



# A New Direction for Funding Growth-Related Water and Wastewater Infrastructure in the Greater Toronto Area and Hamilton

**Presentation by:**

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**Policy Seminar:**

“What does the future hold for Ontario’s municipal water and wastewater utilities and how they fund growth-related infrastructure?”

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# Main Messages

- **Municipal water/wastewater services should be operated like a private business not a government department**
- **Pricing (user charges) should cover all operating and capital costs and provide a competitive return (profit)**
- **Development charges are an inappropriate way to fund growth-related infrastructure**
- **There is no economic reason for municipalities to own and operate water/wastewater utilities**

## Widespread support for full cost recovery user charges

- **Defined as operating costs plus state-of-good repair (SOGR) capital outlays for existing infrastructure**
- **Differs from market pricing that also includes growth-related infrastructure costs and a competitive return on investments (profits)**
- **Recommendation of Walkerton Inquiry and subsequent legislation (but regulations never issued)**
- **Various reports from the C.D. Howe Institute, Canadian Federation of Municipalities, Association of Ontario Municipalities, and The Expert Panel on Water and Wastewater Strategy**

## **Case for shifting funding of growth-related infrastructure from development charges (DCs) to users**

- **Better matching of infrastructure costs and the beneficiaries of urban economic growth**
- **Increased economic efficiency through reduced consumption of water and wastewater over the entire user base**
- **Increased housing affordability**
- **More equitable treatment of water and wastewater users residing in the existing building stock and the occupants in new development.**

## What does “operating like a private business” entail?

- **Incorporation under Ontario’s Business Corporations Act (like municipal electrical service providers)**
- **Independent board of directors**
- **Power to issue debt on security of the business corporation (not municipality)**
- **Pricing that encompasses all operating and capital costs and generates a profit**
- **Not a given the ownership and operation of reorganized water/wastewater utilities needs to be municipal – could be private/public partnerships or wholly private**

# Implications of financing shift for planning goals to encourage intensification and discourage suburban sprawl

- **No need to retain development charges to promote intensification by increasing development costs for low density housing in suburbs**
- **Provincial planning regime for Greater Golden Horseshoe (the “Growth Plan”) effectively achieved these planning goals by affecting relative land prices**
- **Provincial initiatives in this regard include setting population/employment targets for subareas and requiring minimum of 40% residential development within built-up areas**

# Impact of shifting funding of growth-related infrastructure costs on user charges

- Will depend on mix of growth-related infrastructure investment and investment in the existing infrastructure network in a municipality
- Impact on two municipalities examined – City of Toronto and Halton Region
- Inconsequential for user charges in City of Toronto as growth-related investment on a small portion of total capital investment (6.5% in 2014)
- A doubling of annual user charge percent increases on average in Halton Region over 2014 – 2023 period from about 5% to 10% (growth-related investment as % of total capital investment falls from 67% in 2014 to 51% in 2023)

## Worthy Reading

- **“Watertight: The Case for change in Ontario water and wastewater sector”**

**Report of The Expert Panel on Water and Wastewater Strategy, May 2005.**

**Panel members: Harry Swain (Chair)**

**Fred Lazar**

**Jim Pine**

**Prepared for the Hon. David Caplan, Minister of Public Infrastructure Renewal**