# Principles for Financial Settlements Between Municipalities for Boundary Alterations

Each principle includes a set of related questions to give municipalities guidance in their use and to help explain how each principle should be interpreted by rural and urban municipalities. **The Principles for Financial Settlements between Municipalities for Boundary Alterations** can provide a policy framework to help municipalities reach voluntary agreements.

## 1. More regional planning by urban municipalities and bordering rural municipalities (RMs) should be undertaken to determine locations for growth, the need for future boundary alterations and to inform about municipalities' respective plans.

### a. What does this principle mean to municipalities? How should they interpret it?

- Clear regional plans would give future direction for urban and rural development.
- Regional planning needs to be an ongoing process.
- Regional planning makes good business sense.
- Look at future plans and opportunities for development; planning needs to be evidence-based, not speculative.
- There needs to be a willingness to share plans and information between municipalities.
- Will result in fewer surprises about growth and boundary alteration plans between neighbouring municipalities.
- Plans can guide land use and infrastructure investment decisions prior to boundary alterations (these have an impact on the financial settlement).
- Evidence-based negotiations are required.
- Creates trust and improves relationships and mutual respect.
- A focus on open communications, but not necessarily a push for a more formal planning commission.

### b. How would municipalities use this principle in reaching a financial settlement?

- Regional planning offers a way to share information, communicate better and build mutual trust.
- It provides a basis for substantiating the need for boundary alterations.
- Good regional planning takes the surprises out of requests for boundary alterations and supports amicable financial settlements.
- Having a better understanding of future development would assist in settlements.
- Regional planning affects the financial settlement through infrastructure investment decisions, development standards used, compatibility of development and impacts

on assessment and taxation; each of these can have a bearing on reaching negotiated settlements.
- Increased communication is needed between parties; building and maintaining relationships is required; regional planning contributes to this;
- Look at development plans.
- Rural plans may be less detailed than urban documents but must be treated with equal respect.

## 2. Municipal boundary alterations should be based on the substantiated need for land for growth and alignment with plans.

**a. What does this principle mean to municipalities? How should they interpret it?**

- Need is to be determined on a case-by-case approach; boundary alterations would proceed when applicant municipalities show they need the additional land to accommodate growth.
- The demonstration of need must be evidence-based (i.e. demographics, official community plans [OCPs], infrastructure plans, land use plans, etc.).
- Need could be based on the same types of evidence urbans would use to approve a new development.
- Substantiating need is not "a plan on a napkin"; it shows a bona fide development interest, not a speculative proposal.

**b. How would municipalities use this principle in reaching a financial settlement?**

- The timing and magnitude of an annexation are driven by need, and this affects the financial settlement.
- Information on need is time period specific.
- Evidence should outline why and where growth will occur.
- Evidence-based determination could include demographics, OCPs, infrastructure plans, land use plans, or other evidence the applicant municipality needs incremental lands.
- The interests of all parties need to be respected.
- Determination of need and supporting documentation should be provided in good faith by both parties.

## 3. Determining the amount of a boundary alteration financial settlement should be evidence-based and done in good faith.

**a. What does this principle mean to municipalities? How should they interpret it?**

- A good faith process is demonstrated by: municipalities planning and working together; having an appropriate communication approach; looking for the potential for joint benefit of all parties; the proper timing of communications and engagement between parties (e.g. early discussions); annual meetings between parties; having regional plans; and showing an honest desire to come to an agreement.
- Building relationships on a solid foundation of trust is vital to good faith negotiations.
- Good faith has a legal meaning, encompassing: willingness to come to an amicable agreement, having an immediate symbolic benefit, honesty, no omissions and appropriate conduct of parties.

- Evidence-based means: actual and appropriate documentation of infrastructure investment/expenditures, an open-book approach to sharing financial information on the impact of a boundary alteration on respective municipalities and amounts requested/offered for a financial settlement are not arbitrary.
- The financial impacts on both municipalities are considered.

**b. How would municipalities use this principle in reaching a financial settlement?**

- Agreements and/or decisions should be made on a case-by-case basis.
- Need to be able to quantify financial effects on both municipalities.
- Examples of evidence-based documentation include: revenue and expenditure statements from both municipalities, Saskatchewan Assessment Management Agency's (SAMA) property assessment of annexed area, the infrastructure's net book value from the tangible capital asset register, engineering condition assessments of infrastructure, statements showing outstanding debt/loans/accounts payable and receivable related to the annexed land, etc.

## 4. A financial settlement should acknowledge the net financial benefits for both the municipalities and infrastructure investments that have been made.

**a. What does this principle mean to municipalities? How should they interpret it?**

- There is a need to look at annexation impacts from the perspective of both rural and urban residents.
- The use of "net benefit" is appropriate because an annexation can benefit either municipality; for example, a RM might be better off from annexation by giving up land where servicing costs are greater than the tax levied in the area.
- Urbans may have a service-related need for the annexed area but do not have a profit motive for annexation (e.g. there are no profits from providing municipal services).
- RMs are concerned the remaining rural ratepayers will bear extra cost due to lost revenues (not every tax dollar collected from a ratepayer goes directly to the level of services they receive).
- The focus should be on an evidence-based approach to support infrastructure value (the settlement should include an accounting for past infrastructure investments by the municipality that had the property within its boundaries).

**b. How would municipalities use this principle in reaching a financial settlement?**

- Infrastructure valuation should look at condition assessments, not just depreciated value (net book value).
- Infrastructure compensation should consider multiple factors including: utility, condition, tangible capital asset register value, depreciation, engineering condition assessments, sources of original funding, outstanding debt and/or loans related to the annexed infrastructure and investment in other RM infrastructure in support of imminent development in the annexed area, etc.
- Need to consider the impacts on the financial situation/position of both municipalities in terms of operating revenue and expenditure increases and/or decreases related to the existing rural services provided and the initial urban services required in the annexed area.
- The potential value/benefit of future development in the annexed area is not to be

considered, except for “imminent lost opportunity.”

## 5. The boundary alteration financial settlement should not jeopardize the ability of either municipality to achieve the purposes of a municipality as provided for in legislation.

**a. What does this principle mean to municipalities? How should they interpret it?**

- Each municipality has an obligation to meet the needs of residents and businesses for municipal services and infrastructure appropriate to their urban or rural context.
- The settlement should support the service needs and standards of residents in both municipalities.
- This principle shows respect and demonstrates good faith by considering the impacts on each party.
- A settlement should not be detrimental to the functioning of either municipality.

**b. How would municipalities use this principle in reaching a financial settlement?**

- Consideration by both parties of settlement terms and flexible compensation payments in terms of settlement amount and/or the time period for payment.
- The continuing ability of both municipalities to meet the service needs of all their residents and businesses may limit the settlement.
- An annexation should not impact the finances of the annexed municipality to the extent that existing levels of municipal services could not be provided to its remaining ratepayers.
- The financial and service impacts on respective taxpayers from each municipality need to be considered.

## 6. The purpose of property tax is to fund municipal services. Receipt of property tax from properties affected by a boundary alteration should be linked to the provision of municipal services to those properties.

**a. What does this principle mean to municipalities? How should they interpret it?**

- Needs to be applied on a case-by-case basis.
- The property taxes in the annexed area should be used to finance services to those annexed properties.
- The settlement shouldn’t impose a burden on other ratepayers of the annexing municipality to pay for the annexation settlement and the subsequent provision of municipal services to the annexed area.
- Many residents in an annexed area expect immediate new services; however, the residents need to be aware of the implementation plans related to timing and level of service provision in the annexed area.
- Different levels of service can require different types of service delivery (e.g. RCMP policing versus a dedicated municipal police force).

**b. How would municipalities use this principle in reaching a financial settlement?**

- The expectation of property owners needs to be considered.

- Impacted property owners need to be aware of the plans/timing of new or enhanced service provision by the annexing municipality.
- Existing ratepayers in an annexed area may want/expect the urban service immediately; however, they should be aware that urban service and property taxation levels will be incrementally added.
- Services in the annexed area should be funded by its ratepayers.
- Taxpayers outside of the annexed area should not be unduly financially burdened by municipal growth within or attributable to the annexed area.
- Property tax from annexed areas needs to be available to fund services.

## 7. The financial settlement should be based on present land use and circumstances and not be influenced by what future development may occur in the annexing municipality.

**a. What does this principle mean to municipalities? How should they interpret it?**

- Annexation compensation should not take into consideration the future development of the annexing municipality.

**b. How would municipalities use this principle in reaching a financial settlement?**

- A settlement needs to consider evidence such as: land use plans, zoning, how far into the future development is, limited availability and suitability of land.
- The determination of need is to be an evidence-based collaborative process.
- The annexing municipality's future development cost would not be considered in determining the amount of the settlement.
- Any financial considerations for the annexing municipality should reflect both the initial urban services required to support the annexed area in its undeveloped or present state and any new assessment and property tax implications on the annexed area.

## 8. The financial settlement should only take future developments in the annexed municipality into consideration if the boundary alteration inhibits or transfers an imminent development.

**a. What does this principle mean to municipalities? How should they interpret it?**

- "Imminent" means a development process that has been started and/or for which there has already been filed a development proposal, not just an intent to develop.
- It shows a bona fide development interest with some investments already made (not a speculative development proposal).
- Imminent development needs to be evidence-based with official and appropriate documentation of investment/expenditures, not "a plan on a napkin."

**b. How would municipalities use this principle in reaching a financial settlement?**

- Consideration needs to be given as to how imminent the project is in the area to be annexed.
- The annexed municipality needs to provide evidence of a bona fide development interest before expecting any compensation for a lost development opportunity.