

LAS Expert Panel: Report on the feasibility of water and wastewater utility model

Summary

Clean drinking water and effective wastewater treatment are among the most important services that people depend on every day from municipal governments. Reliable and affordable water services protect our health, our environment and underpin economic growth and vitality. These systems are under a variety of pressures – particularly in Ontario’s small urban and rural communities.

As the business services arm of the Association of Municipalities of Ontario (AMO), Local Authority Services (LAS) develops innovative and creative solutions that help municipalities work better. In response to growing challenges, the LAS Board asked to study the feasibility of offering a municipal utility model for water and wastewater in Ontario. An expert panel of municipal finance, economics, policy, legal and operations experts conducted the feasibility study.

The expert panel committed that any proposed solution would be 100% voluntary and would keep water and wastewater 100% public.

The expert panel concluded that offering a joint municipal services corporation model was worth further exploration. The panel said the MSC model had the potential to offer greater flexible capital financing options than municipal governments, while ensuring quality services and public ownership.

The LAS Board unanimously accepted all the panel’s report recommendations. LAS staff are now creating a municipal staff working group to build a business case for a utility model that will leverage the opportunity for Ontario’s municipalities while managing risk and complexity. To ensure full transparency, municipal staff will need their Council to endorse their participation.

Practical and Policy-Related Challenges

Water and wastewater services are delivered by municipal governments, and their size, capacity and corporate structure can vary widely. Yet, regardless of the differences, they all face challenges that are both practical and based in provincial policy.

Practical

- The cost to build and operate systems is rising rapidly, including materials and labour costs.
- There is a shortage of skilled staff to operate services.
- Water and wastewater infrastructure is aging and under pressure from extreme weather due to climate change.

Policy

- Population growth is putting pressure on housing supply, and water systems.
- The province has set ambitious provincial housing targets, which can often mean expanding water-related infrastructure, which is costly for current ratepayers or property taxpayers to subsidize.
- Provincial changes to development charges and land-use planning make it challenging to match capacity to demand.

Developing a collaborative municipal solution

Discussions with municipalities made it clear that many smaller communities are deeply concerned about the sustainability of their present water and wastewater systems. While individual problems and circumstances vary widely across the province, in all cases there was a striking appetite for change and genuine interest in exploring new solutions. The goal is to set Ontario's water and wastewater systems on a clear path to financial sustainability.

The panel concluded that a voluntary public utility option, such as a joint municipal services corporation, could offer some financial, administrative and operational savings and benefits. For example, a joint MSC has the potential to:

- Access more sophisticated capital financing tools and better borrowing rates.
- Enable better system wide planning to match system capacity with growth.
- Address staffing shortages by allowing for a critical mass of staffing expertise.
- Address soaring construction and operations costs through joint procurement.

These benefits should help deliver reliable and efficient services and infrastructure investment. The Expert Panel notes that a utility cannot solve all current challenges. LAS will develop a business case to consider:

- The best structure to serve Ontario's geography (whether through a single entity with regional branches/networks, or a holding company with separate corporations for each region)
- Financial resources and needs, as well as managing debt obligations
- How to provide fair and transparent rates without added layers of economic regulation
- Transferring existing municipal reserves for water and wastewater
- Ability to access development charges or similar mechanisms to fund growth
- Ensuring the utility is eligible for grants and loan programs offered by the provincial and federal governments

As LAS works through these points, the insights and experience of Ontario municipalities are essential. A key next step for LAS is reaching out to municipalities across Ontario to involve them in shaping a utility model that would truly help to address their concerns.

What is a municipal utility?

A utility is a public- or private-sector corporation responsible for delivering a service to the public. The nature of the service determines if a utility model is appropriate.

Typically, utilities manage and operate infrastructure that delivers a critical public service, for which competing networks in the same geographic area wouldn't make sense. The model can help finance costly networks and achieve operational efficiencies.

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