

DATE: July 7, 2021**FILE:** 1310-01**TO:** Chair and Directors
Electoral Areas Services Committee**FROM:** Russell Dyson
Chief Administrative OfficerSupported by Russell Dyson
Chief Administrative Officer*R. Dyson***RE: Denman/Hornby Islands Broadband Internet Service Consideration**

Purpose

To describe a means of providing a community capital contribution towards broadband connectivity on Denman and Hornby Islands.

Recommendation from the Chief Administrative Officer:

THAT the Comox Valley Regional District proceed with the required public engagement and approval process for a broadband connectivity service on Denman and Hornby Islands as described in the staff report dated July 7, 2021, including conducting a referendum for the new service in fall 2021 and providing a conditional letter of support to CityWest for a proposed partnering agreement.

Executive Summary

The Comox Valley Regional District (CVRD) may have an opportunity to financially contribute towards high speed internet on Denman and Hornby Islands. Elector approval will be required in order to

- establish or amend an eligible service to raise appropriate funds
- enter into a partnering agreement with CityWest (a City of Prince Rupert owned corporation)
- borrow up to 10 per cent of the community contribution for last mile infrastructure.

The CVRD has not historically delivered internet services nor collected funds to contribute towards broadband infrastructure, however an opportunity exists whereby senior government grant funding of up to 90 per cent may be available to provide high speed internet to homes on Denman and Hornby Islands. A referendum is proposed for obtaining elector approval for the points noted above, and elector support would indicate broad community backing for this initiative.

A future staff report will be provided that details the specific financial impacts, based on the length of a loan authorization bylaw and following any senior government grant announcements. The report will also specify the timing for a referendum on this topic.

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Government Partners and Stakeholder Distribution (Upon Agenda Publication)

HICEEC	✓
Denman Works!	✓
Strathcona Regional District CAO	✓
CityWest	✓

Background/Current Situation

At its January 26, 2021 meeting the CVRD Board approved a resolution to support CityWest, a City of Prince Rupert owned corporation, to apply for senior government grants for up to 90 per cent funding to construct last mile fibre connections on Denman and Hornby Island. The board also supported providing up to 10 per cent of the funding for such projects, “subject to an assessment of a CVRD service delivery model to support broadband connectivity, including public engagement prior to any formal commitments being established.”

The notice of grant application results is expected during 2021, therefore staff are bringing forward recommended next steps to ensure that this initiative can move forward if the application is successful.

Policy Analysis

Regional districts may operate any service that the board considers necessary or desirable for all or part of the regional district (part 10 of the *Local Government Act*). A service may be operated directly by the regional district or through another public authority, person, or organization. Authority for operating a service must be granted by way of a service establishment bylaw, which defines the service purpose, boundaries of service area, methods of cost recovery and other factors. The CVRD does not currently provide a broadband internet service, and therefore a new service for Denman and Hornby Islands could be pursued. Alternatively, an existing service such as the Denman and Hornby Island economic development services could be amended to include financial support for broadband connectivity. In both cases, elector approval would be required to create a new service or amend the existing ones. This report describes options the board may consider to support the establishing a broadband connectivity service pending successful last mile grant award.

Options**1. Establish a new broadband connectivity service, which would require elector approval**

Positive aspects to this option include the confirmation from the Hornby and Denman residents that they support the establishment of this service to fund up to 10 per cent of the last mile investment to build the required infrastructure to improve connectivity to their area. The business case completed by the Hornby Island Community Economic Enhancement Corporation (HICEEC) and Denman Works! in 2020 identifies strong support from the residents for investing in broadband connectivity as a key economic driver and livability for the islands. The support of this new service establishment bylaw through elector assent would provide certainty that the residents as a whole supported this investment and this service as a priority. It would also indicate support for the future viability of this service partnership with CityWest as residents could then subscribe for the broadband services provided by CityWest versus other potential broadband internet service providers.

A partnering agreement with CityWest would be required to

- Provide community funding from the CVRD to CityWest to enable CityWest to install last mile infrastructure;
- Provide for permitting and permissive tax exemptions on the related infrastructure
- Establish any other roles and responsibilities specific to CityWest and the CVRD.

Negative aspects to this option include the increased tax burden for a service that not all residents would necessarily use, although elector assent would indicate that a majority of residents do support this as a priority. Some property owners may not want or need a fibre connection but would still be required to pay for the service as part of their property or parcel taxes. Further, other costs must be considered under this option, such as the subscription fee a property owner would pay to CityWest for internet service. These added costs must also be considered in how they compare to other internet options and in light of other projects and service priorities on Denman and Hornby Islands, which are more fully described in Appendix B.

2. Amend an existing service bylaw to support this initiative, which would also require elector approval

The amendments to the existing service bylaws would enable the up to 10 per cent matching last mile broadband funding. The Denman and Hornby economic development services have been identified as good options given the business cases supporting the initiative focused on the potential to enhance economic development and livability on the islands. Positive and negative aspects noted under option one can also be applied to this option.

3. Advocate for high speed internet to rural and remote communities

If the board does not support pursuing a service at this time to provide broadband funding the CVRD could instead focus on advocacy to the Federal and Provincial governments to promote rural and remote community access to high-speed internet through increasing last mile funding allocations to up to 100 per cent, or through private public partnerships at a senior government level.

The Federal Government has identified high speed internet access as fundamental for communities and is providing substantive grant opportunities to encourage improved access. Providing internet access is not a traditional role for most local governments. The private sector in most cases is able to provide such access. Therefore, the CVRD could take the position that the Federal Government needs to work more closely with regulators and industry to find solutions for rural and remote areas. These solutions could include updating regulations so that larger internet service providers are incentivized or directed to improve access. The Union of BC Municipalities is actively supporting this approach and is collecting data on underserved communities.

Some positive aspects of this option include the potential for a Federal Government response that creates an even playing field for internet access across the country, while also ensuring the CVRD does not enter agreements for infrastructure that may become redundant or obsolete given the ever-increasing speed of technology advancements. While fibre connections are certainly preferred and are more stable than satellite-based solutions, new technology is entering the marketplace that may disrupt traditional forms of internet access. Starlink, as one example of satellite-based broadband, is available on Denman and Hornby Islands, and will likely only improve in speed and reliability.

A significant downside to pursuing this option is that the CVRD would not be in a position to provide the up to ten percent local funds to support the last mile fibre project. Should CityWest be successful in obtaining 90 per cent funds for the project, the CVRD would not then contribute its ten percent and CityWest would have to determine its next steps, if it was

to continue to install fibre on the islands. Last mile partnership agreement funding packages clearly indicate that local funding is required to support any successful grant applications.

This report recommends that option 1 be pursued given the potentially imminent announcement of broadband funding and the current level of support on the Islands for high speed internet, to enhance economic development and livability. Should other options be preferred, a resolution to amend existing services or undertake advocacy would be required, providing clear direction for further assessment and analysis.

Financial Factors

The immediate financial requirements associated with Denman and Hornby broadband connectivity relate to the 10 per cent capital investment for the last mile fibre project if the CityWest application submitted for Denman and Hornby islands for last mile funding is successful. During 2019, Denman Works! and the HICEEC developed a digital roadmap and implementation plan that identified benefits and costs associated with last mile fibre. This plan, along with work that CityWest has undertaken during its grant applications, illustrate project costs for connecting all residences on the two islands.

The total project cost to install last mile fibre on Denman and Hornby Islands is approximately \$7.6 million. CityWest has applied for up to 90 per cent of the project costs through federal and provincial grant programs and, if successful, the CVRD would contribute up to 10 per cent or \$760,000, subject to assessing the service delivery models and public engagement.

The last mile infrastructure on Denman and Hornby Island would be owned and operated by CityWest for a minimum of twenty years under the partnership agreement, with any future maintenance or replacement funded by CityWest.

Therefore, Denman and Hornby Island residents' only investment into broadband connectivity, to date, is the previously approved \$142,000 in Community Works Funds (CWF) for the landing sites for the Connected Coast subsea fibre and the proposed 10 per cent last mile funding contribution as contemplated in this report. Community Works Funds could be used for the last mile project, however the Denman/Hornby CWF uncommitted balance in 2021 is only \$229,446 with projected annual allocations in 2022 and 2023 of \$102,000 each year under the current CWF agreement.

Borrowing for this initiative could be obtained by the Municipal Finance Authority (MFA) as with other local government initiatives. The last mile infrastructure would not be owned by the CVRD, however with the partnering agreement with CityWest for twenty years to provide broadband connectivity services, MFA borrowing could be obtained for both short- or long-term borrowing as long as the borrowing term did not exceed the life of the asset or term of service provided. As the partnering agreement provided by CityWest would be twenty years, a longer term borrowing could be considered. A possible concern with a longer term is that the related infrastructure life could be less than the borrowing term. However, the concern is reduced given that last mile broadband infrastructure is a known technology typically providing a minimum twenty-year life span and CityWest, which is a telecommunications company with a long corporate life, is committing to a twenty-year agreement. Additional certainty can be garnered from the federal and provincial government investments into broadband connectivity including the substantial efforts being undertaken to support the Connected Coast project.

If the borrowing is for five years or less, no elector approval is required however a term longer than five years does require elector approval. Given the service establishment or amendment and partnering agreement with CityWest will be provided to the Denman and Hornby Island residents

for elector approval, the assent for borrowing could occur at that time as well. The term of borrowing for this initiative will likely be dependent on the affordability to residents considering the additional subscription fees that will be charged to residents for the internet service. In addition, to other competing service priorities on the islands as summarized in Appendix B.

The table below summarizes the annual payments for the 10 per cent investment to last mile infrastructure with five to twenty year debt terms and estimated impact per average house value.

Ten percent funding for Hornby and Denman Contribution - \$760,000

	Interest Rate	Annual Payments	Estimated Tax Rate (per \$1,000)	Estimated Taxation Impact per Avg House (\$500,000)
5 year	1%	\$155,591	\$0.13378	\$66.89
10 year	3%	\$91,419	\$0.07860	\$39.30
15 year	3%	\$65,959	\$0.05671	\$28.36
20 year	3%	\$53,308	\$0.04583	\$22.92

**Current MFA rates are 0.93% short-term, and 2.19% long-term.*

If the services are established through a new broadband service, the maximum requisition in the service establishing bylaw would be set at an amount that is slightly higher than the tax rate, based on the borrowing term. If the Denman and Hornby Island economic development services are amended to incorporate broadband connectivity, the existing maximum requisitions may have to be increased to enable the added debt payments. A subsequent report on the specific language in the service establishment bylaws would be presented, depending on which options are chosen.

Should the board proceed with funding the broadband service, a partnering agreement between the CVRD and CityWest will be required that confirms roles and the provision of high speed internet to residents on the Islands. The agreement would form a liability of a capital nature, and extend for a term exceeding five years; therefore, elector approval would be required before the board can enter the agreement as noted above.

To summarize, to move forward on option 1 or 2, elector approval will be needed to:

- a) either establish a new service or amend an existing service,
- b) enter into a partnering agreement with CityWest to provide broadband services, and
- c) borrow funds that extends beyond five years through a loan authorization bylaw.

Legal Factors

Should the board proceed with options 1 or 2 to support establishing a new broadband connectivity service or amending an existing service, a service establishment bylaw and a source of funding would be required. Broadband connectivity is an eligible expense for Community Works Funds (gas tax funding) and may be used for the 10 per cent last mile contribution however sufficient funds are not currently available from the Denman and Hornby CWF accounts. For a debt term for the last mile funding over five years, the CVRD would obtain elector assets and adopt a loan authorization bylaw under the partnering agreement to borrow for infrastructure not owned by the regional district.

A partnering agreement with CityWest to provide the broadband service over 20 years would also be required to establish and operate the service over the 20 year agreement.

Regional Growth Strategy Implications

While the Regional Growth Strategy does not specifically mention broadband connectivity, the Federal government is making a commitment to provide high speed internet to all of Canada, in particular rural and remote communities. To achieve this, Federal and Provincial funding programs offer opportunities for internet service providers to obtain up to 90 per cent of the costs to install relevant infrastructure. The options noted in this report all support improved connectivity. Improved connectivity on Denman and Hornby Islands is expected to enhance economic development and livability on the Islands, which could in turn, impact the demand and growth pressures on the Islands.

Intergovernmental Factors

Denman and Hornby broadband service is related to the Connected Coast project managed and implemented by CityWest (a Prince Rupert long standing telecommunications subsidiary) and Strathcona Regional District through \$45.4 million of senior government grants to construct the subsea fibre along the coast. This network will bring high speed broadband connectivity to 139 rural and remote coastal communities, including 48 Indigenous communities – representing 44 First Nations – along the BC coast from north of Prince Rupert, to Haida Gwaii, south to Vancouver, and around Vancouver Island. Landing sites for the submarine connection are proposed for both Hornby and Denman Islands as well as 100+ other locations between Vancouver and Alaska (see <https://connectedcoast.ca/> for more information). And the last component to establish services in these communities is the last mile infrastructure of which the federal and provincial government have provided additional grant allocations of up to ninety percent funding for rural and remote communities, with only ten percent local funding required.

Interdepartmental Involvement

The details supporting the potential broadband service are driven primarily by Denman Works! and HICEEC along with the Connected Coast project including CityWest, with the CVRD's financial and legislative services departments analyzing costs and service delivery. The CVRD's Community Services and Engineering Services Branches are also involved, given the overlap between existing services and increasing pressures on existing and proposed new services.

As illustrated in Appendix B, the CVRD currently delivers a range of services, some of which are facing cost increases due to prior commitments and/or capital improvements. In some other cases, new or expanded service enhancements are driving cost increases, including the proposal for a broadband service.

Citizen/Public Relations

If the board opts to fund broadband connectivity under a new or amended service, consideration must be given to the other service and cost pressures facing the islands, Hornby Island in particular. Appendix A of this staff report describes an elector approval process with a focus on broadband connectivity. However, given the various other initiatives and pressures on services on Denman and Hornby Islands, appendix B describes a more fulsome engagement.

The recommendation in this report contemplates a streamlined referendum where the CVRD undertake public engagement on the Denman / Hornby last mile fibre project only, relying on the content developed through the January 2020 broadband study. The information campaign will include distribution of materials on the costs and benefits of establishing a broadband connectivity service through a partnership with CityWest, including possibly one or more virtual open houses for residents. Appendix A describes in more detail the timing associated with this level of public engagement.

Alternatively, the CVRD could undertake a more fulsome general awareness campaign on the variety of cost pressures and services offered on Hornby and Denman Islands. The campaign would reference projects such as the last mile fibre, Hornby Island Arts Council building, community halls, affordable housing, parks and fire services to name a few. Through the campaign, the public would be asked for some perspective on the existing services and tax impacts at the local level in comparison to future potential tax increases to continue the existing services or expand the range of services. A comprehensive campaign would consider local government service delivery in a wholesome fashion, rather than on a project-by-project basis. Results of this fulsome education campaign could lead to elector approval for certain new or amended services, as required – including potentially a last mile fibre service. Appendix B describes in more detail the timing associated with this level of public engagement.

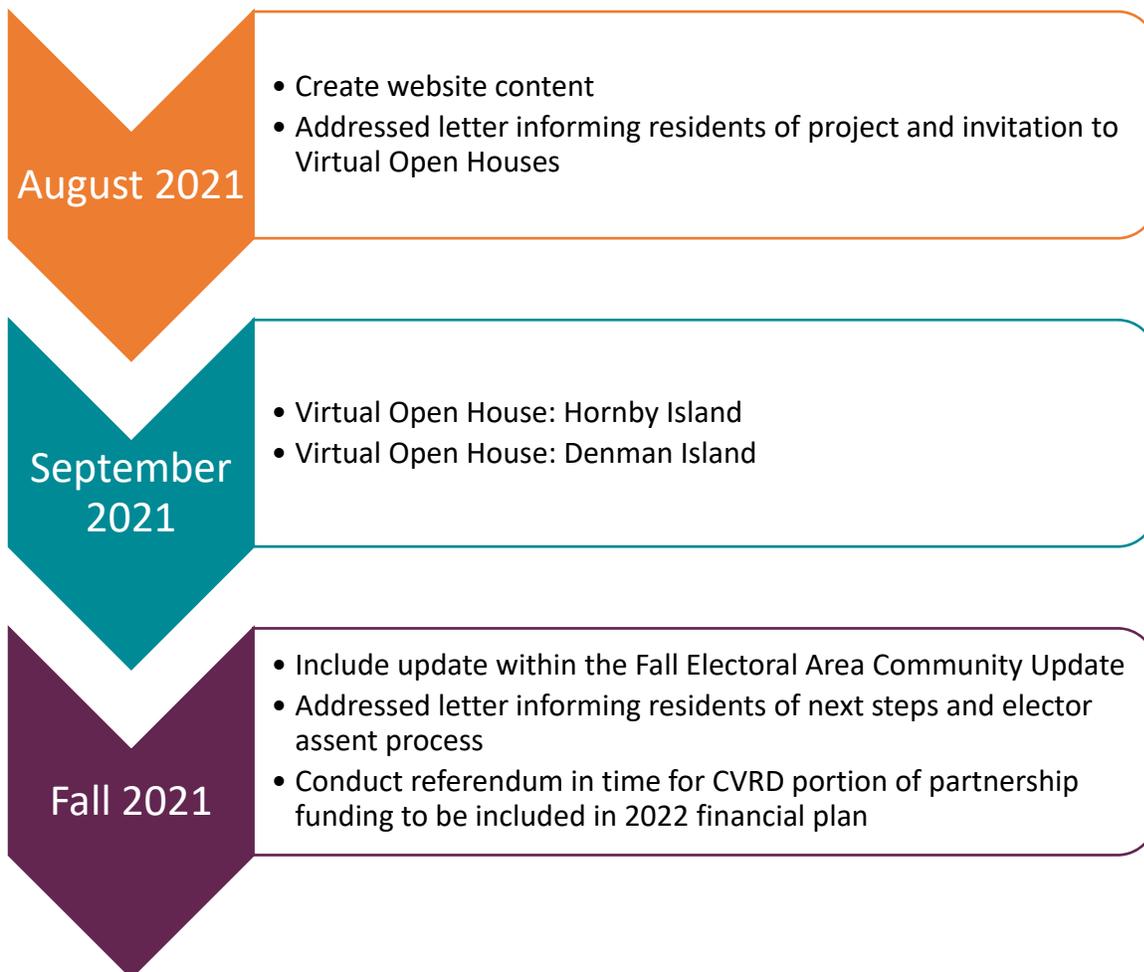
In both options above, a referendum has been determined as best suited to seek elector approval given that broadband service establishment would require both a partnering agreement with CityWest over twenty years, and for the venture to be successful it would also require that the majority of residents subscribe to the broadband service provided by CityWest to provide a feasible service. Civic interest is very high on Denman and Hornby Islands and proposing a new service, with a loan authorization bylaw and liability agreement, are appropriate topics to take forward to a referendum. The board may consider an alternative approval process, rather than a referendum, which would require an adjustment to the recommendation in this staff report.

Attachments: Appendix A – Public engagement for investment in Hornby and Denman Island Last Mile Fibre Project
Appendix B – Public engagement for investment in range of local government services on Hornby and Denman Islands

Appendix A: Denman and Hornby Islands Economic Development: Public Engagement for Broadband Connectivity

Purpose

- To educate residents on the last mile fibre project on Denman and Hornby Islands. The focus of the education is on informing residents on the costs, next steps and elector approval process in order to provide high speed internet service on the Islands through a partnership with CityWest, a telecommunications subsidiary of the City of Prince Rupert.



Appendix B: Broadband Connectivity and Other Service/Project Considerations

Purpose

- To undertake a general awareness campaign on the variety of cost pressures and services offered on Hornby and Denman Islands. Through the campaign, the public would be asked for their perspective on the value of levels of services currently offered and tax impacts at the local level in comparison to future potential enhancements to services and related tax impacts. Results of this fulsome education campaign could lead to elector approval for certain new or expanded services that respond to public interests including:
 - Broadband connectivity
 - Recycling and waste management
 - Hornby island arts council
 - Community halls and facilities
 - Parks and greenways
 - Affordable housing

