THE DISTRICT MUNICIPALITY OF MUSKOKA

**To:** Chair and Members
Muskoka District Council

**From:** James Steele
Commissioner, Engineering and Public Works

**Date:** August 20, 2026

**Subject:** Conditional Servicing Capacity Allocation Process

**Report:** 11(2026)-2

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## Recommendation

WHEREAS The District Municipality of Muskoka is responsible for managing municipal water and wastewater systems with finite servicing capacity;

AND WHEREAS certain localized areas within the District's municipal water and wastewater systems have been identified as having servicing capacity constraints that may affect the timing of development;

AND WHEREAS the District's Capacity Allocation Policy, adopted through By-law 2023-48, establishes a process for managing water and wastewater capacity allocation;

AND WHEREAS a consistent, equitable, and transparent District-wide approach is required to manage development in areas where servicing capacity is constrained but where confirmed engineering solutions or approved capital works are planned or underway;

NOW THEREFORE BE IT RESOLVED THAT staff be directed to bring forward an amendment to By-law 2023-48 in the first quarter of 2027 to incorporate a conditional servicing capacity framework into the by-law and the District's Capacity Allocation Policy applicable to the District's municipal water and wastewater systems;

AND THAT until such amendment is brought forward, the Commissioner of Engineering and Public Works and Director of Planning be authorized to jointly evaluate and approve development applications in areas with known servicing constraints in accordance with the principles set out in this report and the existing Capacity Allocation Policy;

AND THAT where approved by each the Commissioner of Engineering and Public Works and Director of Planning, staff be authorized to include conditional servicing

capacity provisions in servicing agreements or other approved development approval mechanisms, to the satisfaction of the District Solicitor, provided that such provisions do not authorize connection, occupancy, assumption, or final capacity allocation until the District confirms that sufficient servicing capacity is available;

AND THAT staff be authorized to issue connection permits only once the required improvements have sufficiently progressed and the Commissioner of Engineering and Public Works is satisfied that sufficient capacity is or will be available;

AND THAT the Chief Administrative Officer and the Commissioner of Engineering and Public Works be authorized to execute agreements and any related documents on behalf of the District.

**Executive Summary**

The District's municipal water and wastewater systems have finite capacity. In some areas, localized constraints in the water or wastewater systems may limit when development can connect to municipal services.

Report PW-8-2024-8 established an area specific conditional capacity approach for the Coveside wastewater catchment in Huntsville. That approach allowed certain development processes to continue while District-approved infrastructure improvements were being designed and implemented, provided that connection and occupancy did not occur until sufficient capacity was confirmed.

This report recommends applying the same general approach across all District water and wastewater systems where localized constraints are identified, but where planned and budgeted infrastructure improvements are also underway. Conditional servicing capacity would not guarantee capacity, connection, occupancy, or approval. Developers would proceed at their own risk until the District confirms that the required improvements have sufficiently progressed and capacity is available.

In order to achieve this objective, By-law 2023-48 will need to be updated to formally incorporate the conditional servicing capacity framework into the District's Capacity Allocation Policy.

**Origin**

The purpose of this report is to establish a consistent District-wide approach for conditional capacity allocation. This policy update and framework is intended to facilitate development in areas with identified water and wastewater servicing constraints, while capital infrastructure improvements are planned and underway, allowing development and system upgrades to proceed concurrently.

The report also recommends that staff bring forward an amendment to By-law 2023-48 to formally incorporate conditional servicing capacity into the District's Capacity Allocation Policy.

## Background

The District owns and operates nine (9) drinking water systems and eight (8) wastewater systems, each with finite capacity. These systems must be managed to protect public health and safety, meet regulatory requirements, and support reliable long-term service delivery.

As growth and development continue across Muskoka, available capacity within several municipal water and wastewater systems is becoming constrained. The District's Capacity Allocation By-law 2023-48 establishes thresholds that help manage remaining capacity and identify when system reviews, upgrades, or expansion projects may be required.

In some cases, infrastructure improvements may be planned or underway, but development approvals and construction timelines do not always align with the delivery of those improvements. At the same time, there is ongoing pressure to support housing and economic growth where servicing can be provided responsibly and in a structured manner. This requires balancing the protection of municipal infrastructure with the need to facilitate development.

This report expands the principles and considerations previously addressed in Report PW-8-2024-8, which was specific to the Coveside sanitary catchment area located in the Town of Huntsville. Since its implementation, the strategy has proven effective, with ongoing capital investments and operational optimization continuing to create additional system capacity which has enabled developments to proceed concurrent with infrastructure improvements and are well positioned to proceed immediately to connection/occupancy, now that capacity is available.

## Analysis

The analysis focuses on system-wide conditional capacity allocation within the District's municipal water and wastewater systems. The consideration of conditional capacity is proposed to be limited to developments that meet the following criteria:

- where system modelling or operational data identifies existing capacity constraints;
- where servicing improvements have been identified through approved capital planning processes, are included within a District capital program or budget, and are anticipated to address the identified servicing constraint; and
- where a developer elects to proceed ahead of the completion of those improvements, at their sole risk and responsibility. Any infrastructure installed pursuant to a conditional servicing arrangement shall remain the responsibility of the developer and shall not be eligible for assumption, connection, or allocation of servicing capacity until all applicable conditions have been satisfied and the servicing constraint has been addressed to the satisfaction of the District.

## Conditional Capacity – Definition and Intent

Conditional capacity allocation is proposed as a development tool to enable development to proceed within the District's water and wastewater systems where capacity is limited, as defined in the existing Capacity Allocation By-Law, but will be addressed through confirmed engineering solutions or approved capital works. It may provide a mechanism for developments to proceed in parallel with municipal infrastructure upgrades and in advance of the required capacity being available without creating any entitlement to capacity or servicing.

Conditional capacity allocation cannot be utilized until the related constraints within the municipal water and wastewater systems have been sufficiently addressed, as determined to the satisfaction of and in the sole discretion of the District. Once that determination is made the District's Capacity Allocation Policy and connection processes shall be followed.

This approach may allow development timing to better align with infrastructure delivery, facilitate concurrent progress of capital works and development where appropriate and supports efficient use of capacity to ensure limited capacity is allocated to projects that can be reasonably expected to advance to occupancy.

## Conditional Capacity – Application

Currently, capacity is generally reserved at the initial development approval stage and withheld in areas where known system constraints exist.

It is proposed that, in areas where known servicing system constraints exist, conditional capacity allocation may be considered at the initial development approval stage where the identified constraint is anticipated to be addressed through approved District capital works. Conditional capacity would only be considered where a developer elects to proceed with development in advance of the servicing constraint being resolved, and acknowledges that doing so is at their sole risk and responsibility. Any conditional capacity allocation would be incorporated into the applicable development/servicing agreement as part of the approval process.

The conditional status would remain in effect while required infrastructure improvements and development works proceed. During this period, capacity would not be available for use and servicing would not be authorized for connection or occupancy.

Once the required municipal infrastructure is in place and the system is capable of supporting additional demand, the condition will have been met and the capacity can be released to the developer in accordance with the agreement and applicable Capacity Allocation Policy.

For developments that do not require the execution of a servicing agreement, current development review and capacity allocation processes will continue to apply. Conditional capacity will be limited to situations where an agreement is registerable on title to bind the current and subsequent owners.

## Conditional Capacity – Risks and Mitigation

In implementing a conditional capacity allocation framework, key risks must be considered to ensure services continue to operate in a safe and reliable manner.

These risks include, but may not be limited to, the following:

- Timing mismatch between capital works and development demand
- Risk of exceeding available system capacity
- Misinterpretation of conditional servicing as guaranteed servicing
- Underutilization of completed infrastructure investments
- Increased administrative and coordination complexity
- Impact should the capital works not be delivered on schedule or as anticipated
- Potential liability or claims for damages.

In terms of liability, attempts will be made to mitigate this through the agreement. However, that does not mean that, even where fully mitigated a claim and related costs could not be commenced and there would be associated costs.

These implementational risks are intended to be managed through the overall design of the framework, including defined eligibility criteria, structured internal processes, and continued engineering and operational oversight. Where appropriately governed and consistently applied, the framework is intended to maintain system integrity while providing a controlled mechanism to support development timing in areas of constrained capacity.

## Connection Permits and Occupancy

Conditional servicing capacity does not authorize connection to the municipal water or wastewater system. The District will not issue connection permits until the District is satisfied that sufficient capacity is or will be available to support the development.

Staff will coordinate with Area Municipalities through the building permit and occupancy process to ensure that no occupancy proceeds before the District has confirmed capacity and issued the required connection permit.

## Financial Considerations

There are no immediate financial implications associated with the broader implementation of conditional capacity allocation proposed through this report. However, the implementation is expected to introduce additional administrative oversight and coordination related to tracking and managing conditional servicing capacity across District systems. Increased efforts will be monitored and, if necessary, future budgets will be proposed for adjustment.

In addition, staff are reviewing the fees associated with development review and Capacity Allocation to determine if adjustments (or the addition of specific fees) are required to move toward cost recovery.

**Climate Change Implications**

The District assesses climate implications in all staff reports using the Clean Air Partnership's 'Municipal Climate Lens Tool' to consider climate impacts or benefits associated with any project, program or initiative. There is no direct climate impact related to this report.

Improved alignment between infrastructure delivery and development timing may support more efficient use of capital infrastructure, reduce the potential for premature or underutilized construction activity, and help minimize unnecessary resource consumption, construction-related greenhouse gas emissions, and lifecycle environmental impacts associated with redundant or delayed infrastructure investments.

**Communications**

Subject to Council approval, staff will communicate the interim conditional servicing capacity framework through the development review process, pre-consultation meetings, and coordination with Area Municipal planning and building staff.

Communication with applicants will clearly state that conditional servicing capacity:

- does not guarantee capacity;
- does not authorize connection or occupancy;
- may require the developer to proceed at their own risk; and
- remains subject to District confirmation that sufficient capacity is available.

Staff will also develop standard wording for agreements, applicant correspondence, and Area Municipal coordination to ensure the framework is applied consistently across the District.

**Strategic Plan**

The District assesses the impact or influence of the information or recommendations included in staff reports toward achieving Council's Strategic Plan objectives.

This report includes information or recommendations that impact or influence the following Strategic Plan Objectives:

- Objective 3 Housing for everyone – Create more safe, attainable, and sustainable housing to call home – and transportation between our places and spaces.
- Objective 6 Service alignment – Modernize municipal services and deliver them in the way that makes most sense – best value, efficiency, and outcomes for residents.

- Objective 8 Future thinking – Plan and invest so that we have the services and infrastructure our residents and communities need – now and in the future.

Respectfully submitted,

James Steele, P.Eng., Commissioner of Engineering and Public Works; and
Julie Stevens, CPA, CA, Chief Administrative Office