital works is possible.
4. **OPPORTUNISTIC** – Prioritize applications for senior government grants for projects where reserves exist. Ensure that customers capitalize on development opportunities, but not rely on it.
5. **EQUITABLE** - Once all public infrastructure within a connection area is completed, the benefits of surplus reserve funds resulting from grants, City/Developer contributions, and/or City/developer-built works must be applied to help initiate work in other connection areas. This addresses some issues regarding grant prioritization or opportunities that defer work to other areas.

To support the proposed financing framework, the following bylaw amendments and changes will be presented to Council in stages:

Stage 1: Amend *Sewerage System User Bylaw No. 3480* to permit an increased sewer development charge in select areas of the City where public sewers have already been constructed as part of the SSCA program, and establish the *Septic Removal Specified Area Reserve Fund*.

Stage 2: Amend *Sewer Connection Charge Bylaw No. 11540* to update connection area maps, cost estimates, service counts, fee schedules, prioritization list, and a formalized approach to coordinating with development (*Sewer Development Charges in Bylaw No. 3480* will take precedence between Stage 1 and Stage 2 updates).

Stage 3: Creation, closing, and updates to financial reserves necessary for future collection and management of funds collected for design and construction of sanitary sewer connection areas. Note: some elements of Stage 3 may occur in advance of Stage 2.

Adoption of the recommendations in this Report to Council completes Stage 1, and results in the creation of the *Septic Removal Specified Area Reserve*.

Sewerage System User Bylaw No. 3480 amendments

Staff are proposing amendments to *Bylaw No. 3480* which establishes rates for sanitary sewer system users and sets out charges for connection to the City's public sewer system. The proposed financial framework relies on a new minimum connection-based sewer development charge outlined in *Bylaw No. 3480* for properties within the proposed *Septic Removal Specified Area*. This charge will replace the existing single-family equivalent-based connection charges currently in *Bylaw No. 11540* and will only be charged at the time of connection. The new charge is based on the cost of a typical service connection by type (see Attachment 2) and will only be applied where an active fronting sewer line and service connection is installed. The most significant amendments to *Bylaw No. 3480* include:

- Increasing sewer development charges in newly established *Septic Removal Specified Area* as per Table 1,
- Adding a SCHEDULE 1 – SEPTIC REMOVAL AREA (see Attachment 3) map to denote which lots are included,
- Adding definitions for "Septic Removal Specified Area" and "Septic Removal Specified Area User", and
- Clarifying fee requirements for lot subdivision, consolidation, and development.

Table 1: Sewer development charge by service type.

Service Type	Sewer Development Charge
100-mm residential service	\$7,500
150-mm multi-family/commercial service	\$10,000
Typical industrial service or >150-mm service	\$16,000

The Sewer Development Charge will be reviewed as required, and increases to account for construction inflation will be coordinated with future wastewater utility rate increases.

Attachment 1 is a tabular summary of all proposed amendments to *Bylaw No. 3480*.

As a result of recent assessment, 194 pre-serviced lots in existing sewer connection areas have been identified to be added to the Septic Removal Specified Area. Owners of these lots will be able to pay the updated sewer development charge and connect to the public system at their discretion. These connection charges are less than or equal to their current charges under the existing framework.

Discussion:

The revised SSCA program is based on experience and a lack of progress in achieving the goal of full replacement. This proposed framework will have some implications to current and future users including:

- Current users of the sanitary sewer system will not be subsidizing the proposed financial framework via sewer utility user rates.
- Timing of connection and payment of sewer development charge will be entirely at the discretion of the user. That said, the costs of connection into the future will likely increase, so there is incentive to connect early.
- For residents that would have paid a lower connection charge (<\$7,500) under the existing framework, their previous anticipated charges will be honoured.
- Owners are responsible for costs to connect to the sewer service line (i.e., from building to property line).

Conclusion:

The current SSCA program is no longer meeting community needs and expectations. A new program is required if the City is to achieve real progress towards removing septic systems and improving environmental performance. The proposed framework is fair, simple, flexible, financially sustainable, provides residents an affordable opportunity to connect to the City's sanitary system, and improves funding conditions for future grant applications. Adoption of the recommendations in this Report to Council would establish Stage 1 of the proposed framework and result in the creation of a *Septic Removal Specified Area Reserve*. Council will be asked to adopt Stage 2 and 3 recommendations in future reports in early 2022.

Legal/Statutory Authority:

Section 189(2) of the *Community Charter* - The use of the *Septic Removal Specified Area Reserve* funds for works in sewer connection areas (projects similar in nature) other than it was collected is supported by section 189(2) of the *Community Charter* as long the connection area from which it was collected is fully built out.

Internal Circulation:

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Considerations not applicable to this report:

Alternate Recommendation
Communications Comments
Existing Policy
External Agency/Public Comments
Financial/Budgetary Considerations
Legal/Statutory Procedural Requirements
Personnel Implications



Submitted by: R. MacLean, Utility Planning Manager

Approved for inclusion:



M. Logan, General Manager, Infrastructure

Attachment 1 – 2022-01-24 Amendment Table – Bylaw No. 3480

Attachment 2 – 2022-01-24 Sewer Development Charge - Rationale

Attachment 3 - 2022-01-24 Presentation – SSCA Framework and Bylaw No. 3480 amendments

cc: