

**Analysis of the BC Government's Policy Restricting Improvement Districts Access  
to Water and Sewer Infrastructure Grant Funding**

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## **Acknowledgements**

Rosemary Smart, client for this project, passed away on July 22, 2017. The issues addressed in this project were central to Rosemary's work at Hagensborg Waterworks District and her long history of advocacy for improved services to rural and remote residents across the province. It was a privilege to work with Rosemary and complete this project with her support and that of Dr. Kimberly Speers and the BC Chamber of Commerce.

# Executive Summary

## Introduction

On May 27, 2016, a group of organizations with an interest in the Government of British Columbia's policy to restrict improvement districts from accessing sewer and water infrastructure grants met with then Minister of Community, Sport and Cultural Development and Responsible for TransLink, Peter Fassbender and Minister of Transportation Todd Stone in Kamloops BC. Present also at the meeting were representatives from the BC Chamber of Commerce, the Williams Lake & District Chamber of Commerce and the Hagensborg Waterworks District. The author of this report was one of two attendees on behalf of the Williams Lake & District Chamber of Commerce. At the meeting, Rosemary Smart, CAO of the Hagensborg Waterworks District, and client for this report, made a presentation to the Ministers on why the BC Government's policy requires a change. After the presentation, Minister Fassbender acknowledged the issue but stated there was a low likelihood that the BC Government would completely reverse its policy. However, the Minister stated that he was interested in creating a compromise solution and would direct Ministry staff to assist the author of this report to research the current impact of the policy, create options for consideration and recommend a course of action.

Consequently, this report provides a critical analysis of the Ministry of Community, Sport and Cultural Development & Responsible for TransLink's Improvement District Policy Statement as it relates to the issue of improvement district direct access to public funding.

Through a literature review and interviews with key stakeholders, the project researches, summarizes and reports on the BC Government's policy to gradually eliminate improvement districts as a form of local government (BC Government, 2006, p. 10).

The project attempts to answer the following primary research question:

- What is the impact of the BC Government's policy to restrict improvement district access to public capital funding?

The secondary question raised by the project that is addressed in the report is:

- What is the most effective way to implement change, if any, to the policy?

## **Methodology and Methods**

The research framework for the project followed a multi-methods qualitative design to conduct a policy review. The methods followed three phases. First, qualitative information from a literature review was conducted. Second, a qualitative policy analysis was performed of the BC government's local government administrative policies and statutes as they relate to the administration of improvement districts and local government. Third, nine qualitative semi-structured research interviews were conducted with the following stakeholders:

1. Local Government Division, Ministry of Community, Sport and Cultural Development
2. Board Members and Rate Payers, Hagensborg Waterworks District
3. Other improvement district representatives from across the province

## **Key Findings**

Findings from the literature review and stakeholder interviews demonstrated that the ministry's policy disadvantages rural residents served by improvement districts when compared to rural and urban residents served by regional districts and municipalities. Another key finding is that the research supports the timeliness for a comprehensive review and potential change to the legislation governing local governments in BC. A third key finding is that confusion exists amongst improvement district board members and consumers around the level of financial and electoral accountability and transparency of improvement districts compared to regional districts and municipalities. Lastly, it was found that there is a lack of information on the effects on rates due to dissolution which causes speculation and hesitation for improvement districts to consider this option.

## **Options to Consider and Recommendations**

As a result of the research, the following options and recommendations were identified and presented to the client for submission to the Minister of Community, Sport & Cultural Development & Responsible for TransLink.

Options to consider:

1. Create an eligibility list for improvement districts to compete without restrictions for funding;
2. Conduct a comprehensive review of the effect on rates and service quality when improvement districts merge with regional districts;

3. Commission an analysis and review of the Ministry's current policy, including the legislative requirements for improvement districts to meet the same statutory requirements as other forms of local government; and
4. Maintain the status quo.

Based on the key findings of the report determined by the literature review, document review and interviews, the recommendations for the client to propose to the BC Government are to:

1. **Create an eligibility list for improvement districts to compete without restrictions for funding.** In this option, the Ministry of Community, Sport and Cultural Development and Responsible for TransLink will create an eligibility list that identifies those improvement districts that have met increased standards of public accountability and fair elections. A statutory change may be required to embed these increased standards in the legislation.
2. **Conduct a comprehensive review of the effect on rates when improvement districts merge with regional districts.** This review will provide specific and credible data for improvement districts to consider when contemplating whether to dissolve into a regional district or municipality. The research will determine whether there is a positive or negative effect on user rates and whether the conversion process is desirable from an efficiency standpoint. The result of the study would be to definitively address the issue and demystify the financial effects of the amalgamation process.

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## **1.0 Introduction**

The financing and delivery of services such as domestic water, fire protection, street lighting and lake level control are important issues for both urban and rural residents of British Columbia. Across the province, these services are delivered by improvement districts, a form of local government, to approximately half of the 609,363 people that live in rural areas (Bish and Clemmens, 2009, p. 70 and Statistics Canada, 2011b).

Government of British Columbia policy, outlined in the Ministry of Community, Sport and Cultural Development and Responsible for TransLink's Improvement District Governance: Policy Statement, restricts improvement districts from accessing sewer and water infrastructure grants (British Columbia, 2006, p. 12). The aim of this policy is to shift jurisdiction of improvement district systems to regional districts so that "at some point in time all improvement districts will be under municipal or regional district jurisdiction" (BC Government, 2006, p. 10). As of April 2017, there were 211 improvement districts operating across British Columbia under the legislation of the Local Government Act.

To achieve the policy aim of eliminating improvement districts as a form of local government, they are restricted from directly accessing federal and provincial funding for capital projects. Instead, improvement districts must rely on user fees and taxation of property owners who access services to generate capital funds. To access public funding, improvement districts must ask their regional district to apply for funding for infrastructure upgrades to rehabilitate water and sewer systems. If the application is successful, ownership of the system will shift to the regional district. This is a policy that some improvement districts across the province find objectionable. The burden this policy places on the residential and business tax base within improvement districts is also of increasing concern to the citizens and businesses in the communities served by improvement districts.

### **1.1 Background**

Improvement districts were first created in the Okanagan Valley of British Columbia in the 1920's under the Water Act with oversight by the Department of Lands (Bish and Clemmens, 2009, p. 68). Improvement districts are different from other forms of government being "specially incorporated, limited-purpose local government that undertakes one or more local services" (p. 69). Until 1965 - 1968, when regional districts were created, most British Columbians living outside of municipalities relied on improvement districts for their local public services (p. 68). In 1979, the legislative provisions relating to improvement districts were

removed from the Water Act in recognition that improvement districts had more in common with local governments than they had with private water utilities. Responsibility for all improvement districts was transferred from the Ministry of Environment to the Ministry of Municipal Affairs.

In 1990, the Task Force on Rural Services and Governance created the Rural Service Delivery and Governance in BC report, which was released internally but never published. As an outcome of the report, the ministry started limiting the incorporation of new improvement districts and started a practice of “actively encouraging existing improvement districts to restructure instead” (Local Government Structure Branch, 2000, p. 9). The focus would now be on “reinforcing the role of regional districts as the primary local government for rural areas” (BC Government, 2006, p. 5). This approach also recognized that “both the province and local governments would benefit if the province remained actively involved in local government restructuring processes” (Local Government Structure Branch, 2000, p. 15). An outcome of the rationale for the recommendation to focus on regional districts would later become the government policy around access to funding that “Regional districts have access to grant programs for study and capital cost purposes. Improvement districts do not have direct access to these grants” (British Columbia, 2006, p. 5).

While restricted from applying to capital grant programs, improvement districts are eligible for planning grants if they have a sponsor of a local government. In these cases, the ministry will provide up to a maximum of \$10,000 to do infrastructure planning studies around improvements to their system such as rate structure reviews, conservation analysis, watershed protection and adequate fire flows.

Since the Rural Service Delivery and Governance in BC report, the growth of improvement districts has been severely limited and the creation of a new improvement district is only approved if there is no alternative. Only two new improvement districts have been incorporated since 1990 (BC Government, 2006, p. 7). Furthermore, the statutory powers of the Local Government Act are used to eliminate as many improvement districts as possible when municipalities restructure. For example, when Lake Country incorporated in 1995, four improvement districts were eliminated. When Vernon brought the Okanagan Landing community within the city in 1993, six improvement districts were eliminated (Local Government Structure Branch, 2000, p. 9).

In 2008, of the 234 improvement districts in BC, 191 were waterworks operations (p. 69-70), with 132 providing one function; 61 providing 2 functions; 27 providing 3 functions; and 14

improvement districts providing four or more functions (p. 69). Services other than waterworks operations range from irrigation to cemetery to mosquito control (See Figure 1).

EXHIBIT 5-4: IMPROVEMENT DISTRICT FUNCTIONS IN 2007	
Function	Number of Districts
Waterworks	191
Irrigation	50
Fire protection	41
Streetlighting	25
Drainage	26
Parks and/or playgrounds	18
Diking	14
Garbage	10
Community hall/recreation	6
Sewerage	5
Cemetery	5
Boat launch dock and float	2
Land improvement	2
Health centre	1
Housing	1
Lake level control	1
Mosquito control	1
River bank protection	1
Sidewalks	1
Water quality monitoring	1
Total functions	<u>402</u>

Source: Ministry of Community Development

**Figure 1: Improvement District Functions in 2007 (Bish And Clemmens, 2009, P. 70)**

In May 2015, a policy recommendation was written by the Williams Lake and District Chamber of Commerce to the BC Chamber of Commerce on behalf of the Hagensborg Waterworks District. The objective of this policy recommendation was to raise awareness on a provincial level of the issue of restrictions to improvement district access to public funding and make recommendations to the BC Government (BC Chamber, 2015). The resolution was passed unanimously by delegates to the 2015 BC Chamber of Commerce AGM and subsequently became official policy of the BC Chamber.

The recommendations of the resolution are:

1. Change the existing governance policy to allow improvement districts equal access to infrastructure grants without ownership of their systems shifting to regional districts; unless a definitive report demonstrates efficiencies will be gained by amalgamation
2. Create a regionally based mechanism that will determine funding priorities for improvement districts and regional districts that efficiently takes into account the needs of all stakeholders (BC Chamber, 2015)

## 1.2 Defining the Problem

The long-standing practice by the government of restricting funding existed before the Drinking Water Protection Act was enacted in 2001 (British Columbia, 2006, p. 6). With the introduction of the Act, new oversight and standards were set that increased water system operator costs for improvement districts as they came into compliance with these provincial standards for drinking water treatment (British Columbia, 2017, para. 2). The service gap to end users has grown as regional districts have been permitted to access funding while improvement districts are prevented from applying for public funds to keep up with infrastructure costs (British Columbia, 2006, p. 5). Improvement districts must meet the same health standards as municipalities and regional districts regardless of their size and scope. This inequity plays out in the Hagensborg waterworks system that serves 224 residents and businesses in Hagensborg, directly next to the 3,206 served by the Central Coast Regional District (CCRD) (Statistics Canada, 2011).

Older improvement district systems pose environmental, water quality, water security and public health challenges. Systems such as Hagensborg Waterworks District still have concrete asbestos pipes that are nearing the end of their life cycle. These pipes are starting to leak and the risk of contaminants entering the system is increasing (Davison, 2014, para. 2). Replacing the pipes is expensive and brings the risk of asbestos inhalation to those performing remediation work (Davison, 2014, para. 4). Political implications also exist for provincial and federal elected officials should there be a critical or chronic adverse health or environmental event.

The BC Government perspective is that while improvement districts play an important role in rural service delivery across the province, issues such as growth management; accountability; efficiency and effectiveness; inter-jurisdictional harmony; financial effectiveness; and economies of scale, support the policy direction of eventual elimination of improvement districts (Local Government Structure Branch, 2000, p. 13). According to the Ministry of Community, Sport and Cultural Development and Responsible for TransLink's Improvement District Governance: Policy Statement:

- There is concern that improvement districts do not have the same standard of public accountability that regional districts and municipalities have. Key issues are openness of meetings, elections and referenda;

- The small size of some improvement districts and traditions of self-help need to be balanced with the need for professionalism in dealing with the complex issues many improvement districts face;
- It is inevitable that there is potential for conflict when land use planning and servicing responsibilities are vested in different jurisdictions in rural areas; and
- Population growth and development pressures have placed strains on many improvement districts (British Columbia, 2006, p. 7).

### 1.3 Project Client

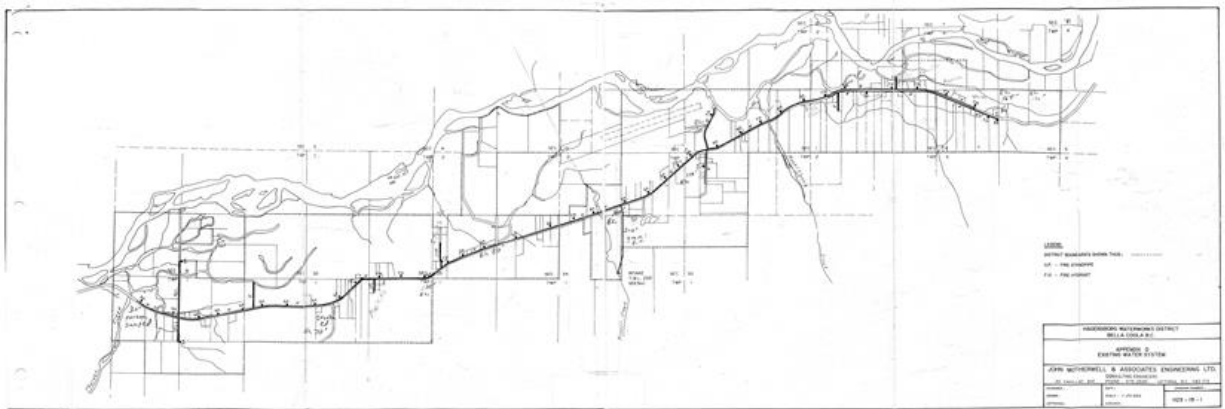
The client for this project is the Hagensborg Waterworks District located in Hagensborg BC on British Columbia's central coast in the heart of the Great Bear Rainforest (see Figure 2). The Hagensborg Waterworks District was incorporated by Letters Patent in 1964 under the Water Act after being organized by the community to provide community water and fire protection to the local tax base.



**Figure 2: Hagensborg BC Location (Hagensborg Waterworks District, 2017)**

Hagensborg Waterworks District draws on raw surface water from Snootli Creek through a gravity-fed system to service 224 water connections with over 14 miles of pipe and fire

hydrants (see figure 3). In addition to residences and farms, the district boundaries include the regional airport, the ambulance station, the community swimming pool, retail stores, the valley's garden centers, Ministry of Environment, Forests, and Parks offices, the Department of Fisheries and Ocean's Salmon Enhancement facilities, the post office, access to the regional landfill and recycle station, and several tourism accommodations and campgrounds (Hagensborg Waterworks District, 2017). The district also provides fire protection through a volunteer fire department with the community's water distribution system providing the water to the fire hydrants.



**Figure 3: Existing Hagensborg Water System (Hagensborg Waterworks District, 2017)**

The Hagensborg Waterworks District is governed by a board of trustees who are elected by area property owners. The board then elects one of its members as chair. The improvement district also has two paid, part-time positions, a Chief Administrative Officer and a Financial Officer. Trustees are empowered by the improvement district's bylaws, the Local Government Act and other applicable provincial statutes to “enact and enforce its regulations and charges, to assess and collect taxes, to acquire, hold and dispose of lands, to borrow money and to expropriate lands” (British Columbia, 2015, para. 4).

The Hagensborg Waterworks District faces significant capital investment demands in the next few years as its water purification system nears the end of a pilot project and its aging asbestos concrete pipeline requires replacement. To meet these needs, the Hagensborg Waterworks District will need an estimated \$3.5M to complete the necessary work. The BC Government's policy of restricting improvement districts from access to sewer and water grants is of concern to the client, Hagensborg Waterworks District, given the fact they are facing this \$3.5M shortfall to complete necessary capital upgrades to their water system and are blocked from independent access to public funding under the existing policy.

## **1.4 Project Objectives and Research Questions**

The objective of this project is to research the rationale and effects on improvement districts of the BC government's policy of restricting Sewer and Water Infrastructure Grants to regional districts and municipalities. A critical analysis of the BC Government's Improvement District Policy Statement will be performed as it relates to the issue of improvement district direct access to public funding. Through a literature review and interviews with key stakeholders, the project will attempt to answer the following primary research question:

- What is the impact of the BC Government's policy to restrict improvement district access to public capital funding?

The secondary question raised by the project is:

- What is the most effective way to implement change, if any, to the policy?

## **1.5 Organization of Report**

After this introductory section which provides the subject background, defines the problem, and describes the client, section two presents the literature review and the major themes of the literature. Section three describes the methods, data analysis, project limitations and delimitations. Section four analyzes key stakeholders. Section five describes the results of the stakeholder interviews and section six is a discussion and analysis of the findings. Section seven provides options and recommendations for the client to present to the BC Government and section eight contains the conclusion.

## **2.0 Literature Review**

The following sections provide the information gathered as part of the literature review. This review encompassed published academic research accessed online through the search functions of University of Victoria library which searches through the library's collection of books and scholarly journals; databases such as JSTOR, Google Scholar, Emerald, ProQuest and Ebsco Host; newspaper articles; e-books; dissertations; videos; and maps. A Google search of the World Wide Web was also conducted for relevant legislation, publicly available reports produced by the BC Government and grey literature. Search terms included: improvement district, local government, local government financing, municipal government, municipal financing, municipal finance arrangements, financing water systems, municipal government merger, local government merger, rural services, rural service delivery, remote services and remote service delivery.

Through the literature review, the following four themes were identified as central to the research aims of the project:

1. Local government structure
2. Local government infrastructure financing
3. Rural and remote delivery of services
4. Public funding as it relates to improvement districts

### **2.1 Theme 1: Local Government Structure**

Two approaches to structuring local government were identified in the literature search: specialized and general purpose jurisdictions. While the debate around these approaches centres on metropolitan areas, parallels can be drawn to regional and rural forms of governance. In "Local Government Structure and the Co-ordination of Economic Development Policy" (2015), John Lyons writes that the advantages of specialization are mostly articulated by polycentrists (p. 176). These proponents argue that polycentric political systems "are more efficient than consolidated systems because the optimum scale for service delivery varies according to the public good in question" (p. 176). On the other hand, consolidationists view "political and functional fragmentation as impediments to effective service delivery" and argue that the best arrangement of governance for metropolitan areas is a single general purpose government (p. 176).

When attempting to coordinate services, polycentrists argue that the different types of hierarchical relationships found in larger consolidated governments creates more issues of



coordination than a mix of smaller “bureaucracies and independent agencies that bargain or compete where necessary” (p. 176). Essentially, specialized forms of government minimize external forces or pressures unrelated to the mandate of a specialized jurisdiction which in turn reduces the need for coordination. If coordination is required however, it can be achieved through “cooperation or competition” (p. 176).

The consolidationists view that it is more challenging to coordinate the activities of separate jurisdictions than it is to coordinate the activities of departments within a single level of government (p.176). Consolidationists maintain that specialization makes coordinating policy or service delivery more difficult by “fragmenting issue areas and discouraging the kinds of trade-offs and compromises that are possible in general-purpose governments” (p. 176).

Lyons acknowledges that despite the clear differences between the polycentrist and consolidationist views of local government structure, there have been few attempts made to test their competing claims (p.176). However, Lyons’ analysis of two different municipalities, the City of London and the City of Hamilton, suggests that the benefits of coordination that can be attributed to specialization are lost when there is too much fragmentation (p. 189).

Improvement districts can be categorized as a specialized form of government with more limited revenue powers than municipalities and regional districts. Improvement districts may pursue their mandate or service delivery with a greater single minded focus than the more general mandates of regional districts for example. While this specialized focus may be a favorable characteristic, the evidence as Lyons demonstrates, suggests that “specialization can inhibit co-ordination in complex policy areas such as economic development” which is “especially true when the goals of the lead agency do not fully align with the goals of the general-purpose government serving the same geographical area” (p.190).

## **2.2 Theme 2: Local Government Infrastructure Financing**

Bish and Clements (2009) report that in 2006, regional districts received 10 percent of their revenue, and BC municipalities received 7.45 percent of their revenue, from conditional or unconditional grants, entitlements and cost-sharing transfers from other governments (p.185). Between 2000 and 2012, the federal and provincial governments either committed to or paid out the following grant funding to British Columbia communities:

- \$1.4 billion in unconditional grants (all provincial);
- \$1.5 billion in conditional grants for core local government infrastructure (\$870 million from the Province and a further \$650 million from the federal government). These

grants helped fund 1,300 projects representing total eligible costs (including local government portion) of \$2.3 billion;

- \$13 million in infrastructure planning grants to fund over 1,400 studies (all provincial);
- \$285 million of seed funding for regional trusts, which have since funded over 370 individual local projects (all provincial seed funding); and
- \$1.6 billion of Federal gas tax funds (all federal funding) (British Columbia, 2012, p. 6).

Total funding between 2000 and 2012 was \$4.8 billion (\$2.5 billion provincial and a further \$2.3 billion federal), which funded over 1,700 capital projects (British Columbia, 2012, p. 6).

Traditional municipal infrastructure financing has been through taxes, user fees, transfers and borrowing. Non-traditional financing has been through public-private partnerships (PPPs), development levies and value capture (Slack, 2012, p. 15). Grant funding is considered an external revenue source upon which reliance has decreased over the past 15 years in Canada (Kitchen, 2006, p. 6). In *A State of Disrepair: How to Fix the Financing of Municipal Infrastructure in Canada*, Kitchen identifies five problems with municipal grant funding for infrastructure projects:

1. Distortion of local decision making by lowering the cost of services which encourages municipalities to spend more on these projects than would otherwise be efficient;
2. Grants that cover a large portion of capital costs may reduce incentives to price services correctly, or to set up asset management and cost recovery programs;
3. May encourage people to stay in communities that are not sustainable which artificially supports remote communities that would not otherwise exist;
4. Can lead to increased regional inequality and distort metropolitan growth; and
5. Reduces accountability when two or more levels of government fund the same service (2006, pp. 6 – 7).

Kitchen (2006) further argues that the economic argument for capital grants is not strong and recommends their use “be conditional on setting efficient user fees, process, and local taxes for services provided” (p. 7). Furthermore, grant recipients should have proper asset management programs and requirements that asset replacement costs be included in charges for services (p. 7).

## **2.3 Theme 3: Rural and Remote Delivery of Services**

The Organisation for Economic Co-operation and Development’s (OECD) *Strategies to Improve Rural Service Delivery* (2010) identifies the historical distinction between rural and urban

service delivery as one of people “who lived in the two different settings” (p. 14). Rural people mostly “accepted the fact that they had a different set of occupational choices, different life styles and different possibilities for obtaining goods and services” (p. 14). Rural people did not travel frequently or extensively and local media tended to focus on local issues with rural service delivery challenges being unrelated to what was going on in urban areas.

Today, mass media and the internet have linked rural and urban societies. The gap between the expectations of service delivery in rural areas compared to urban areas is narrowing and rural residents expect a broad range of services. However, this gap is exasperated by the fact that both the quality and quantity of “locally available rural services is declining” (p. 14). Asthana et al. (2003) (as cited in OECD, 2010) identify the following characteristics of rural areas that impact the costs of service:

Economies of scale	Unit costs in small communities tend to be significantly higher than in large ones. Because of the need to maintain a critical mass, provision rates of services tend to show lower levels than would be tolerated in an urban setting.
Additional travel costs	Greater distances imply increased travel for clients and workers and, for services taken to clients, there are additional transport costs, and thus pressures on budgets.
High level of unproductive time	More time spent travelling results in higher levels of unproductive staff time, which may have also an impact on considerable differences in compliance of national standards. (e.g. Unproductive time and the resulting lower efficiency factor for rural service provision are most acutely felt with the emergency ambulance services).
Additional communication costs	Difficulties in networking.
Poorer access to training, consultancy and other support services	Training requirements in the more remote areas are inevitably more costly to fulfil, either because staff must travel to training centres or because training needs to be imported.

**Figure 4 Characteristics Of Rural Areas (Asthana Et Al. 2003, Pp. 488 – 490)**

The OECD (2010) categorizes rural service delivery into three categories: private; public; and collective or joint services (pp. 16 – 21). In BC, urban residents are primarily served by private and public services. The combination of urban density, infrastructure and volume allows private and public providers to operate at a profit or with less cost to public finances on a per capita basis. In comparison, rural areas served by improvement districts continue to rely in varying degrees on collective and joint services. The self-help volunteer model of improvement districts is identified by the BC government as an issue that needs to be balanced when dealing with the complex issues many improvement districts face (BC Government, 2006, p. 7). However, as the OECD points out “voluntary organisation resembles not-for-profit firms, but the distinguishing feature is a different organisational structure” (p.21) and not for profit delivery of services is a common and in some cases preferred method of service delivery for the BC Government.

## **2.4 Theme 4: Public Funding as it Relates to Improvement Districts**

The literature review of public funding as it directly relates to improvement districts focused primarily on identifying academic articles, reports or handbooks using the advanced search options of the University of Victoria library. The results demonstrated that there is no academic or grey literature relating to funding for improvement districts other than the Ministry of Community Services’ Improvement district governance policy statement and the 2015 BC Chamber of Commerce policy resolution. The research also indicated no definitive studies exist that determine whether amalgamation of improvement districts by regional districts results in cost or service improvements for rate payers and property owners. All other search results for literature containing information about improvement districts was related to business improvement districts in the USA.

## **2.5 Summary of Key Findings**

The research both supports and questions the improvement district structure as an effective form of local government. On one hand, as a specialized form of local government, improvement districts have less hierarchy and bureaucracy which leads to more efficient focus on service delivery. On the other hand, coordination is also constrained by specialization with less ability to move projects forward through tradeoffs and compromises that would occur within a larger multi-department bureaucracy. The research identifies that grant funding has its drawbacks to funding infrastructure projects at all levels of government. However, in addition to grant funding, municipalities have access to other forms of revenue generation that improvement districts do not, such as public-private partnerships (PPPs), development levies and value capture mechanisms (Slack, p. 15).

Kitchen argues that those who benefit from local infrastructure should be the ones to pay for it. Subsequently, funds to support the infrastructure required for water or sewer services should come from those who benefit from these services in the form of taxes and fees (p. 3). However, the research demonstrates that unit costs in small communities tend to be significantly higher than in large ones which places an unfair burden on smaller improvement districts to deliver essential services at a comparable cost to municipalities or regional districts. Furthermore, municipalities and regional districts still have access to grants such as the federal gas tax transfer which improvement districts do not. This puts rural and remote residents of BC served by improvement districts at a disadvantage. The solution to this issue may be for improvement districts to merge into regional districts, as is the aim of the BC government's policy to restrict grant funding. However, there is no published research to support that service or cost efficiencies will be gained by amalgamation.

## **3.0 Methodology, Methods and Data Analysis**

### **3.1 Methodology**

The following sections provide a description of the methodology and methods used in this project and identify the project's limitations and delimitations.

The intent of this research was to interpret the effects and impact of the BC Government's policy to eliminate improvement districts as a form of local government and make recommendations for improvement. To do so, the methodology for the project followed a qualitative policy analysis using Eugene Bardach's (2012) eightfold path for policy analysis:

1. Define the Problem
2. Assemble Some Evidence
3. Construct the Alternatives
4. Select the Criteria
5. Project the Outcomes
6. Confront the Trade-offs
7. Decide
8. Tell Your Story (xvi)

### **3.2 Methods**

The data collection methods followed three phases. First, qualitative information from a literature review was conducted. Second, a document review of the BC government's local government administrative policies and statutes as they relate to the administration of improvement districts and local government was performed. Third, qualitative semi-structured research interviews were conducted to seek perspectives from key stakeholders on the findings of the literature and document reviews.

#### **3.2.1 Literature Review**

The theory that guides the research in this project is that there is a valid argument to justify a review of the BC Government's policy on restricting improvement districts from funding for capital projects. Furthermore, that this review should examine the rationale for eliminating the improvement district model of local government. The literature review reveals that this theory has not been researched or discussed other than in the Ministry's improvement district policy

statement. This is problematic as the client for the project, Hagensborg Waterworks District, and other improvement districts around the province, do not intend to dissolve or be eliminated. This situation frustrates the Ministry's policy objectives. However, the citizens served by improvement districts do not represent a substantial portion of the provincial population and are consequently not a largely represented interest group.

### **3.2.2 Document Review**

In British Columbia, Bill 14 (Local Government Statutes Amendment Act, 2000) was part of the Municipal Act reform in 2000 that made substantial changes to the legislation that governed improvement districts. These changes fell under four objectives:

1. Increasing public accountability;
2. Protecting the financial health of improvement districts;
3. Increasing administrative effectiveness and efficiency; and
4. Facilitating fair and effective growth management (BC Government, 2006, p. 8).

Three issues of improvement district governance are identified as key areas of difference within the Local Government Act:

1. elector qualifications: The issue is who should be eligible to vote, be nominated, run and be elected to office. Currently, only land owners and corporations qualify, tenants do not;
2. elector approval: The issue is the role of the public in approving long term capital commitments. Currently, there are no legislative requirements for elector approval although ministry administrative practice is to require it as a condition of bylaw approval; and
3. elections process: The issue is whether there should be secret ballot elections or not. Currently, trustees are elected at an annual general meeting (BC Government, 2006, p. 8).

While the ministry has deferred action on these three issues, they are important to consider as some improvement districts, such as Hagensborg Waterworks District, have voluntarily adopted higher standards for elector approval and elections process in the absence of a legislative requirement. A key research question that developed during this project is if an improvement district follows the same legislative requirements as a regional district or municipality, does the rationale no longer exist to deny them access to sewer and water infrastructure grants?

### 3.2.3 Semi-structured Interviews

The objective of the semi-structured interviews was to provide insight into the themes and perspectives of the different stakeholders around the policy objective of the BC government to restrict improvement district access to funding. The seven questions that formed the basis of the interviews (Appendix 1) were developed in consultation with the client to be sufficiently open that subsequent follow up questions could be improvised in a careful and theoretical manner (Wengraf, p. 5). The questions covered the major themes around the BC government's rationale for restricting improvement districts from access to funding. To conduct human participant research, an application was submitted to the University of Victoria's Human Research Ethics Board. Approval was granted and a certificate issued with Ethics Protocol Number 16-403. All interviews were recorded and a transcript was generated after the interview and provided to the interviewees.

After completing a stakeholder analysis to identify participants (see Section 4.0), qualitative semi-structured research interviews were conducted with the following stakeholders:

Group 1: Ministry of Community, Sport and Cultural Development

Group 2: Board Members and Rate Payers, Hagensborg Waterworks District

Group 3: Other improvement district representatives from across the province

A fourth group consisting of the Chief Administrative Officer, Public Works Manager and Chief Financial Officer of the Central Coast Regional District (CCRD) were also identified as interviewees. However, the CFO declined to participate citing a conflict of interest; the Public Works Manager declined for reasons unspecified; and the CAO did not respond to the request to participate.

Group 1 was intended to be a group of senior managers in the Local Government Division, of the Ministry of Community, Sport and Cultural Development. These individuals were referred by the Assistant Deputy Minister at the request of the Minister. Subsequently, one senior official was provided by the Ministry for a single interview to represent the perspective of the ministry as a whole. Since only one Ministry official participated, the risk of identification and limits to confidentiality were greater to this individual than other participants. This was discussed with the interviewee at the beginning of the interview and their consent was nonetheless provided.

"Snowball Sampling" and direct contact was used to engage Group 2. The project client provided potential participants from her contact list with information concerning the research



and contact information for the researcher with a request for potential participants to contact the researcher directly. Direct contact was also used to connect with Group 2 and Group 3 using the project client's business contacts and publicly available contact information such as phone numbers and email addresses from websites.

In total, 9 interviews were conducted from a prospective list of 12. One interview was conducted with the Ministry of Community, Sport and Cultural Development. Five interviews were conducted with board members and rate payers of the Hagensborg Waterworks District. Three interviews were conducted with other improvement district representatives from across the province.

In all cases, consent materials were provided by email prior to the interview (Appendix 3). Then at the interview, the consent materials were again reviewed. For all groups, other than the limitations identified for Group 1, participants have been anonymized for analysis and reporting purposes. Any quotations in the report were used in a manner that would not identify the speaker or their affiliation from the content. No interview participants have been identified by name in the reporting so that a reader will not know which respondent provided a particular answer in an interview.

The referral or "snowballing" selection process of participants in the second group had the potential to compromise the confidentiality of participants as they may have been identified or referred to the study by a person outside of the research team such as their supervisor. Participants were advised of this limit to confidentiality which would be minimal considering that all data was to be anonymized for analysis and reporting purposes unless consent was provided.

### **3.3 Data Analysis**

The data collected through the literature review and stakeholder interviews was analyzed to generate common observations, themes and descriptions of phenomena. As defined by Guest, MacQueen & Namey, (2012) "thematic analyses move beyond counting explicit words or phrases and focus on identifying and describing both implicit and explicit ideas within the data, that is, themes" (p. 9). The purpose of the data analysis was to answer the research questions and draw conclusions to inform the options and recommendations of the project. Relevant quotes and information from the interviews was collected into a document and grouped into themes and topics for each question. These themes were then analysed in the context of the research question and presented in the findings section of the report.

The Ministry argues that the status quo of a long-term approach to the elimination of improvement districts is desirable (BC Government, 2006, p. 10). However, the impact of this approach, as the research supports, is an inequity that disadvantages improvement districts and the consumers they serve as they do not have access to public funds to offset the additional costs of rural service delivery. The opportunity exists after more than two decades of the same approach to apply the same standard of legislative accountability to improvement districts as regional districts and municipalities which will address the growing inequity that the Ministry's policy creates.

### **3.4 Strengths, Weaknesses, Limitations and Delimitations**

As identified by Alan Sadnovik in Handbook of Public Policy Review (Fischer, Miller and Sidney, 2007), strengths of performing qualitative research in a policy review include:

- Useful for studying a limited number of cases in depth
- Useful for describing complex phenomena
- Provides individual case information
- Can conduct cross-case comparison and analysis
- Provides understanding and description of people's personal experiences of phenomena
- Can describe, in rich detail, phenomena as they are situated and embedded in local contexts
- Responsive to local situations, conditions and stakeholder needs
- Can use an important case to demonstrate vividly a phenomena to the readers of a report (pp. 423-424)

Weaknesses include:

- Knowledge produced may not generalize to other people or settings (ie. findings may be unique to the relatively few people included in the research study)
- It is difficult to make quantitative predictions
- It is more difficult to test hypotheses and theories
- It may have lower credibility with some administrators and commissioners of programs
- The results are more easily influenced by the researcher's personal biases and idiosyncrasies (p. 424)

One limitation of this project is the provincial election held in May 2017. Minister Fassbender, who requested this report, was not re-elected and a change in government is inevitable after the June 29, 2017 vote of non-confidence in the legislature. In either case, a new Minister and

potentially a restructured ministry may impact the commitment or time required to address the issues created by the BC Government's policy to restrict improvement district access to funding.

Another limitation was client expectations. If the research and analysis did not support changes to the Ministry's policy of removing restrictions to improvement districts for accessing Sewer and Water Infrastructure Grants, the client may not have been satisfied with this result. This limitation was mitigated by having an up-front conversation with the client about their expectations and ensuring they supported an objective, fact-based, non-biased analysis of this topic.

Delimitations of the project included the number of interviews, the format of interviews (semi-structured) and lack of available literature specific to improvement district structure and finding.

## **4.0 Findings: Stakeholder Analysis**

To adequately answer the research questions of this project it is important to identify key stakeholders, analyze their interests and determine what might be done to satisfy them (Bryson, 2004, p. 29). As John Bryson states “Figuring out what the problem is and what solutions might work are actually part of the problem, and taking stakeholders into account is a crucial aspect of problem solving” (p.24). Therefore, a stakeholder analysis using Bryson’s basic technique will inform and support the options to consider and recommendations of this report.

The term stakeholder refers to persons, groups or organizations that must somehow be considered by leaders, managers and front-line staff (Bryson, p. 22). To understand the key groups and organizations with interests affected by the Ministry’s policy to restrict improvement districts from accessing sewer and water infrastructure grants, the basic analysis technique as described by Bryson was used (p. 29). This technique “offers a quick and useful way of: identifying stakeholders and their interests, clarifying stakeholders’ views of a focal organization (or other entity), identifying some key strategic issues and beginning the process of identifying coalitions of support and opposition” (p. 29). Techniques from stakeholder influence diagrams were also used in the analysis to identify lines of influence from one stakeholder to another (p. 32).

### **4.1 Stakeholder Identification**

The first step in the basic analysis technique is to brainstorm the list of potential stakeholders. This step was accomplished by: reviewing the research and completing discussions with the client.

The stakeholders identified as having interest and influence around the Ministry’s policy are:

1. Property owners served by improvement districts
2. Improvement District Boards of Trustees
3. Improvement District Staff
4. Government of BC
5. Ministry of Community, Sport and Cultural Development and Responsible for TransLink
6. Ministry of Health and Regional Health Authorities
7. Regional Districts and Municipalities
8. Union of British Columbia Municipalities (UBCM)
9. Taxpayers

## 4.2 Stakeholder Analysis

The next steps in the basic analysis technique are to: clarify the stakeholders' views of the problem; identify key strategic issues; and determine aspects of potential support or opposition to the policy (Bryson, p. 29). The analysis also includes steps to: "identify and record what can be done quickly to satisfy each stakeholder; identify and record longer-term issues with individual stakeholders and with stakeholders as a group; and specify how each stakeholder influences the organization" (p.30).

Considering the interests of all stakeholders, the results of the analysis are as follows:

1. **Property Owners** served by improvement districts are eligible to elect trustees under the letters patent of their improvement district under the *Local Government Act*. This group pays taxes to the improvement district in return for services and has an interest in this issue given the potential millions of dollars across the province that improvement districts are prevented from accessing for capital repairs and upgrades. In the case of drinking water or fire protection for rural or remote areas, this group is affected by diseconomies of scale compared to property owners serviced by regional districts or municipalities. This is due to the infrastructure requirements of their systems and small tax base to draw from for the entirety of their income. From a public safety perspective, this group is affected by funding deficits for capital upgrades that may make drinking water unsafe or fire protection ineffective. While some property owners may support a change in the ministry's policy to shift improvement district systems under municipal or regional district jurisdiction, some may be against such a change if they favour dissolution.
2. **Improvement District Board of Trustees** are elected by provision of the letters patent of the improvement district. If there is no such provision, the board of trustees are elected by the owners of land in the improvement district. This group generally consists of property owners within the improvement district who are also rate payers and service users. This group is visible in the community they serve given that they live within the improvement district boundaries and are therefore highly accountable on a personal level to their neighbours and fellow community members. Again, while some trustees may support a change in the ministry's policy to shift improvement district systems under municipal or regional district jurisdiction, some may be against such a change if they favour dissolution.

3. **Improvement district staff** may have an interest in a policy change as the alternative to raise capital funds conversion without increased taxation could result in the termination of their employment if the improvement district dissolves into a regional district.
4. **The Government of BC** has maintained its policy of encouraging improvement districts to restructure through the restriction of grant funding for capital costs for over two decades. This is a policy issue that the Ministry of Community, Sport and Cultural Development and Responsible for TransLink is charged with administering and maintaining. The provincial government could modify or eliminate this policy without changing the current legislation. However, legislation changes would be required to increase the statutory accountability of improvement districts in the areas of financial transparency and electoral process.
5. **Ministry of Community, Sport and Cultural Development and Responsible for TransLink** is responsible for administering the *Improvement District Governance: Policy Statement*. The Local Government Branch of the Ministry provides oversight and advisory services for improvement districts. The ministry has maintained the policy of restricting sewer and water infrastructure grants to regional districts and municipalities through its strategic objectives to:
  1. remove constraints to conversion of improvement district to regional district and municipal jurisdiction;
  2. minimize risks of failure in the improvement district system which could have serious financial implications for the province, improvement districts and residents;
  3. support the conversion of improvement districts to regional district and municipal jurisdiction incrementally, over time and, for the most part, with local assent; and
  4. reduce the number of improvement districts (BC Government, 2006, p. 10).
6. **The Ministry of Health and Regional Health Authorities** govern drinking water quality through the *Drinking Water Protection Act* (DWPA)(2001). Many water systems across the province, including Hagensborg, draw their water from surface sources without treatment. On Vancouver Island for example, only 33 of 40 large water systems using surface water sources in 2012 were compliant with surface water treatment objectives (SWTO) (Island Health, 2014, p. 24). Many systems are unwilling or financially unable to install treatment systems which puts them in conflict with regional health authorities who enforce the standards. Access to funding would be a new avenue for improvement

districts that draw from surface sources without treatment systems to come into compliance and reduce the public safety risk from surface contaminants entering the water system.

7. **Regional Districts and Municipalities** have their own priorities and infrastructure needs. For example, in 2013 the Hagensborg Waterworks District asked the Central Coast Regional District (CCRD) to consider an application through the regional district for Community Works funding to address their aging infrastructure. The CCRD replied on February 13, 2014 that this request was denied as the regional district had “so many significant regional district infrastructure issues of its own” (Blake, personal communication, 2014).

The Thompson Nicola Regional District (TNRD) states that any water systems that wish to be acquired “must be financially viable with sufficient revenue to cover ongoing operating costs and future improvements. The reason is to ensure that the water system is financially self-supporting and sustainable for the long term” (TNRD, p. 4). Consequently, improvement districts struggling to operate financially or meet the capital costs of infrastructure repairs or upgrades are ineligible to dissolve into the regional district under this policy. This leaves the improvement district with no alternatives without grant funding other than to increase rates to levels that may not be sustainable, not complete the required improvements, or walk away from the system.

8. **Union of British Columbia Municipalities (UBCM)** represents and serves all local governments in BC except for improvement districts. Hagensborg Waterworks District has applied for membership in the past and been rejected. The UBCM has an interest in maintaining the current policy since any change to allow improvement districts access to funding for sewer and water infrastructure grants would mean more competition for a finite pool of money that currently only its members may access.
9. **Taxpayers** who demand value for money and expect to see public funds deployed in an efficient manner may support a change. However, the public should expect proper asset management programs are in place and that charges for services reflect their costs.

### 4.3 Forcefield Analysis

There are different ways to profile the stakeholder analysis and show the pressures for and against change. Using a forcefield analysis, the various forces can be analyzed to determine if there are more overwhelming forces for or against a change to the ministry’s policy. Scoring all

the forces based on their level of influence with a numeric scale from 1 (weak) to 5 (strong) will identify the feasibility of the desired change given the forces at work (Wageningen Centre for Development Innovation, n.d.).

**Change to policy of restricting improvement districts from accessing grant funding**

<b>FORCES FOR CHANGE</b>	<b>FORCES AGAINST CHANGE</b>
→ <b>Property Owners</b> <b>Score: 5</b>	→ <b>Property Owners</b> <b>Score: 3</b>
→ <b>Board of Trustees</b> <b>Score: 5</b>	→ <b>Board of Trustees</b> <b>Score: 2</b>
→ <b>Improvement District Staff</b> <b>Score: 5</b>	→ <b>Government of BC</b> <b>Score: 5</b>
→ <b>Regional Districts &amp; Municipalities</b> <b>Score: 1</b>	→ <b>Regional Districts &amp; Municipalities</b> <b>Score: 2</b>
→ <b>Ministry of Health &amp; Health Authorities</b> <b>Score: 2</b>	→ <b>UBCM</b> <b>Score: 3</b>
→ <b>Taxpayers</b> <b>Score: 3</b>	→ <b>Taxpayers</b> <b>Score: 3</b>
<b>Total: 21</b>	<b>Total: 18</b>

**Figure 5: Forcefield Analysis**

The results of the forcefield analysis indicate moderate force for a change to the ministry's policy of restricting improvement s districts from accessing grant funding.

## **4.4 Summary**

The results of the stakeholder analysis complete Step 1 of Eugene Bardach's eightfold path for policy analysis by completing the definition of the problem. It also starts Step 3 in the process to construct the alternatives and start to solve the problem. The next sections of the report outline the findings of the stakeholder interviews which drives the discussion, analysis, options to consider and recommendation.



## 5.0 Findings: Stakeholder Interviews

The consultation with stakeholders formed the bulk of research for this project given the lack of scholarly or grey material of any relevance around public grant funding as it relates directly to improvement districts. The group of stakeholders included the Ministry of Community, Sport and Cultural Development and Responsible for TransLink; three Hagensborg board of trustee representatives; two water users from Hagensborg; and three board of trustee members from three separate improvement districts. Five interviews were conducted in person in Hagensborg and Bella Coola, one interview was conducted in person in Kelowna and three interviews were conducted over the phone. All interviews lasted between 45 and 60 minutes. Three other individuals declined to participate and one did not respond to emails. All interviews were transcribed shortly after taking place using digital transcription software and transcripts were provided to every interviewee to check for accuracy. No errors were reported.

The interview group consisted of seven males and two females. All interviewees had a significant amount of experience either administering, overseeing or using services delivered by improvement districts. Not all the improvement district representatives were involved with waterworks, which provided for a variety of experiences and fuller discussion of the scope of issues faced by improvement districts.

### 5.1 Question 1: Policy Status

**The ministry's stated objective since 1979 is the eventual assumption of improvement district responsibilities by municipalities and regional districts. In 2006 there were 240 Improvement Districts in the province and in 2015 there were 216. How has this policy met or not met with success?**

Most interviewees did not agree that the ministry's policy has met with success. This result is not surprising given the fact that the largest compliment of the group was connected to improvement districts in a board, volunteer or consumer capacity. However, the group also mostly acknowledged the metrics have shown a small decline in improvement districts. Many also pointed out that the ministry's policy that all improvement districts be under municipal or regional district jurisdiction at some point in time had not been accomplished in a generation. Some interviewees felt that there will always be a group of 50 to 100 improvement districts that will not assimilate.

Most interviewees commented that the improvement district model was the least expensive form of local government, that it was cost effective and that it was a good governance model.

One respondent categorized improvement districts as the only true local form of government. Some interviewees felt the ministry's policy creates animosity in communities between those living nearby who receive services through a local government that is permitted to access funding and those that can't. Also, that the policy of amalgamation to access funding pits residents against each other within an improvement district for those that want to maintain independence and those that want to join with other local government.

*"I think it's a misguided attempt to centralize services and eliminate truly local government."*

*"If it's gone down 35 districts in 35 years, they're not working at it very hard."*

*"Stop the death of 1000 cuts and just say, "We're shutting it down." Not we're going to starve you for 30, 40 years and hope you just go away."*

*"But this little system that people actually have some say over, but yet, the government has kept the funding back, so it has created this animosity in the community."*

*"One of the things about improvement districts is that while half of our battle is made up with dealing with government, the other half is with the membership."*

## **5.2 Question 2: Standard of Accountability**

**Do improvement districts have the same standard of public accountability that regional districts and municipalities have? Please explain your position on this issue.**

Most, but not all respondents answered a clear "Yes" to this question. The discussion in most cases was lively and vigorous in the affirmative around this question. All respondents connected to improvement districts were adamant that improvement districts were required under the legislation to meet all the same standards as regional districts and municipalities. However, from the research the answer to this question is in fact "No", improvement districts do not have the same standard of public accountability that regional districts and municipalities have.

Principally, improvement districts are not held to the same standard of financial accountability as regional districts. They also do not have the same transparency requirements for the election of trustees. Regional districts in BC are in fact the most transparent form of government. However, with that transparency they also have many restrictions in how they operate. Municipalities and improvement districts enjoy more freedoms.

The fact that most interviewees are not aware of the legislative differences between improvement districts and other forms of local government in BC drives some of the dissatisfaction with the current policy. If one thinks they are being held to the same standard, then they are likely to feel put out when they are not provided with the same opportunities. There is an opportunity here for the ministry to provide education on this issue to reduce some of the current dissatisfaction with its policy.

The point was made however, that the spectrum of accountability in improvement districts varies. Some are very sophisticated and are voluntarily meeting the same requirements around financial reporting and elections as regional districts and municipalities. Many interviewees commented on the accountability of improvement district trustees to their neighbours. With a board of five people for example in Hagensborg, representing 224 customers, the ratio of trustees to end users is high versus a regional district where an unelected committee would be responsible.

*"We are a local government under the act, same as them, and municipalities, regional districts and improvement districts, we're all the same, essentially."*

*"Improvement districts are treated like governments in every aspect, except funding. We're allowed to make laws and bylaws, we're charged taxes, we can foreclose, or not foreclose but tax-sale people if they don't pay their bill".*

*"Improvement districts, you stop a trustee in the street and you bend their ear, they're going to take it to the next meeting."*

*"Every year, at an AGM, the people show up and they make you accountable for what's going on. So you're accountable to your friends and your neighbors, is what it comes down to. So, the level of accountability that you feel is tremendous."*

*"Of course we do. We're all governed by an act of parliament, and in the case of Improvement Districts, we're governed by, first of all, our letters patent, and by the Local Government Act."*

*"When we impose taxes or tolls, I pay them too."*

### **5.3 Question 3: Public Health**

**How should the issue of improvements districts facing serious infrastructure issues that may pose the potential for public health harm be addressed?**

The responses to this question varied. On one hand, some interviewees felt that all forms of local government, regardless of access to funding, should apply sound financial and asset management strategies to ensure they can provide the level of service to meet requirements. The ministry provides tools, mechanisms and support to improvement districts to ensure they charge adequate rates. However, more than one respondent pointed out that access to lending does not necessarily mean the rate payers can afford the interest payments.

Some respondents replied that improvement districts are required to meet the same standards as other forms of local government but are not provided with the same access to funding which is not fair. Again, this perspective is not correct and drives a key piece of dissatisfaction with the policy. One improvement district respondent felt that those at high risk for public health issues should be forced to amalgamate and another responded that if government is intent on dissolving improvement districts, they should just step in and do it in a directive manner.

*"I think that the government should be assessing improvement districts that are high-risk, for starters. If you have an improvement district that has a well or a water source down from a cow pasture, then perhaps we'd better get some form of treatment in there because that's Walkerton right?"*

*"I don't think that it is fair, because isn't safety and accountability and these kinds of things supposed to be priority? People aren't transitioning to a regional district model... Or pardon me, improvement districts aren't transitioning, because they don't feel that that's a safe road to go."*

*"If the Improvement District had had steady availability of funding and stuff, well our volunteer firemen would have likely been out on lots of courses. They'd have a new truck like they should have. We'd have much better pipe in the ground, filtering systems."*

## **5.4 Question 4: Size and Traditions of Self-Help**

**Does the small size of some improvement districts and their traditions of self-help affect their ability to deal with the complex issues of their service delivery?**

For most respondents who were connected directly to improvement districts, this question was a source of pride. They pointed out that living in the community provides accountability if something goes wrong and as end users they have a vested interest in doing the work correctly. Respondents pointed out that because economies of scale don't work in favour of improvement districts, volunteers put in hundreds of hours for free versus regional districts

that operate with all paid staff. Interviewees pointed out that in economically depressed regions, it makes more sense to have the users doing some of the work for free or at reduced cost and that their focus on one or two services is an advantage. Interviewees pointed out that long term involvement in their systems brings a deeper knowledge which can resolve problems quicker and at less cost. However, one of the pitfalls of having volunteers is that if they move away or can no longer physically perform the work it must be paid and any subsequent increase is a shock for the rate payers.

One interviewee discussed that self-help also means local involvement and familiarity with local issues such as those involving First Nations, geology, local traditions and previous consequences of poorly performed work. They also pointed out that those performing self-help must live with the results of their work and consequently will be very careful versus a paid crew from outside the community that has no stake in the system other than a short term financial one.

*"It's more so that from a regulatory point of view, it's difficult to measure and quantify a self-help service provision versus something that is really accounted for. So you could run your system completely in kind self-help, but could you then account for it to identify all of the things you're doing. And that comes back to accountability and transparency."*

*"As an example, there's five trustees and they're all elected on a rotating two, three-year term, and they represent 200 people or a somewhat larger number of customers, and they have five people representing. Whereas, if we were absorbed by the regional district, there's one person who'd represent the entire district. And it then becomes a subcommittee of the regional district that are not elected and not publicly accountable".*

*"Improvement districts, in my mind and in my experience, are the cheapest form of government to run, because they're paid for by the people, and they're run by volunteers that care."*

*"Our customers are also our neighbors and therefore our trustees are much more accessible than Regional District staff and politicians, elected officials."*

*"Somebody comes to an improvement district with an idea or a suggestion, it goes right to the next meeting and it's discussed at, oftentimes with that individual. And our annual general meetings that we hold at the end of every year, well, we hear the voice of the community, and people can get elected on that want to effect change."*

*“Self-help means, usually means, free, volunteer, unprofessional, cheap, undocumented, short-term effects with no long-range planning, low contingency funds. However, it also means local involvement and familiarity with geology, First Nations, traditions, consequences.”*

## **5.5 Question 5: Conflict Between Planning and Servicing**

**Is there a potential for conflict when land use planning and servicing responsibilities are vested in different jurisdictions in rural areas?**

The consensus from all interviewees was yes, servicing responsibilities can at times be in conflict when they are vested in different jurisdictions in rural areas. Improvement districts are not involved in land use planning, a fact which most interviewees pointed out. Echoing earlier themes, some interviewees felt that regional districts were inefficient compared to improvement districts due to the broad scope of their responsibilities and the fact they had only paid staff. Improvement district respondents felt that their priorities would be lost if they were to fold in with a regional district and that the regional district may not necessarily seek or be granted funding for infrastructure projects regardless. With more overhead, these respondents felt that costs would rise and increased rates would be inevitable.

*“Given our focus, we’re going to concentrate on what needs to be done and do it for as little as can be done because we’ve been starved for a long time, so we’re going to make the money we have go as far as it can go. If we get a pot of big money, well we’re not building offices.”*

## **5.6 Question 6: Growth and Development Pressure**

**Population growth and development pressures have placed strains on improvement districts, regional districts and municipalities. How would equal access to funding for capital improvements for all levels of local government hinder or relieve this strain?**

Most respondents stated that equal access to funding allows more people to be represented and that strains are being felt on all levels of government. All respondents were cognizant of the fact that permitting improvement districts to apply for infrastructure grant funding does not necessarily mean they will be approved. For those respondents that knew the process for funding, there was consensus that only sophisticated improvement districts with existing capital plans or the required water conservation plan should be permitted to apply.

*“Well, by forcing Improvement Districts to go through Regional Districts to apply for grants means that they're going to the bottom of the Regional District's priority list... And hence the Improvement Districts are being short-changed.”*

*“But what has happened is, it's like you got the little kid, he has to shovel the walk, and bring in the firewood, and weed the garden, and he doesn't get much lunch. And the big kid, he's got the privilege; he stays in the house, and he plays the piano, and gets all the praise. The little guy's trying to do the work, but he's not given the support.”*

## **5.7 Question 7: Financial Effects of Merging**

**In the case where improvement districts have merged with regional districts, how have water and fire protection rates been affected?**

All interviewees reported that they had no knowledge of research on the effects on rates when improvement districts have merged with regional districts or municipalities. From an anecdotal perspective, however, all interviewees recounted instances where they had heard that rates had gone up. Some interviewees stated that that rates always go up; the process is almost always not successful; and that rate payers are frustrated by significant costs. One interviewee stated that a former improvement board member related that when their water system shifted over to regional district oversight rates went from \$100 per year to \$100 per month. However, there was acknowledgment by one respondent that higher rates may be a by-product of being on a track to improve drinking water quality for a very long term, whereas before, the system might have been in an unsustainable or inconsistent situation.

*“I have heard anecdotally that some of the more rural improvement districts that dissolve into regional districts, they get a fair bit of frustration from the rate payers, because the rates go up significantly, and they are quite frustrated because of that. They may not balance that out with the level of service.”*

*“No, it often results, well, in frustration and increased rates with less service, less improvement. Our own regional district here soaks up almost this entire tax base just in paid staff. Yeah, there's not much left over to do anything with.”*

*“Since the implementation of the regional district system, there's recognition that some regions have limited scope and limited capacity and may not actually be the best local service or local level of government to provide that service.”*

*“As an improvement district, Johnny came by, a teenager, and mowed the lawn once a week in the summer for 15 bucks. Done deal. You transfer to a regional district, you're going to have a unionized employee show up at 25 bucks an hour and in a big truck and like whatever.”*

*“And if the government studies the efficiency of the use of that money, they'll say we get more bang for our buck. We get more stuff done if we go through an Improvement District.”*

## **5.8 Summary**

Stakeholder interviews provided valuable insights to further enhance the research of the project. A key finding of the interviews is the misperception that all levels of local government in BC are held to the same legislative standard. Another finding surrounds the lack of available information of the effects on rates due to improvement district dissolutions into regional districts or municipalities. These themes are further explored in the next section.



## **6.0 Discussion and Analysis**

A review of the literature provided findings around local government structure and financing to inform the options and recommendations to follow this section. Furthermore, the stakeholder interview process, and subsequent findings, provided current perspectives about the Ministry's policy to restrict improvement district funding and eventually eliminate them as a form of local government.

While the sample size of the interviews was relatively small, a qualitative analysis of the transcripts demonstrates that a key rationale for the Ministry's policy is misunderstood by most of the group that was interviewed. However, the interviews also demonstrated a high level of consensus from across the province for a comprehensive policy review.

The following is a summary of the key themes that emerged from the literature review and stakeholder interviews.

### **6.1 Theme 1: Impact of policy on rural residents**

Housing costs are increasing across BC, particularly in urban areas. As the ability to work remotely grows due to technology advances, many residents are moving to rural areas. If these new rural residents are served by an improvement district for water or fire protection, the cost of these services is born solely by the user. Improvement districts cannot apply for additional funding as their neighbours served by regional districts can. Essentially, equity and efficiency targets are unbalanced for citizens served by improving districts.

As demonstrated in the literature review, delivery of services to rural residents is costlier due to economies of scale. There are also additional costs due to travel, communication, training, consultancy and other support services (Asthana et al. 2003, PP. 488 – 490). However, few national governments guarantee that public services should be uniformly available in scope and quality across rural and urban areas. Yet, the OECD writes “there remains a growing perception by portions of the public that spatial equality of access should be part of the statutory rights of citizens” (p. 24).

### **6.2 Theme 2: Timeliness for a comprehensive review**

The BC Government's long term objective to eliminate improvement districts as a form of local government will take more than a generation to complete. However, there is also a strong likelihood that it will never be fully successful. The policy is over 20 years old, has not received a

comprehensive published review since 2006 and improvement districts across the province are seeking change. It is time to conduct a review to determine the policy's relevance and if objectives are still being met.

### **6.3 Theme 3: Misperception surrounding legislative standards**

In the interview stage of the project, most respondents connected to improvement districts stated that there are no legislative differences between the levels of local government. Also, that improvements districts are held to the same standards as the other forms of local government; however, this is not the case as there are key differences between the sections of the Local Government Act that apply to municipalities and regional districts versus those that apply to improvement districts. These differences underpin, in part, the Ministry's policy restricting improvement districts from sewer and water infrastructure grants.

The belief demonstrated by most interviewees that improvement districts have the same standard of public accountability as regional districts and municipalities creates some of the dissatisfaction with the government's policy. The improvement district board members and rate payers who participated in the interviews for this project believe they are meeting the same legislative requirements as regional districts and municipalities. Consequently, they do not understand why the government treats them differently and restricts their access to funding. However, the differences in the legislation are clear. Improvement districts are not required to meet the same standards of financial transparency and fairness of elections as regional districts and municipalities. Consequently, the BC Government will not provide access to public funds in the form of sewer and water grant funding for improvement districts.

### **6.4 Theme 4: Lack of information on the effects on rates due to dissolution**

Without a comprehensive review of the effect on rates when improvement districts merge with regional districts, the stories and anecdotal tales of increases will prevail among those connected to improvement districts. If the conversion process is desirable from an efficiency standpoint, there is an opportunity for the Ministry to study this issue and determine the effect of past conversions. The result of the study would be to definitively address the issue and demystify the financial effects of the amalgamation process. Additionally, while rates may go up, service levels and future sustainability of the system may have also increased.

## **7.0 Options to Consider and Recommendations**

### **7.1 Options to Consider**

Based on the research, the following options and recommendations were identified and are submitted from most to least desired.

#### **7.1.1 Option 1**

**Create an eligibility list for improvement districts to compete without restrictions for funding.**

In this option the Ministry of Community, Sport and Cultural Development and Responsible for TransLink will create an eligibility list that identifies those improvement districts that have voluntarily met increased standards of public accountability and fair elections through:

1. the creation of an annual financial plan that is adopted annually (LGA, Part 11, Sec. 374);
2. a bylaw requiring assent of the electors, or approval of the electors by alternative elector approval process, for long term capital commitments; and
3. a bylaw requiring voting by secret ballot (LGA, Part 3, Div. 13, Sec. 123).

In the alternative to voluntarily meeting these requirements, a legislative change may be enacted to create another form of improvement district with the statutory requirement to meet the thresholds of accountability and transparency in finances and elections.

Improvement districts that meet the requirements will no longer be restricted from applying for sewer and water infrastructure grants and competing on an even basis with regional districts and municipalities. Should an improvement district be accepted for funding, it will not be assumed that ownership of the system will shift to the regional district.

Improvement districts that do not meet these three additional requirements, and aspire to meet them, will be assisted by the Local Government Branch of the ministry with staff resources to prepare and adopt these items. All decisions of eligibility for the list will be made by the Ministry of Community, Sport and Cultural Development and Responsible for TransLink, Local Government Branch.

### **7.1.2 Option 2**

**Conduct a comprehensive review of the effect on rates and service quality when improvement districts merge with regional districts.**

Currently, there are no studies of the effects of dissolution on rates or service quality. This causes speculation and confusion amongst improvement districts and is not helpful for making an informed decision whether to amalgamate into regional districts or municipalities. The research will determine whether there is a positive or negative effect on user rates and whether the conversion process is desirable from an efficiency standpoint. The result of the study would be to definitively address the issue and demystify the financial effects of the amalgamation process.

### **7.1.3 Option 3**

**The BC government commission an analysis and review of its current policy, including the legislative requirements for improvement districts to meet the same statutory requirements as other forms of local government.**

The current policy is 20 years old and while an old policy isn't necessarily a bad policy, stakeholder interviews demonstrate there is a strong desire from the group most affected for a review. Some improvement districts in the province will continue to resist coming under jurisdiction of municipal or regional districts which frustrates the policy of elimination, albeit slowly. The study will determine the level of public accountability and financial sophistication and current financial needs of all improvement districts. Criteria would be developed to identify those improvement districts capable and interested in evolving into a higher level of accountability and whether a new form of local government is required with more statutory requirements closer to a municipality or a regional district, but not necessarily as complex.

### **7.1.4 Option 4**

**Maintain the Status Quo.**

This option maintains the government's current policy of restricting improvement district access to sewer and water infrastructure grants. This option would not be acceptable to any of the improvement district interviewees and the recommendations of the BC Chamber of Commerce. It has the least impact on the government, not requiring any changes to policy or legislation. The option relies on the Drinking Water Protection Act to ensure improvement

districts comply with provincial and federal standards. It also carries little political risk given that the current policy is over 20 years old and has attracted little interest from the public and media.

This option is likely supported by regional districts, municipalities and the Union of British Columbia Municipalities as it does not increase the competition for funding. However, it also does not solve the problem of poor and undercapitalized infrastructure that may eventually fall under the portfolio of these bodies. Without equitable access to funding, improvement districts may not be able to keep up with repairs or implement the required treatment systems for surface fed water systems. Improvement district rate payers will be disadvantaged compared to citizens who are served by regional districts or municipalities.

## 7.2 Recommendations

The four key issues of governance facing improvement districts identified by the BC government in its 2006 Policy Statement are:

1. Public accountability;
2. Administrative effectiveness;
3. Relationships between improvement districts and regional districts; and
4. Growth management (British Columbia, p. 7)

To develop the recommendations of this report, the four options from the previous section are listed in the following table with the key issue that they address. By analyzing the effect of the option on the key issues, two recommendations were identified.

Option	Effect of Option on Key Issues
Option 1: Create an eligibility list	<ul style="list-style-type: none"><li>• Increases public accountability by addressing elector qualifications, elector approval and elections process</li><li>• Increases administrative effectiveness and contributes to effective growth management of with an annual financial plan</li><li>• “Carrot” approach to incent some improvement districts to address the key issues</li></ul>

	<ul style="list-style-type: none"> <li>Identifies which improvement districts are more appropriate candidates for dissolution based on key issues</li> </ul>
Option 2: Review of the effects of merging	<ul style="list-style-type: none"> <li>Provides research data on the costs of dissolution</li> <li>Determine whether there is positive or negative effects on user rates and if the conversion process is desirable from an efficiency standpoint</li> <li>Improvement districts can make informed financial decisions around funding growth management and infrastructure upgrades or dissolving into regional district</li> </ul>
Option 3: Analysis and review current policy	<ul style="list-style-type: none"> <li>With few improvement districts dissolving further delays addressing the key issues</li> </ul>
Option 4: Maintain the Status Quo	<ul style="list-style-type: none"> <li>Low likelihood of eliminating all improvement districts and addressing key issues</li> </ul>

**FIGURE 6: EFFECTS OF OPTIONS ON KEY ISSUES**

Consequently, the recommended options for the BC Government are:

**Option 1: Create an eligibility list for improvement districts to compete without restrictions for funding.** In this option, the Ministry of Community, Sport and Cultural Development and Responsible for TransLink will create an eligibility list that identifies those improvement districts that have met increased standards of public accountability and fair elections. A statutory change may be required to embed these increased standards in the legislation.

**Option 2: Conduct a comprehensive review of the effect on rates when improvement districts merge with regional districts.** This review will provide specific and credible data for improvement districts to consider when contemplating whether to dissolve into a regional district or municipality. The research will determine whether there is a positive or negative effect on user rates and whether the conversion process is desirable from an efficiency standpoint. The result of the study would be to definitively address the issue and demystify the financial effects of the amalgamation process.

## 8.0 Conclusion

This project was designed to research an important issue to thousands of people across British Columbia: the financing and delivery of critical services such as water and fire protection to rural and remote areas. While this project was a small study that was limited by the sample size and lack of previous research on the topic, it is fair to conclude the issue is not going away.

The impact of the BC Government's policy to restrict improvement district access to public capital funding is an emotional issue and those on all sides are passionate in their positions. Standing in front of a packed audience at the local school in Hagensborg to present a midway progress report of this project to property owners, I realized how important this issue is to the community. It strikes at the foundation of their independence as a rural community and their desire for fair treatment from government. Then watching community members debate the merits of dissolving into the regional district or maintain their independence as an improvement district, a conversation that happens at every community meeting, demonstrated to me the value of this research and the merits of resolving this issue for communities across BC.

Building on the research that was started by the BC Chamber of Commerce, the intent of this project was to inform both improvement districts and the BC Government. An unexpected finding for improvement districts is the lack of knowledge around the legislative differences between their form of local government and that of regional districts and municipalities. This is a cause of some of the perceptions of inequity and unfairness. An unexpected finding for the BC Government is the lack of research on the effects of dissolution on service quality and rates. This is a barrier to improvement districts considering dissolution.

After 20+ years of attempting to eliminate improvement districts as a form of local government, this project recommends a new approach to the BC Government. Improvement districts that meet higher standards of transparency and accountability than required by the legislation should be granted the approval to compete for infrastructure funding without restrictions alongside regional districts and municipalities.

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# Appendices

## Appendix 1: Interview Questions

1. The ministry's stated objective since 1979 is the eventual assumption of improvement district responsibilities by municipalities and regional districts. In 2006 there were 240 Improvement Districts in the province and in 2015 there were 216. How has this policy met or not met with success?
2. Do improvement districts have the same standard of public accountability that regional districts and municipalities have. Please explain your position on this issue.
3. How should the issue of improvements districts facing serious infrastructure issues that may pose the potential for public health harm be addressed?
4. Does the small size of some improvement districts and their traditions of self-help affect their ability to deal with the complex issues of their service delivery?
5. Is there a potential for conflict when land use planning and servicing responsibilities are vested in different jurisdictions in rural areas?
6. Population growth and development pressures have placed strains on improvement districts, regional districts and municipalities. How would equal access to funding for capital improvements for all levels of local government hinder or relieve this strain?
7. In the case where improvement districts have merged with regional districts, how have water and fire protection rates been affected?

## **Appendix 2: Introductory Email Script**

Hello, you are invited to participate in a study entitled “An Analysis of the BC Government’s Legislation and Policy on Access for Improvement Districts to Capital Infrastructure Grant Funding” that is being conducted by Scot Durward. I am a graduate student in the department of Public Administration at the University of Victoria. The client for this study is Rosemary Smart, Corporate Administrative Officer of the Hagensborg Waterworks District.

You have been identified as a key stakeholder from which to learn more about improvement district funding and have contacted me directly. To this end, I would appreciate your participation in an interview that I will be conducting for this project. The interview will take approximately 40 minutes and can be scheduled at your convenience.

Participation is completely voluntary and all interviews will be kept confidential.

I will be contacting you in the next few days to request your participation and to schedule an interview date.

Thank you,

Scot Durward

## Appendix 3: Participant Consent Form



**University  
of Victoria**

### *Participant Consent Form*

You are invited to participate in a study entitled “An Analysis of the BC Government’s Legislation and Policy on Access for Improvement Districts to Capital Infrastructure Grant Funding” that is being conducted by Scot Durward. Your decision to participate or to decline will not be shared with anyone.

Scot Durward is a graduate student in the department of Public Administration at the University of Victoria and you may contact him if you have further questions by emailing [sdurward@uvic.ca](mailto:sdurward@uvic.ca) or phoning 250.267.1093.

As a graduate student, I am required to conduct research as part of the requirements for a degree in Public Administration. It is being conducted under the supervision of Dr. Kimberly Speers. You may contact my supervisor at 250.721.8057 and [kspeers@uvic.ca](mailto:kspeers@uvic.ca).

This study is also being conducted for the Hagensborg Waterworks District, Rosemary Smart, Corporate Administrative Officer, [thesmartteam2@gmail.com](mailto:thesmartteam2@gmail.com).

### **Purpose and Objectives**

The purpose of this research project is The purpose of this project is a critical analysis of the Ministry of Community, Sport and Cultural Development’s Improvement District Governance Policy Statement as it relates to the issue of improvement district access to funding and the rationale of the ministry’s goal to convert improvement districts to regional district service areas and municipal jurisdiction.

### **Importance of this Research**

This issue is of particular concern to the client, Hagensborg Waterworks District as they are facing a shortfall of \$3.5M to complete necessary capital upgrades to their water system and are blocked from independent access to public funding under the existing government policy. The BC Chamber of Commerce has also passed a resolution (2015) calling for the provincial and federal governments to:

- Remove all barriers to improvement districts receiving equal and direct access to Federal and Provincial grant funding; and
- Enable improvement districts to access capital funding without ownership of their systems shifting to regional districts.

This research will investigate the rationale, reasonability and effects on improvement districts of the BC government's policy of restricting Sewer and Water Infrastructure Grants to regional districts and municipalities. After this analysis is complete, the project will then outline recommendations to the provincial government in a policy brief to make changes to the policy, reverse the policy, or maintain the status quo.

### **Participants Selection**

You are being asked to participate in this study because of your direct involvement in the planning, administration or governance of improvement. You were recommended to me as a key person for purposes of this research by the client, Rosemary Smart, COA, Hagensborg Waterworks District

### **What is involved**

If you consent to voluntarily participate in this research, your participation will include completing this interview related to the research questions of the project. The estimated amount of time required to complete the interview is 40 minutes.

### **Inconvenience**

The only inconvenience to you from participating in this study is the time required to complete the interview.

### **Risks**

There are no known or anticipated risks to you by participating in this research.

### **Benefits**

The potential benefits of your participation in this research include:

- To you: by consciously reflecting on your professional activities in respect of policy formulation and administration, you may develop greater awareness of the skills and methods relevant to your day-to-day activities.
- To the state of knowledge: the research addresses policy questions brought forward by a number of groups and will attempt to determine objectively whether there is evidence to support or refute the policy statement of the government as it relates to access to grant funding for improvement districts.

**Voluntary Participation**

Your participation in this research must be completely voluntary. If you do decide to participate, you may withdraw at any time without any consequences or any explanation. If you do withdraw from the study your data will not be used and any notes will be destroyed.

**Process**

With consent by you, I will record the interview direct to digital mp3 format on a notebook computer encrypted using 128-bit AES encryption. Following the audio recording of the interview, a verbatim transcript will be prepared by me, and the original mp3 recording secure deleted. I will email to you a copy of this transcript, taking all reasonable precautions to ensure the confidentiality of the transcript. You are welcome to review the transcript and make any corrections, amendments or deletions that you wish. The amended transcript will then become the transcript of record for data analysis purposes.

**Anonymity**

In participating in an interview, please be aware that you will NOT be anonymous during the data collection phase.

**Confidentiality**

Although your responses will not be anonymous when collected, they will be anonymized for analysis and reporting purposes. There may be limits to confidentiality if you have been referred by or identified by an individual who you have a work or personal relationship with. However, no quotation will be used in such a way that the speaker or their organizational unit could be identified from the content. And where any quotation is used in reporting, the consent of the speaker will be obtained first. Therefore, your confidentiality will be protected - i.e., no interview participant will be identified by name in the reporting, a reader will not know which respondent provided a particular answer in an interview, and no quotation will be used without the expressed consent of the speaker.

**Dissemination of Results**

The electronic thesis will be available on UVicSpace which is a publicly accessible site. It is also anticipated that the results of this study will be shared in a policy brief submitted to the Minister of Community, Sport and Cultural Development on behalf of the Hagensborg Waterworks District. The policy brief will analyse the issue of restricting improvement districts from Sewer and Water Infrastructure Grants, complete a formal stakeholder analysis and make recommendations with an implementation plan (if supported).

**Disposal of Data**



Data from this study will be stored on a notebook computer that I maintain in my possession, encrypted using 128-bit AES encryption. The data will be secure-deleted after the policy brief is submitted, or on December 31 2017, whichever comes first.

### **Contacts**

Individuals that may be contacted regarding this study include the researcher and supervisor referred to at the beginning of this form.

In addition, you may verify the ethical approval of this study, or raise any concerns you might have, by contacting the Human Research Ethics Office at the University of Victoria (250-472-4545 or [ethics@uvic.ca](mailto:ethics@uvic.ca)).

Your signature below indicates that you understand the above conditions of participation in this study, that you have had the opportunity to have your questions answered by the researchers, and that you consent to participate in this research project.

<i>Name of Participant</i>	<i>Signature</i>	<i>Date</i>
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***A copy of this consent will be left with you, and a copy will be taken by the researcher.***