

# Funding Shift

Ontario municipalities must fund growth-related capital infrastructure through user charges.

BY FRANK CLAYTON

**MUNICIPAL WATER AND WASTEWATER** providers in Ontario fund growth-related water and wastewater infrastructure through development charges. The occupants of new residential and non-residential development ultimately bear the bulk of the cost of the infrastructure system expansion. In contrast, private and electricity utilities typically price their services to cover all current and capital costs and generate a profit.

The economic consequences of relying on development charges to fund growth-related water and wastewater infrastructure are threefold: it fosters economic inefficiency through overconsumption of water and wastewater over the entire user base; it diminishes housing affordability; and it creates inequity between water and wastewater users residing in the existing building stock and the occupants in new development.

Shifting the source of funding of growth-related water and wastewater infrastructure to user charges would have a number of economic benefits to the wider community:

**Better matching of infrastructure costs and the beneficiaries of urban economic growth:** The theoretical underpinning for imposing development charges "that growth pays for growth" lacks credibility given that the expansion of municipal infrastructure contributes to economic growth and the benefits of growth are spread over the larger community including existing property taxpayers.



**Increased economic efficiency through reduced consumption of water and wastewater over the entire user base:** Applying higher full-recovery charges would encourage all water and wastewater consumers to reduce their consumption to the benefit of the environment, result in a more efficient use of existing infrastructure and lessen the need for the building of new infrastructure.

**Increased housing affordability:** Eliminating development charges for water and wastewater purposes would lower the cost base of building new homes and, ultimately, housing prices.

**More equitable treatment of water and wastewater users residing in the existing building stock and the occupants in new development:** The shift in financing of growth-related infrastructure to user charges would also remove a significant inequity in the existing financing system. The occupants of new housing now pay part of the capital cost of maintaining the existing infrastructure, but existing users do not contribute to the funding of growth-related infrastructure.

There have been suggestions that development charges should be regarded as a land use planning tool to encourage more compact, dense growth and discourage lower density development on the urban fringe.

There is no need to compromise development charge revenues by providing development charge subsidies

to promote these goals. Under the pervasive provincial planning regime that exists in the Greater Golden Horseshoe, the types of developments that are built are obliged to be in accordance with the goals of the growth planning regime to promote land use efficiency.

I recommend that the funding of growth-related water and wastewater infrastructure in Ontario be done with user charges rather than development charges and that this change be phased in over a period of five years.

I further recommend that municipalities establish independent utilities to fund and operate water and wastewater services on a business basis like other utilities operating in the province. The new water and wastewater utilities should have the power to issue debt based upon the utility's financial situation separate from a municipality's debt.

Once the water and wastewater operations of municipalities are re-invented on a business basis, there is, of course, no reason for municipalities to own and operate these utilities. **WC**



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