

The Walkerton Inquiry

Notes on the Expert Meeting

Financing of Drinking Water Systems

Ryerson University - International Conference Centre
June 20th - 21st, 2001

Topics Discussed

Full Cost Accounting, Full Cost Recovery, Full Cost Pricing

Management Issues:

Asset Management; Long-term Planning; Accounting; Financial Performance

Financing of Infrastructure

Other Strategic Issues: Balancing Costs with Safety; Economies of Scale;
Universal Metering; Sewage Financing; Full Cost Pricing.

The detailed notes for this expert meeting have been prepared to brief the Commissioner and to facilitate participation in Part 2 by those who were not present at the meeting. The notes are intended to represent the major items of discussion and positions put forward by participants. They are based on notes taken by Rapporteurs and are not intended to be an official report or transcript of the meeting. They do not represent the views of the Commissioner.

Meeting Summary

The agenda, prepared for the meeting by the Chair, provided the framework for the meeting notes. The notes summarize the main points of contention and agreement between the parties under the themes of the agenda:

1. Full Cost Accounting, Full Cost Recovery, Full Cost Pricing

There was consensus for full cost accounting, and some agreement for full cost recovery, although there was no consensus as to whom costs should be recovered from. There was some agreement for full cost pricing and user pay. However, there was also some strong opposition to user pay. Items to be included in a definition of full-cost were identified, and specialized costs for fire suppression and laboratory services were discussed. There was some debate about the degree to which source protection costs should be included. There was widespread agreement that source protection should be included in cost-accounting of a water system to the extent that it serves that water system, with some dissenting opinions. There was some debate about the special problems faced by small systems and low income individuals, and no consensus was reached on solutions to these problems.

2. Management Issues

The importance of linking sound engineering/technical data with financial information for asset management was emphasized, with some consensus reached on the need for province-wide standards on asset assessment and management. There was also consensus on the need for long-term planning for infrastructure maintenance and development. A point of contention was whether such planning, and the necessary protection of revenues for water systems, is best achieved within the municipal structure or by a dedicated water utility. Accrual and cash-based accounting systems were discussed.

3. Financing of Infrastructure

Municipal borrowing capacity and other financing options were discussed. With the need for more municipal borrowing, the ability of municipalities to finance their water infrastructure needs, and the appropriate financing role of the private sector emerged as points of contention. Reserve funds and debt issuance were compared as financing options. Key issues around the provincial role in financing included the need for provincial grants for some communities, the distorting effects of such grants, and the question of how they should be administered.

4. Other Strategic Issues

On the issue of balancing costs with safety, there was consensus that the two go together, neither one taking absolute precedence over the other. Economies of scale, both operational and in infrastructure, may be possible depending on geographic factors. Some communities, especially in northern Ontario, have little access to such economies. Support was expressed for universal metering of all water users. If sewage financing is included in water bills, only users who receive both water and sewer services should be charged for both. The question of what should be included in the price of water and the possibility of for-profit water systems, was contentious. Some argued that generating dividends is a legitimate cost of capital, while others suggested that profits should remain in the system, and that dividends have a distorting effect on decision-making for water system safety.

Meeting Participants and Affiliations

Chair	George Connell
Issue Paper Authors, Strategic Alternatives	Mike Fortin Jim Joe Mike Loudon Jacinta O'Brien Enid Slack
Association of Municipalities of Ontario (AMO)	Nicola Crawhall Pat Vanini Nigel Bellchamber
Canadian Council for Public-Private Partnerships (CCPPP)	Jane Peatch
City of Moncton	Brian Murphy, Mayor Al Strang, City Manager
Canadian Environmental Defense Fund (CEDF)	David Donnelly
Canadian Union of Public Employees (CUPE)	Jane Stinson
Chiefs of Ontario	Allison Thornton
City of Toronto	Mike Price
Conservation Ontario (CO)	Sonya Meek Charley Worte
Energy Probe Research Foundation (EP)	Elizabeth Brubaker Tom Adams
Government of Ontario	Jim Ayres, Smith Lyons
Ministry of Environment (MOE) Superbuild, Ministry of Finance	Jim MacLean Bill Hughes
Ontario Public Service Employees Union (OPSEU)	Tom Parkin
Ontario Sewer and Watermain Construction Association (OSWCA)	Ted Cooper Sam Morra

Ontario Water Works Association
Ontario Municipal Water Association
(OWWA/OMWA)

Joseph Castrilli
Max Christie
Doug James
Gary Scandlan

Pollution Probe (PP)

April Ferguson
Rick Findlay
Ken Oglivie

United Water Canada (UWC)

Eric Cunningham

Other participants:

Richard Bird, University of Toronto

Inquiry Staff

James Van Loon
Bay Ryley
Gus Van Harten

Rapporteur Team Leader

Carolyn Johns

Rapporteurs

Sarah Hartley
Rachel Melzer

Discussion of Substantive Issues

Presentation A: Summary of the Presentation by AMO on municipal finance (See Appendix A for full presentation notes):

Municipalities operate within much tighter rules than other orders of government. These rules make it very difficult to manage new, "in-year" expenditures. If a new expenditure is not budgeted, it must be paid for from reserves, cuts to planned programs or tax increases in the subsequent year. Depending on the municipality and the assignment of service delivery, up to 90% of a municipal budget is mandatory spending to meet legislative requirements and prescribed service standards. This means that the amount of spending over which council has absolute control is relatively small.

- Municipalities cannot overextend themselves, they have defined debt capacity limits. Municipalities are prohibited from deficit financing. Any deficit in the operational budget in one year becomes the first item of expense in the following year's budget.
- Municipalities have one major source of revenue (property taxes) as compared to the multiple sources of revenue at the provincial and federal level. The property tax system, on average, produces approximately 70% of municipal own-source revenue. The remainder comes from development charges, user fees, license fees, fines (such as parking tickets) and transfers from other governments (such as conditional grants and the Community Reinvestment Fund, which is a fund to fix any gaps from the transfer of services between the province and municipalities).
- In addition to direct revenue, municipalities can expand their financial capacity by using some management strategies, such as debt financing for capital expenditures and the accumulation of reserves. The annual payments for debt and long-term financial obligations is limited to 25% of a municipality's own purpose revenue sources (property taxes, etc.). The province calculates this figure and it is part of a regulation. Only the Ontario Municipal Board can approve exceeding this amount. Debt must be for capital assets, and both interest and principal must be repaid. Debt adds expense to the current budget, so municipalities are moving towards paying up-front for capital expenditures, which saves money in the long run, but downloading and pressure to freeze taxes are constraints.

Presentation B: Summary of the Presentation by Brian Murphy, Mayor of Moncton and Al Strang, City Manager. (See Appendix B for full presentation notes)

Moncton (with 39,000 taps) was faced with problems of aging infrastructure and water quality problems (heavy chlorination, excessive turbidity). In response to these problems and citizen concern, Moncton developed a master plan including a: pre-design report in 1993, metering in 1994, and increased dam capacity in 1998. It was a challenge to convince consumers of the need for metering, since price increases preceded quality improvements. A new treatment plant was needed, estimated to cost \$32 million. Finding

funds was a problem (the Province had denied an application for funding), so a Public-Private Partnership (PPP) was considered, and this model was adopted.

With no models to follow, the City engaged technical, legal, financial and PPP process experts to ensure sound advice. Seeking this advice is recommended to those considering PPPs. Following a qualifying and proposal process, a private partner was chosen. This partner brought new innovations, and built the plant for \$23 million, with no out of pocket costs to the City. A lease-license agreement was set up for 20 years, along with user-pay and metering. Specific features of the PPP included:

- company offered a \$15 million guarantee
- a repair and replacement program written into the contract, where funds go into a trust managed by the City
- complete risk transfer, with risks absorbed by the private partner
- a third party dispute resolution mechanism
- default clause
- innovation clause, that provided financial incentives to offer the City innovations
- unique tax exemption ruling, allowing savings to be passed on to the City.
- lease license agreement, including fully deductible lease payments and annual capital depreciation, with savings passed onto the City.

In terms of results, the actual increase in costs to the consumer was \$91 per household, compared to the \$120 estimated by the City. There is also an escalation clause in the contract that permits only a 2% raise per 3 years.

1. FULL COST ACCOUNTING, FULL COST RECOVERY AND FULL COST PRICING

1.1. Setting aside, initially, the question of what specific costs should be recovered, is the general case for recovery of costs from water users well-supported?

1.1.1 Full cost accounting

- There was consensus on the need for full cost accounting (Chiefs, CO, AMO, EP, PP, OWWA/OMWA, CUPE, CEDF, CCPPP, OSWCA, OPSEU)
- For First Nations communities, failure to determine water costs as separate items leads to under-funding (Chiefs).

1.1.2 Full cost recovery

- There is a distinction between full cost accounting and full cost recovery (CUPE, AMO). There was some agreement for full cost recovery (OWWA/OMWA, Strategic Alternatives, CCPPP, OSWCA, OPSEU). There was no consensus on who costs should be recovered from.

- Full cost recovery means recognizing costs and recovering them. This can be done through grants, rates etc. Full cost pricing means recovering most of the costs from users. Budgeting is very important for full cost recovery. Costs must be identified and budgeted for (Strategic Alternatives)
- OWWA/OMWA supported full cost recovery, but suggested that other forms of revenue not be excluded.
- AMO noted problems with full cost recovery. It would not be possible for the whole province as it would be too expensive for some municipalities. Further, the requirement that municipalities take over communal systems has raised transition costs. The move to full cost recovery must be based on an assessment of costs that includes transition costs.
- Full cost recovery is broader than user fees (CUPE). There is a need to broaden the sources of revenue for municipalities. Perhaps a sharing of income tax between the Province and municipalities would be a solution for long term funding needs.
- There was some consensus around the principle of full cost recovery and full cost accounting in large and medium municipalities and support for user-pay (EP) OWWA/OMWA agreed, but not for fire. Chiefs agreed, but not for First Nations communities.
- The goal of safe drinking water may not be compatible with full cost recovery (AMO)
- Full cost recovery raises equity concerns for low income people and between communities (CUPE)
- There is no data on how many people may be affected by an increase in costs. Further research is needed here (AMO, CUPE)
- There was some agreement that grants should be directed to users who could not afford to pay, rather than subsidizing the system. (OSWCA, EP, CUPE) In reference to EP's preference for subsidies in cash rather than in kind, OPSEU commented that this is not a good way to look at life.
- EP asked whether direct grants to users would meet CUPE's equity concerns without subsidizing resource exploitation. CUPE responded that implications of pricing on low-income people must be considered fully, and could include direct grants but prefer providing a basic water amount free.
- CEDF opposed an individual grant system for those unable to pay as it creates a class structure, and raised concerns about people having water cut off because they couldn't afford to pay
- Germany charges a water extraction tax. The Netherlands taxes on delivery of water.

Other mechanisms for taxing (property tax etc.) should be considered (PP).

1.1.3 User-pay and full cost pricing

- There was some agreement for full cost pricing and user pay (OWWA/OMWA, AMO, OSWCA, EP, CEDF, PP). CO added that this should extend beyond municipal users to all water users, including private takings by industry, golf courses, etc.
- There was some strong opposition to user pay (Chiefs). First Nation communities are small, with 52% of the national average income. These communities have no economic base and need a commitment to the provision of safe drinking water regardless of ability to pay.
- OWWA/OMWA, PP agreed, noting that smaller communities and Native communities may need assistance, but added that even if subsidized, users must receive signals about the cost of the water. Full cost pricing is not the panacea. PP notes that costing promotes conservation.
- PP added that there is a need to define goals first - safe clean water. AMO responded, saying that if that is the goal, full cost recovery may not always follow.
- First Nations object to user pay on philosophical grounds - water is not a "good" that can be traded (Chiefs).
- EP pointed out that the user pay principle has had well-established international, academic and policy support since the 1970s. Full cost pricing helps ensure that water providers have adequate resources. User-pay increases sustainability, and efficiency. Communities don't use water: individuals, companies and organizations do. Disadvantaged individuals could receive cash subsidies, and decide for themselves how to use their resources (EP)
- Strategic Alternatives noted that water is not very responsive to price. A large price change is needed before people notice. The inability to pay should not influence discussion on the principle of full cost pricing
- User pay is objectionable (Chiefs). It is not necessary for the goal of clean water. Incentives for conservation can be achieved by other means.
- The importance of an inventory of water for full cost pricing was noted (OSWCA)
- The Chiefs pointed out that First Nations faced dirty water due to outside polluters. This raises concerns with user fees, since those polluting should also pay.

1.2. The items that might normally be included in a definition of full-cost would probably include operations, preventive maintenance, major maintenance, mid-

life rehabilitation, end-life replacement, maintenance of system capacity, system expansion, and overhead. Is this list acceptable as a starting-point for discussion?

- OWWA/OMWA agreed that the items listed must be included in full costs.
- Source protection should also be included in costs (CO)
- Future growth and capacity should be included in full costs (OPSEU) however, municipalities should retain the choice on how these future growth costs are recovered (e.g. development charges, Section 221 of the Municipal Act vs. recovery from water rates. (OWWA/OMWA)
- Questions were raised about whom should pay for future capacity (OPSEU) and what should be included in overhead costs.
- The costs of public reporting should be included in overhead and operations (CEDF, OWWA/OMWA).
- Profit should be included in full costs (EP)
- CUPE suggested the return of equity should be reinvested in the system. OWWA/OMWA suggested funds should be kept as reserves for future development. The Chair noted that profits were returned to customers in Edmonton.
- EP noted that two types of costs were involved - operating and capital costs. Both of these costs must be included in the full cost.
- Costs for watershed management and source protection need to be included in full costing (CO). OWWA/OMWA noted that these costs were outside the municipal boundary. AMO noted that watershed management benefited all citizens, not just water users, therefore these costs should not be included in user fees.
- Debt repayments should be included (under overhead) (AMO).
- OSWCA argued that two types of costs existed: (1) current cash expenditures, including overheads, operating costs (direct and indirect), and financial costs (debt repayment and interest) and (2) sustainable allowance, including renewal and replacement costs (estimated), and improvement allowance (estimated).
- Bird noted that there are mechanisms for accounting for maintenance costs. The costs that appear in municipal books are insufficient for full costs. Full cost should include system expansion (future users and/or watershed management) and system costs (Bird)
- CCPPP noted the difficulties of capturing indirect costs. For example, determining

the portion of administration costs such as human resources etc. that apply to water services. Current procedures do not easily allow for this.

- PP noted the need to look ahead for full cost pricing issues, such as climate change and the allocation issues this will raise.
- Full cost accounting must include a statement of physical assets so that the public can see assets diminishing. This will raise public concern (OWWA/OMWA)
- EP suggested a regular review of assets to assess depreciation, life expectancies, condition and replacement costs. Regular depreciation reviews will increase transparency.

1.3. Should some costs, such as fire suppression, specialized laboratory services, and central data processing be treated differently, and, if so, how?

1.3.1 Fire Suppression

- OWWA/OMWA noted that 30% of capital costs go to fire, with costs either being recovered by charges to the city per hydrant, or by putting the cost on the bill for fire. However, costs are not identified in two tier municipalities. The question of whether users or municipalities pay these costs is a political decision.
- EP did not contest the 30% figure but argued that the allocation between fire and general water supply is arbitrary. EP referenced the "zero intercept" concept used in gas regulation.
- Strategic Alternatives notes that the 30% figure is related to municipal size: in Toronto it is less than 10%, in Peterborough 15%, and in small municipalities, 30%. It is possible to identify these costs, therefore there is a need to decide whether to use marginal costs.
- OSWCA noted that in most cases municipalities are responsible for water quality and fire, so there was no need for a distinction in terms of revenue collection.
- OMMW/OMWA noted that most often, a fire suppression charge is made where there are split jurisdictions such as a Region vs. local municipality. The water use for fire protection is non-metered. As fire protection is a cost recovered by property taxes, a charge back to the property taxes is made for the service.
- OSWCA and EP noted that infrastructure for fire and general water supply affect each other (for example fire suppression requires a larger main, which in turn affects water quality). However, EP argued that the former should be recovered through property taxes and the latter through water charges.
- Costs for fire should be charged to property owners, as it is a service to property (or

public interest), not individuals.

- AMO noted the unintended consequences of user fees. For example, these decisions may affect how people call for help.
- Strategic Alternatives argued against user pay for fire. It's a municipal service, like education. It should be on the municipal bill, or the water bill. There is no strong reason for one or the other, as long as it is not user pay.

1.3.2 Laboratory Services

- Lab services are very expensive for all municipalities (OWWA/OMWA). Downloading by the Province has put this responsibility on municipalities. It is a Provincial responsibility, and the government should get back into the business of testing. A central system would equalize costs, and lead to better prices for greater volume. There should be equity between the cities and rural areas. Costs are excessive for rural areas at the moment. Provincial testing and labs would also make reporting easier.
- EP replied that it would be inappropriate to equalize costs. Higher per capita costs for lab services are one of the costs of living in rural areas. There is no general principle of equity between cities and rural areas. For example, land and housing prices are higher in cities.
- AMO noted that some municipalities are privileged by the current rules - for example, bigger cities, or municipalities that have been allowed to band together to bulk-purchase lab services, receive a better price.

1.4. Should there be a levy on users to support activities with long-term relevance to water quality such as source protection and research?

- There was agreement that where source protection was part of the water system, it should be included in costs (CO, OSWCA, Strategic Alternatives, AMO).
- CO pointed out that at a previous meeting, there was consensus that source protection was a part of a multiple barrier approach. The question, now, is how do you pay for this? Watershed management and source protection need to be integrated in water management (both quality and quantity) and therefore included in full cost pricing (CO)
- In New York and Waterloo, funds are included on the water bill for source protection (CO, Strategic Alternatives). Ontario has a history of separating source protection from the water system. This must be reviewed (CO).
- Watershed management has many functions (including biodiversity for example), therefore costs should only be charged for the protection of the water supply function

(CO). A mechanism needs to be found to finance this function.

- Strategic Alternatives suggested that municipalities charge a few cents on the water bill and give it to the CO to implement watershed management.
- OWWA/OMWA suggested that the costs for source protection may be best recovered through waste water rates.
- OSWCA noted the costs of sewage should also be incorporated into these costs as combined sewer overflows have a protection value.
- Source protection includes the study of processes and planning, monitoring, specific programs, land use planning etc. (CO). Source protection reduces the risk of water failures. There was consensus that this is an integral part of the water system at a previous expert meeting. CO asked for recognition for the principle of connection between source protection and the benefit for water supply. OSWCA and PP agreed.
- EP pointed out the importance of the polluter pay principle as an even broader principle. Farmers, industry, sewage utilities and developers should be responsible for any damages they cause.
- CEDF noted that source protection (acquisition and enforcement) is a Provincial responsibility, but that since the province has withdrawn from this role, perhaps a levy should be charged to users to offset ebbs and flows of provincial government cuts.
- AMO agreed that acquisition costs should be passed on to consumers if it related directly to water protection.
- The Chair questioned whether this approach is necessary only because provincial funding commitment is not firm? He also pointed out the difficulties of balancing source protection responsibilities of conservation authorities and municipalities in terms of jurisdictional issues and cost allocation issues.

After consultation, a statement on source protection was prepared by CO, OWWA/OMWA, OSWCA, and Strategic Alternatives which included four principles:

- (1) Source protection programs are an integral part of water supply management, and must be carried out on a watershed basis. The extent of programs varies among watersheds and among municipalities
- (2) There must be adequate and sustainable sources of funding
- (3) Some of the costs of source protection must be recovered from water users, including private and large commercial users as well as municipalities, and from effluent discharges thus capturing the "polluter pays" concept. The province needs to establish

policy and tools for this to happen, e.g., Water Resources Act, permits to take water program. Something may be required in the municipal act related to water rates.

- (4) Standards or guidelines from the province are needed to guide what relevant source protection costs can be linked to drinking water supply and sewage management. A structure is needed to determine where revenues should come from and what programs to support. For example, the network of dams and reservoirs in Ontario serve multiple purposes. If a dam's significant function is water supply then funding should flow there from water supply, but if it is primarily for flood control then funding should come from other sources.
- OWWA/OMWA adds that full-cost accounting is necessary for this approach.
 - Strategic Alternatives connects source protection to long-term planning, and CO agrees.
 - AMO agrees with the principle of linking watershed protection to drinking water and the need for resources for protection, but has reservations about including watershed protection costs in user fees; funding for environmental protection should come from tax dollars, from the province. Connell agrees that source protection funding through water/wastewater costs might weaken arguments for provincial funding.
 - CO replies that this should complement, not replace, other funding sources. The province has an obligation to contribute. Right now water is free to a municipality, a water bottler, golf courses etc. In reality it is becoming as scarce resource and should have a value put on it. That fee to water users is what we're discussing, and in turn the money generated should be invested in watersheds.
 - EP agrees in fact but not in principle with the statement. The statement implies a right to pollute. Rights to clean source water should be clear.
 - PP agrees with the statement in fact and principle as it stands on the principles of sustainability, long-term thinking, and the interconnectedness of these systems. Working out equitable financial solutions is possible.
 - Strategic Alternatives notes that in some cases it is cost-effective for a water/wastewater utility to put money into watershed activities. This leaves decision making entirely with the utility. This question of watershed protection as a water quality tool is separate from the question of provincial policy around water taxes on users and discharges.
 - AMO, however, maintains that this sets an undesirable precedent, and is not the appropriate fee or tax to pay for such services, since users already pay for watershed protection through [provincial] taxes. Many watersheds have a mix of users on municipal and non-municipal systems, often drawing from the same aquifer, and municipal payments would be a tax on some and not others.
 - OPSEU asks about the role of Conservation Authorities (CAs), since in some of Ontario's watersheds there is no such agency. CO replies that money should flow to source protection, not necessarily to a CA. In northern Ontario there is crown land, so it should flow to the manager of the crown land, the province, to implement source protection.

1.5. What are the problems with implementing full cost recovery? Do small

systems face special problems in implementing full cost recovery? If so, how should these problems be dealt with? Would implementation of full-cost recovery be fair to all users and communities? If not, how could such problems be addressed?

1.5.1 Small Systems

- Remote communities with a wide area of distribution have extremely high costs and suggested that the Ontario Clean Water Agency (OCWA) was in a good position, with expertise and advantages of scale, to administer subsidies for capital plans.
- EP does not support subsidies and noted that small systems may have users that are very wealthy (there was an assumption that small systems could not afford to pay higher than average costs). Adopting a policy that provides subsidies based on size may result in transfers to the rich. Subsidies should be in cash, not kind.
- Subsidizing municipalities could discourage them from planning (EP). Further they will be rewarded for not maintaining the system, and may make decisions, not on need, but on subsidy availability. This results in over building of infrastructure which then makes them dependent on the Province for more subsidies. It also reduces innovation and skews land use decisions. AMO argued that there was no hard evidence to support these claims. EP argued that the data came from the "Who Does What Panel" - they consulted experts - and over building was the first problem listed. This is not the fault of municipalities, but of the system that fails to give the right incentives. There is further evidence of neglect - last year, half the plants were out of compliance and hundreds of boil water advisories were issued.
- Small communities should have service comparable to that of cities, otherwise people are forced to move to cities (Chiefs)
- The BC Municipal Finance Authority helps small municipalities with funding (CUPE).
- Small systems face special problems with full cost pricing (OSWCA). For municipalities with over 2000 people it is possible to use full cost recovery, especially with a transitional system over 5-8 years. For municipalities with less than 2000 people, it is more difficult. There need to be mechanisms to review needs for water and sewage and development plans looking at economies of scale. This used to happen, but not any longer due to a lack of coordination. There is a need to look at economies of scale through a coordination body at the Provincial level. (OSWCA)
- Small systems need help, so it makes sense to include grants in full cost pricing. This would be a small part of the population. It will be expensive for small systems, but if they can afford it, then there is no problem. Most municipalities can afford it (Strategic Alternatives).

- OWWA/OMWA recognized the special case of small communities, and supported the Chiefs comments, but stressed the need for full cost accounting, with an option for subsidizing those who cannot pay.
- OPSEU supports the concept of full-cost recovery for long-term infrastructure resourcing, but full-cost pricing is a different issue; not all small systems can achieve efficiencies through linking. OPSEU calls for dedicated funding to water/wastewater for such communities.

1.5.2 Low Income Issues

- Low income individuals or households have less ability to pay (OPSEU).
- OPSEU suggested a problem with providing grants to individuals, as it is not related to the water bill - people under financial pressures of various sorts may not use the money to pay the water bill.
- EP respects the right of low income individuals to make their own decisions.
- OWWA/OMWA raised concerns about how "low income" would be evaluated, and pointed to the difficulties of implementing subsidies for individuals. This could be achieved through a provincial tax rebate, or other existing mechanism.
- Subsidizing individuals reduces their incentive to conserve water. Subsidies also influence where people choose to live. People respond to prices (EP).
- Subsidies should not be to individuals, but to communities. Water is one of the basic human needs, and should be a community responsibility (Chiefs).
- EP pointed out that it is individuals and not communities that use water. Disadvantaged individuals should be subsidized in cash and not through the subsidizing of infrastructure.

2. RELATED MANAGEMENT ISSUES: ASSET MANAGEMENT; LONG-TERM PLANNING; ACCOUNTING and FINANCIAL PERFORMANCE

How should accounting and management systems be changed to improve the safe delivery of clean water, and of waste water services?

- The issues arising from this topic on the agenda are of particular importance to OWWA/OMWA, which represents 150 water authorities serving 7 million people. These authorities are responsible for stewardship of public water supply, to ensure safe and reliable water supply. There will always be some risk, and the acceptable level is set by the people of Ontario through the provincial government.

2.1 Asset Management

There was some consensus on the need for province-wide standards for asset management (EP does not agree with this). Discussion focused on the information needs in order to develop asset management standards and implement asset management in systems across the province.

- OSWCA argued that asset management was essential in terms of dealing with the infrastructure deficit, and suggested it should be mandatory at the provincial level.
- PP noted the need to link technical information with financial information. There is a general trend in this direction. PP predicts a huge overhaul in terms of infrastructure in the coming years. A lot of information will be needed.
- OSWCA noted that fixing a break in the infrastructure costs 3 - 5 times the normal replacement costs, therefore planning in advance makes financial sense.
- EP argued that privatization was the best way to ensure break-downs are prevented. Private owners employ sound engineering practices to preserve their assets. EP contrasted asset management practices in the private gas industry to those in the public water industry.
- Managers have the tools and are doing a fairly good job at providing safe water and managing system assets. While public water authorities use many of the same procedures as private industry, private companies also do many things for tax avoidance purposes (OWWA/OMWA).
- Strategic Alternatives notes that plans cannot only be top-down work done at a desk, but require engineers to actually look at the condition of assets. In an AWWA survey, 92% of large municipalities were able to provide information on distribution infrastructure, while in smaller systems below 1000 connections only 14% could provide that information. They are not recording or reporting this information. Asset management and physical reporting must be put in place.
- OWWA/OMWA notes that Strategic Alternatives' comments imply that those operating smaller systems do not know how many water main breaks they have experienced. This is an incorrect conclusion, drawn from the lack of results from a survey that was voluntary, long and time-consuming, and that asked for information in a particular format. Small operators know where breaks have happened, but are unlikely to pay their consulting engineers to take time to fill out such a survey.
- In light of the OWWA/OMWA comments, stated above, Strategic Alternatives acknowledged that conclusions about water-main breaks based on data taken from the OWWA survey may have been too strongly stated, but re-emphasized the importance

of good financial management and asset management.

- OSWCA calls for technical analysis of existing systems, especially underground distribution/collection infrastructure, to be mandated on a municipal basis.
- Superbuild noted a study currently underway for all municipalities - the asset assessment inventory. This will provide greater understanding of assets, especially for small systems. Site visits will be made if municipalities do not have good inventories. Another study is looking at best practices, including asset management, and databases on pricing and financing. These studies will likely demonstrate the need for asset management plans more broadly. First Nations are not included in these studies. (Studies will be made available through the Inquiry)
- OWWA/OMWA calls for clear criteria in the Superbuild study to determine asset conditions, and express concern that accountants will produce unrealistic/inapplicable benchmarks.
- Problems with asset management: right now it starts from the premise that a fixed asset management system is an accurate inventory. A condition assessment of the inventory follows, but these are difficult and expensive, and produce unreliable information. Then come life cycle programs, which are often based on fads rather than on good engineering criteria. Engineers who conduct these studies may overstate problems in order to win contracts to fix them. (OWWA/OMWA)
- The Inquiry should recommend consistent, practical and sound industry standards for asset management, especially regarding the implementation of performance measurements and for mid-life rehabilitation. MOE should go beyond monitoring lab results, to ensure that systems are well operated, well maintained and properly financed to protect the public interest.(OWWA/OMWA)
- Connell asks who should have the responsibility for developing such standards?
- OWWA/OMWA suggest bringing together practitioners and theorists to develop performance measurements. They fear an "apples-and-oranges" comparison between municipalities by the provincial government, without appropriate performance measures. This group should be an initiative of the minister, or delegated to OWWA/OMWA. AMO notes that a centre for performance management (*under the CAO water/wastewater benchmarking initiative*) has been proposed to advise government and municipalities on how to write standards. It would draw from academics, practitioners, etc, to create benchmarks. The Commission should encourage this.
- The crown must take a leading role in developing industry standards. The need for a base of expertise and policy knowledge implies that MOE should be the standard-setting agency. (OPSEU) OWWA/OMWA, however, points out that the Ministry of Municipal Affairs, the MOE and other agencies are not well-coordinated, so there is

no focal point.

- Price (City of Toronto) agrees that there is a lack of standards. Instead of MOE, he looks to Europe, which is 20 years ahead of Canada. Britain has a Water Research Council which has been maintained despite the privatization, and is funded by contractors, material suppliers and users.
- Connell asks Price (City of Toronto) whether a consistent asset assessment approach could be achieved across Ontario. Price explains that they hired consultants to pull together analysis of the six municipalities, plus Scarborough and the City of Toronto, and hope to have a request for proposals (RFP) next year for an asset management system. They have chosen a maintenance management/ work management system, and are putting in place technology not only to plan but also to help with daily work, tied also to city plans such as roadwork and paving. There are many competing demands on the system - lead pipes to replace, people on half-inch service who we want on three-quarter-inch, thousands of drains that back up raw sewage into basements because of tree roots etc. which require asset management.
- OWWA/OMWA adds that the City of Toronto does good work, and might be looked to as a model for standards development.
- MOE expressed concern about distribution systems in some communities which are open to water from other sources mixing with treated water. That health and financial risk must be managed. OWWA/OMWA suggests that environment and housing ministries need to work together to allow water authorities to check whether property owners have wells.

2.2 Long-term Planning Issues

There was consensus for the need for long-term planning for infrastructure maintenance and development for water supply. Discussion focused on the time frame required, information requirements and which type of system could best manage this function.

- Strategic Alternatives discusses two types of planning in their paper: strategic plans/master plans, and the annual budget. Issues around strategic plans are scope, whether the municipality addresses all options including management structures, conservation, emissions trading, watershed-level concerns, and not only supply management. The focus is usually growth, with insufficient focus on maintenance. For both annual budgets and master planning, the basic issue is whether they are being done, particularly in small municipalities where there is often no long term planning (Strategic Alternatives).
- While asset management looks at what you have, planning looks at what you may have to provide in the future (Price, City of Toronto)

- OWWA/OMWA takes issue with the suggestion that long-term planning is lacking. The water authorities practice long-term planning. However, other immediate problems around amalgamations (which have been more expensive and disruptive than the provincial government anticipated) and new regulations following the Walkerton tragedy have forced long-term planning onto the back burner.
- OWWA/OMWA emphasizes the need for long-term planning and longer planning horizons for taxes. Infrastructure replacement needs fall into a municipality's short- and long-term items in the capital budget. Short-term (5 year) financing systems are in place, through reserves, debentures, etc. OWWA wrote a capital budgeting handbook last year on behalf of the province for new and replacement infrastructure, which allows planning of capital expenditure for 5 or 10 years, and analysis of impacts on operating budgets over the long term.¹
- From a financial perspective for longer-term lifecycle analysis, for a period of perhaps 80 years, replacement costs are estimated through a sinking fund calculation, which asks how much must be put away annually into a reserve that with interest earnings, the money will be there for future infrastructure development. This functions like depreciation (making expenditures and then depreciating assets) but is more forward-thinking. (OWWA/OMWA)
- Municipalities do not know enough about in-ground infrastructure, when it will fail and how much they should invest in it long-term. There is little concrete evidence to predict future investment needs. Superbuild will try to gather that information but it requires a lot of digging (Strategic Alternatives). MOE shares concern about lack of knowledge of distribution systems.
- OWWA/OMWA agrees that there are unknowns in costing infrastructure, but with annual capital management review and lifecycle costing, and money in reserve funds, you have financial resources to react to unexpected infrastructure failures and adjust financial projections. Systems, even small systems, are moving towards long-term planning.
- From the manager's perspective, they know what physical work will be done in the next two to three years. For the longer term, we don't know exactly which pipes will be replaced in ten years, but can ensure that we have the financial resources necessary, including setting policy, for future rate adjustments to achieve that. (OWWA/OMWA)
- PP suggest that long-term costs must be done from a sustainable asset management approach, including consideration of infrastructure, climate change, sustainability of funding for programs (frequent changes in provincial and federal funding programs are a problem), and the value of source water itself. From a 100-year timeframe study

¹ Ministry of Municipal Affairs and Housing, Spring 2000, *Municipal Capital Budget Handbook* Available online at <http://www.mah.gov.on.ca/business/BudgHandbk/Handbook-e.pdf> Note this report was not prepared for OWWA/OMWA.

of Hamilton, water users are paying only a third or a quarter of the annual needs for long-term sustainability of the system.²

- Connell asks for EP's opinion on the value of a 100-year time horizon for planning, noting the example of rapid changes in Ontario Hydro forecasts. EP suggests that the existing system needs attention today, and calls into doubt the usefulness of a 100-year forecast given the limitations in accuracy over time.
- Strategic Alternatives suggests that in long-term planning for water, you may have a 50 year horizon but really you're deciding what to do in the next ten years, and in five years you have to re-do that plan. The long time horizon is useful to connect your activities for the next few years to a long-term plan, and knowing that events will happen in the future is more important than knowing their exact timing.
- OWWA/OMWA notes that a plan is a statement of principles, (e.g. how much capacity will be needed in 15 years and what the cost range is); not an exact map. Connell adds the importance of careful ongoing engineering assessment of the asset, and OWWA/OMWA adds that pragmatism is important too, e.g. replacing water mains when the roads are being re-paved.
- EP notes the problem, when politicians own and control these assets, of the interface between a short political timing horizon and the engineering priorities of the system.
- PP adds that a transparent, long-term approach "de-links" planning of financial management from the whimsical unpredictability of the political realm. The unpredictability makes it difficult for managers to rely on long-term funding. Registering asset values of a system is one way to keep a public eye on the system.

2.2.1 Is it easier to accomplish long-term planning when the water system is a utility rather than a department of municipal government? (Connell)

Price (City of Toronto) responds:

- The department responsible for water and wastewater in Toronto probably has a larger staff and budget than MOE. We're struggling with the amalgamation: different cultures, records, etc., make it hard to assess system priorities.
- Political interference is minimal because they do not understand the enormous size of the budget.
- Everyone wants user-pay full-price accounting, but in this case of lot of money from water rates is siphoned off. The Ministry of Municipal Affairs knows that this goes on across Ontario (through interest in reserve funds, a treasurer deciding whether to allocate that to water reserve or general revenue). It is a battle to maintain water reserves for the purpose for which they were set up.
- If the system becomes a public utility, either an arms-length entity from council or

² Pollution Probe, April 2001, *The management and financing of drinking water systems: Sustainable asset management*, a submission to the Walkerton Inquiry, available online at <http://www.walkertoninquiry.com/part2info/partieswithstanding/pdf/pollutionprobe.pdf>

- something more like Hydro (which would require new legislation), then you can have decision makers who concentrate just on water and sewage.
- The water planning problem for Toronto is that planners want to put another million people in the city to use the existing infrastructure, and we have to figure out how to supply their water and sewage services with the existing infrastructure. Pipes are experiencing "midlife crisis", deteriorating faster than they should, depending on the age, the condition, the ground they are in, etc. North York gets over 800 breaks a year in water mains compared to the old City of Toronto with only 80, and North York is the newer system.
 - Governance has to be in place to address financing the system, and to address stormwater, sanitary sewers, source water and potable water as one unit. Cleaning up the waterfront if Toronto gets the Olympics would cost a billion dollars, and the funding is not forthcoming.
 - Price (City of Toronto) and EP note the natural monopoly nature of water distribution.
 - EP stated that water utilities need an environment of stability. Restructuring electricity distribution in 1999 caused chaos. Turning municipal departments into utilities without privatizing them may not contribute to safety.
 - OWWA/OMWA counters that we no longer have water utilities for small systems, only 15 or 16 PUCs left in Ontario. PUCs for small towns were only feasible when electricity and water were combined, but restructuring of electricity forced PUCs to sell the electricity utility, and water in almost every small system in Ontario has been taken into the municipal structure.
 - OWWA/OMWA agrees with the importance of dedicated funds, not cross-subsidization for water systems. In Ottawa, e.g., the CAO after amalgamation called for having a dedicated water professional answerable to council, and small systems need such an expert as well.
 - Strategic Alternatives noted that the long-term planning endorsement should not be overly prescriptive. Some municipalities are not growing and their planning needs are fairly simple, while others need more sophisticated approaches.
 - OWWA/OMWA and UWC call for special-purpose bodies, such as PUCs, to run water systems. A municipal council has many concerns and has to be myopic; the planning horizon is short. A special body makes long-term planning much easier.
 - AMO disagrees, suggesting that water plans must start with a long-term vision for the municipality (e.g. size and nature of future population) and an elected council to integrate decisions about water, sewers, roads, etc. They can keep the costs from being "lumpy", deal with changes to federal government infrastructure financing, and plan to integrate roadwork, water and sewer work, etc.
 - Tax base funds are now under such pressure that politicians are eyeing water system

reserves, and water system revenues cannot be relied on to remain dedicated revenues. Systems may have to earn a profit as the Edmonton system does, paying dividends to the municipality. PUCs generally did a good job, and municipalities could as well but dedicated financing is a problem (Strategic Alternatives).

- OWWA/OMWA adds that while municipalities are required to segregate water and sewer funds, crossover occurs when there is charge-back e.g. purchasing services from the city. Examples of cross-subsidies existed in integrated utilities (gas/electric, gas/electric/water). (EP, OWWA/OMWA)
- Connell notes that the consensus on full-cost pricing strongly implies a water system with independence enough to ensure that revenues are secure and long-range planning has meaning.

2.3 Accounting Procedures

- Strategic Alternatives discusses accounting options of municipalities. In both cash-based and accrual systems the costs of investment are recovered. The cash-based system is more flexible, with investment cost covered as principal repayments and money into reserves from revenues. The accrual-based system recovers investment cost as depreciation. The timing and cash flow differ over time.

2.4 Monitoring of Financial Performance

- Strategic Alternatives notes that the cash-based system does not record assets, so it does not allow monitoring of profitability or condition of assets. New Zealand, for example, initiated accrual-based accounting in order to have some information on assets.
- OWWA/OMWA differentiates between accounting, which is how last year's money was spent, and financial management, which is budgeting for planning, projecting needs and objectives; the former is a performance measure against the latter.

3. FINANCING OF INFRASTRUCTURE

3.1 Overview of Ways and Means for Capital Expenditures

Strategic Alternatives summarized related points from their paper:

- User fees are the important revenue source for water and sewer (except for fire suppression which tends to be paid through property taxes). But capital expenditure is lumpy, so one needs either to have reserves or to borrow money and put debt charges into user fees). Other traditional sources: development charges, important revenue sources in new developments to pay for capital; improvement charges,

charging adjacent properties to pay for infrastructure improvements, although these generally bring in little revenue; finally, historically there were provincial grants but these have declined in recent years (Strategic Alternatives).

- Fiscal sustainability is difficult to measure, but bond rating agencies measure the fiscal health of municipalities by looking at the tax base size, debt burden, reserves, dependence on provincial grants, and expenditures. Over time, the local services realignment will not be revenue neutral because pressures on the property tax from social services, for example, will likely increase. Amalgamation has also been costly for municipalities. Finally, there have been property tax freezes in Toronto and elsewhere. We also do not have information on the status of assets. Financial information looks pretty good, perhaps because services are being cut (Strategic Alternatives).
- Downloading is a problem for municipal revenues (CUPE). OPSEU noted that municipalities needed access to reserve funds, otherwise control of assets can be lost to PPPs.
- UWC notes the value of a broader "toolbox" including design/build, design/build/own, design/build/operate/transfer and design/build/finance concepts for capital improvements and new plants, letting the private sector provide and municipalities borrow less. Open transparent competition will provide substantial long-term benefits on capital spending.
- c. OWWA/OMWA adds that section 210.1 of the Municipal Act allows for variety of initiatives. Another section of the Municipal Act, s.221, allows for broader allocation of costs, and allows contributions towards upstream costs such as paying towards the capacity of a plant that is already built. This is similar to development charges (which are levied on the developers), which allows for the recovery of not only pipes, but for treatment capacity.

3.2 Borrowing potential and practices of municipalities, large and small

- Municipal borrowing has declined dramatically over the past 20 years. The provincial guideline prevents debt charges exceeding 20% of revenues, but most municipalities borrow far less. (Strategic Alternatives) Fiscal conservatism of municipalities is in part because borrowing costs will crowd out other expenditures. In case of emergencies e.g. increased social services caseload, do not want the burden of paying off debt. But it makes sense to pay off assets over time, a stream of costs in keeping with the stream of benefits. (AMO)
- Tax-exempt municipal bonds cause less marketplace distortion than capital grants to municipalities. (UWC) OWWA/OMWA disagrees: The idea has been around for a long time, but not implemented because it is unlikely to generate much more of a pool of investors.

- On the history of borrowing: after World War II there was much borrowing to invest in infrastructure, with bonds up to 40 years, but in 1979 an economic downturn made debt payments very expensive, and municipalities re-examined debt as a primary tool for financing infrastructure. Now the movement is towards using more tools, not only debt. (OWWA/OMWA)
- The principle of aligning costs of assets with the using-up of the asset has to be balanced with other financial and public policy goals. (OWWA/OMWA)
- Many municipalities will be able to address their infrastructure needs. Municipalities who have responsibilities for the provision of water have the ability to debenture borrow between \$13-\$20 billion.³ Some of the smaller or northern municipalities may need provincial grants to correct problems. Perhaps the province can assist by allowing municipalities to borrow through a fund at a lower rate. (OWWA/OMWA)
- Based on a report from the National Round Table on the Environment and the Economy, existing systems account for more than half of the infrastructure financing needs of the next 15 years.
- Even if public money is available, the private sector is a better financing source because it is driven by the incentives to win contracts and make a profit, which it does through efficiency, as in the Moncton example. Greater efficiency reduces total capital demand. Municipalities lack incentives to use capital efficiently. (EP)
- Moncton could have hired the right engineer directly to find those same efficiencies. Unlike Moncton, municipal operators do not have to generate a profit, and they can borrow money at least as cheaply as private operators. (OWWA/OMWA)
- OWWA/OMWA notes that the English system is a poor example; they have grey water-outs because so much profit is taken out of the system and invested elsewhere, e.g. to expand in Canada. Connell replies that the regulator in the U.K. has strict investment requirements.
- One issue that motivated privatization in the U.K. was the reluctance of local councils increase rates; the method of financing is not crucial, but willingness of council to increase rates if necessary is. (Strategic Alternatives) Connell agrees, with the possible exception for small and Native communities.
- OWWA/OMWA adds that as a result of the Walkerton tragedy, there is now local political will and public support for rate increases, but Bird cautions that this attitude is not held in all municipalities.
- AMO notes that the reluctance to raise rates results in part from attempts to impose

³ The details of this study were submitted to the Inquiry through CELA: C.N. Watson and Associates Ltd., *Financial management of municipal water systems in Ontario*,

price caps on tax rates, whether directly as in the U.K. or implied as here in Ontario. The Commission should assist Ontarians in understanding of what water is worth, and creating a willingness to pay.

- Higher debt always means higher taxes or rates at some point. In much of rural Ontario people prefer to prepay the cost of local improvements rather than issue debt. Senior levels of government have paid a political price for issuing debt, and there is a general belief that the larger your debt, the worse off you are. Debts are a financing tool, not a revenue stream. If you need more money, you need more money not a way of reorganizing it (AMO).
- OPSEU notes that OCWA, and the arm of the MOE before that, always had a financing role. In other provinces there are finance authorities, and OCWA could serve that purpose in Ontario. CUPE adds that the B.C. Finance Authority has an AAA bond rating, and Ontario municipalities could benefit from a similar arrangement. CUPE suggests consensus that we not lose sight of the role that borrowing and public municipal debt can play for financing.
- Ontario did have a debt issuer, the Ontario Municipal Improvement Corporation; it was a lender of last resort, and has withered away for lack of demand. (OWWA/OMWA)
- On borrowing and debt capacity, the AMO case study⁴ included one municipality which has a total non-seasonal population of 50,000, and a service population actually paying user fees of 26,000. The debt capacity is of the entire municipality, but only people on the water system are paying it back. (AMO)
- OWWA/OMWA noted that Ontario municipalities probably have the best credit ratings in North America, in part because they pool all spending together and take debt capacity as a percentage of that. Provincial guidance has been very successful regarding debt levels of municipalities, with not a default on a municipality's debt payment since the 1800s. If we move to borrowing against credit streams, credit ratings may go down and thus money will cost more.

3.3 What is the appropriate role for the provincial government?

- Provincial grants distort municipal decisions (Strategic Alternatives, CO, EP).
- There may be objectives the provincial government can meet through grants to create incentives to certain kinds of municipal spending. However, if some smaller

⁴ See *Financing of Municipal Waterworks: Analysis and Case Studies*, a paper submitted to the Walkerton Inquiry by the Association of Municipalities of Ontario, Municipal Engineers Association, and the Ontario Good Roads Association, June 2001, available online at <http://www.walkertoninquiry.com/part2info/partieswithstanding/pdf/AMO.pdf>

municipalities, e.g. those with a low tax base, cannot afford water costs then perhaps they cannot afford other things too. An unconditional grant makes more sense (Strategic Alternatives).

- OPSEU notes the historical instability of provincial grant and subsidy programs (MOE, Lifelines, Jobs Ontario, OSTAR). A long-term stable approach to grants is needed (OPSEU, CO)
- OWWA/OMWA is not in favour of grants per se except perhaps in very small communities, but suggests that the government consider the example of the American EPA [Environmental Protection Agency] which has an interest-free revolving fund with monies accruing back in. Another advantage is long-term planning, as municipalities know where they are in the funding queue.
- OWWA/OMWA is concerned that because of the government agenda, OSTAR is tying its money into public-private partnerships (PPPs), which suggests that to leverage the money you need a PPP. Municipal operators channel about 70 or 80% of our spending to private corporations, but as sales agreements instead of ownership. MOE clarifies: Superbuild, not OSTAR, is the funding entity that is fostering PPPs.
- The job of the municipal council is to find the cheapest financing source, whether through PPPs, revolving funds, municipal bonds or other sources. The provincial government's role is to facilitate options and remove artificial barriers. (Strategic Alternatives)
- It seems from the d'Ombrain report⁵ and others that provincial responsibility is fractured, with the agency with engineering ability to evaluate capabilities of municipalities, MOE, not the one holding the purse-strings (instead it is Finance, MAH). MOE is also best placed to tie asset management needs to engineering reports, and to know the future direction of drinking water regulations. d'Ombrain seemed to suggest folding Superbuild and devolving financing responsibilities to MOE. (OWWA/OMWA)
- Chiefs of Ontario stated grants are necessary. Private funders are not lining up to finance communities like Attawapiskat, and reliance on federal funding is the reality for the foreseeable future. Grants must be rationalized, not just non-dedicated lump sums, and realistic decisions on where money is needed for the water system must be based on data and full-cost accounting.
- If all communities' infrastructure were brought up to current standards and everyone started at the same level, would that solve the dilemma? (Connell)
- The province could require assessment of the fair cost of providing a system, allow

⁵ Nicolas d'Ombrain, March 2001, *The Machinery of Government for Safe Drinking Water in Ontario*, issue paper commissioned by the Walkerton Inquiry. Available online at <http://www.walkertoninquiry.com/part2info/commissuuepapers/04dombrain/dombrain.pdf>

the community to do a sustainable asset management plan, and figure out what provincial role a community needs above what it can sustain. (PP)

- Strategic Alternatives is cautious about the idea of a "fair cost" for utilities, but notes general support for the idea that some municipalities for various reasons cannot afford full-cost because they are low-income, cannot access economies of scale, or both. But if they cannot afford water, they probably cannot afford other needs, and a provincial fallback should be available with explicit criteria, e.g. how much of household income you can expect spent on public infrastructure, with the province filling the gap. Focus should be on public infrastructure as a whole.
- Strategic Alternatives suggested that equalization grants in Canada have not generally been based on household income or affordability. Rather, equalization grants have been based on fiscal capacity (measured by the size of the tax base per capita) and sometimes on expenditure need. Strategic Alternatives warns that there are some water supply systems which are very expensive on a per-capita basis but affordable to the local community.
- Chiefs of Ontario disagree with the general-funding approach, which is easier to cut back leading to water-system degradation. They are committed to full-cost accounting for water, even for those who cannot afford full-cost pricing.
- AMO notes that water systems are not always for the whole municipality so the grant should match the number of water users, from whom the loan will have to be recouped. OSTAR has made that mistake, and engineer's reports will be paid through OSTAR grants based on property tax base not number of system users.
- OPSEU notes the goal is not income reallocation, it is offsetting an unreasonable cost to provide service due to geographic reality.

3.4 Other Financing Issues

- OCWA, and before that the Water Resources Commission and MOE, had the role of administering grants. OCWA has the presence, knows capital budgets and infrastructure requirements, and is in a good position to make quality judgments. Grants from the crown could be contingent on being operated by OCWA. (OPSEU)
- OWWA/OMWA takes exception to OCWA becoming the only route to funding, noting that they are a crown corporation operating on a profit mandate and are in competition with municipal water operators.
- EP noted that the water and sewage systems' capital requirements are enormous. The Canadian Water and Wastewater Association estimates that Ontario will need to spend \$32.2 billion over 15 years. The private sector has demonstrated that it has the financial capacity to meet our capital needs. The need for capital investment has often driven privatization elsewhere and may do so in some Ontario communities.

4. OTHER STRATEGIC ISSUES: Balancing costs with safety; Economies of scale; Universal Metering; Financing Sewage Systems and Full Cost Pricing

4.1. What level of redundancy should be built in systems? Should flexibility to meet future regulations be an important criterion? Is the burden of cost imposed by current regulations in reasonable balance with safety considerations?

- Redundancy was not discussed at the meeting. There was consensus that cost and safety go together, neither one taking absolute precedence over the other. Safety comes with a price, and it is possible to overspend on the incremental safety improvement that further investment gives.

4.2. Are there opportunities for economies in water systems through shared services, mergers, or joint regional contracts?

- OWWA/OMWA: The best benefits come from merging and linking operations and water supply, but each situation is individual. Amalgamation of systems and municipalities for economies of scale reaches a certain size limit at which it is difficult to standardize operational policies. Example: Chatham/Kent, where 22 independent municipalities were put together into one with much success.⁶ When Chatham/Kent was consolidated, we brought costs down for many of the smaller systems but for some of the larger ones they went up. This southern Ontario example might be less relevant in the north, because of the distances.
- OPSEU notes the value of OCWA, which has the scale and breadth of operations to find efficiencies, keep a focus on water, and create inter-municipal arrangements. OCWA has approximately 30 regional hubs, usually located in a larger facility, from which other facilities are staffed and resources dispatched. They have developed their own SCADA system, which even the very small systems now have. OCWA got ISO14001 certified in one of its largest plants, and is now pushing that throughout its operations.
- EP counters that there is nothing inherently different about OCWA, e.g. a private Florida firm running 400 tiny plants also uses itinerant operators. OPSEU clarifies: the advantage is inherent to the structure, not to OCWA per se. AMO cautions that the municipal structure is different in the U.S., where even large metropolitan areas can have many small municipalities.
- In south western Ontario there are a number of regional schemes, and the key to cost-effectiveness is the ability to share a source, the expensive part of a system, and allow different systems to tie in along the pipeline. That opportunity is there regardless of whether it is OCWA, a municipality, or a private firm. (AMO)

⁶ See Chapter 8 of the paper by C.N. Watson and Associates Ltd, *Financial management of municipal water systems in Ontario*, submitted by CELA to the Walkerton Inquiry.

- Strategic Alternatives cautions that with the regional approach, municipalities should expect costs to go up rather than down. Regionalization leads to more attention to standards, so you may have economies but it will not necessarily be cheaper, since often right now they are not spending enough to do the job properly. If OCWA takes over it will do a better job, bringing in a dedicated trained operator instead of part-time locals, but it won't likely bring lower water bills. Bird restates: if we are raising standards, it might be cheaper to meet those standards in cooperative ventures in some cases, depending on a number of factors.
- AMO cautions about shared services and contracting with outside agencies for capital plants, since such off-book financing is not allowed for municipalities: it shows on their books as a debt. Connell asks whether that should change. AMO (with general agreement from other parties) responds "No". Every auditor-general in Canada suggests that this needs to be more stringent.
- AMO distinguishes between economies of scale in operational and in capital costs. OCWA economies are the former. Merging small, dispersed systems, merging capital costs, simply mean cross-subsidization between adjacent systems instead of doing it with grants so that the entire province is cross-subsidizing.
- OPSEU notes that when MOE did a sweep of water treatment plants in December 2000, they found many deficiencies and handed out infractions. OCWA, averaging 50 deficiencies per 100 plants, was far better than the 69 per 100 for non-OCWA plants. Larger municipalities were not on the infraction list, except Hamilton.
- There was some consensus that there is no single preferred structure. It depends on density, geography, source, local demands. (AMO) There must be enough flexibility to let people make their own decisions (Connell, AMO).

4.3 How should water service for new urban developments be financed?

This topic was discussed in Section 3.1 - Overview of Ways and Means. Also refer to presentation by AMO (Appendix A), which included discussion of development charges.

4.4 Should universal metering be implemented for both domestic and commercial users?

- CO calls for universal metering for domestic and commercial users as well as private water takers, as a tool in promoting water conservation and to allow better allocation and management of water.
- Strategic Alternatives suggests that metering has been so widely adopted in the GTA, except in the City of Toronto itself, that it is hardly an issue. Commercial users in

Ontario are always metered. AMO disagrees: larger municipalities are well on their way to metering, but smaller ones are not. Up-front costs create resistance, and while in general we are in favour of metering, for the smallest systems cost may outweigh benefit. A recent policy that those who install meters must be licensed plumbers has added to meter installation cost.

- EP calls for universal metering as the first step in developing user-pay systems.
- OSWCA supports metering as something they have been working on. Metering also gives a better idea of water being lost in the system which is necessary for getting to full-cost pricing or accounting. (OSWCA). AMO however notes that many smaller municipalities are not going this route because of the costs.
- AMO notes that price is an incentive to conservation, but it must be a large price jump to have an effect; demand is relatively inelastic. Conservation can be promoted more directly and proactively in other ways such as subsidies from municipalities, e.g. Barrie, which invested \$2.2 million in low-flow fixtures, achieving a 6-year deferral of a \$26 million plant and permanently deferred the cost of treating a huge volume of water.
- Strategic Alternatives stated that metering should be endorsed for a number of reasons, but safety is not one of them, nor is cost recovery which can be done by flat rates, so this Inquiry should not strongly endorse metering unless metering is associated with revenues to implement safety measures.

4.5 Should a charge for water itself be included in the full cost of water?

- PP proposed that water could have a price, especially in times of scarcity. We need to look at methods of allocating scarce resources.
- CO agreed that we should establish a fee for water in recognition of the value of water.
- EP agreed with PP and CO. Historically, we've put prices on resources as they have become scarce. However, there is a need to discuss the problems with charging for water, including the absences of clear ownership and the difficulty of setting the right price.
- Chiefs of Ontario object to the commodification of water, which fundamentally goes against First Nations' understanding of water. They also disagree with the issue of the province's ownership of water.

4.6 Should financing of the sewage systems be brought into the same envelope as the water system?

- Normally when municipalities meter water, the costs of sewage are then recouped from water rates instead of property taxes. OWWA/OMWA advocates that. But some areas have sewers or water municipally, but not both. Sewer surcharges should be calculated only on the proportion of households that have both services.

4.7 Full Cost Pricing and Profit

- Full-cost pricing should include a rate of returns to investors. If we include financing costs in full costs, then the cost of capital could be interest on principal or it could be dividends to investors. (EP)
- Full-cost recovery as a way of recovering costs includes capital investment costs. Return of profit to shareholders can have a distorting effect and become the primary objective instead of a focus on meeting the community's needs with the highest possible standards. Private profit can expose municipalities to international trade rules and regimes, e.g. NAFTA and GATS, that pressure governments to prevent additional measures such as public health and safety from being costs to investors.(CUPE)
- Connell asks for opinions on the Edmonton model. CUPE is concerned that shareholders distort decisions, and notes that there have been attempts to privatize this municipally owned corporation.
- Strategic Alternatives noted that with EPCOR [the Edmonton corporation operating water systems in Alberta] a dividend is paid to the municipality. Profit or return on investment is necessary for generating the funds for the system while dividends are payment for use of capital.
- Strategic Alternatives notes that water utilities often make a profit which we call a surplus, but we don't identify it as such on the books so it is not seen as a return on investment. The key issue is whether that is spent elsewhere or on water. The real question is how to provide water and meet standards at lowest possible cost, and if someone can do that at lower cost but make a profit that's distributed to shareholders, why not contract them?
- CUPE makes the point that learning how to manage public services more effectively and public financial management to facilitate public investment are important issues for the public sector.

Closing Summary (Bird)

Although the focus is on safety, the discussion indicates that financing is a pre-condition of a well run and managed system. As presented in the agenda, this is a precondition to safe delivery of water. The discussion did not detail much in terms of the direct

relationship between financing structures and particular safety issues.

There was an astonishing degree of agreement on actually figuring out how much things cost. Considerable consensus was reached on full-cost accounting, and recovery (from someone), and on management issues around asset management and planning. On financing of infrastructure, no real agreement was reached on the relative roles of borrowing, reserve funding and grants as different financing options.

Throughout, there was a sharp distinction between small systems perhaps requiring different treatment such as grants, subsidized lending through revolving interest-free loans, or some other subsidy.

There was almost consensus that if regulations are mandated which increase costs there should be careful consideration of how to meet those costs, but there was not agreement on who should pay. We did not really discuss how water rate structures should be set up, but discussed financing very thoroughly. There was agreement on the need to show the full cost of water. We heard some discussion on source protection in particular, and how to link these costs to water users, but no consensus was reached on this and other aspects of full costing.

Appendix A:

Presentation on Municipal Financing Authority
Delivered by: Pat Vanini, Director of Policy and Government Relations
Association of Municipalities of Ontario (AMO)

I am pleased that Mr. Connell has asked AMO to provide a brief synopsis of municipal finance as it is important that our discussion today be rooted in an understanding of the existing structure and practicalities. In any journey, knowing where you are starting from is just as important as knowing the destination. I had hoped that Nigel Bellchamber, Commissioner of Finance for the City of London and the Secretary-Treasurer of AMO would be able to do this presentation. He has a great deal of practical experience, having worked in a number of other municipal jurisdictions as well as at the Province. Unfortunately, Nigel will not be able to join us until this afternoon so I will attempt to do justice to what we call Municipal Finance 101.

I have assumed, and I hope correctly, that everyone is aware of the changes to municipal governance structure in Ontario that has evolved over the last 20 years and the nature of the amalgamation activity over the last 5 years. Remember the numbers, 825 and 447. I also hope to have safely assumed that you understand the legislative relationship between municipal governments and special purpose bodies.

Therefore, I will focus on the "rules" related to municipal finance, the sources of revenue, the municipal budget process and municipal finance tools.

Municipalities see themselves as an order of government, and they function as a government. In terms of municipal finance, the rules are not similar to the other two orders of government. Municipalities operate within much tighter rules:

- municipalities cannot overextend themselves - there are defined debt capacity limits
- municipalities have one major source of revenue - property taxes as compared to the multiple sources of revenue at the provincial and federal level, and
- municipalities are prohibited from deficit financing.

Municipal Sources of Revenue:

The property tax system, on average, produces approximately 70% of municipal own source revenue. The remainder comes from development charges, user fees, license fees, fines (such as parking tickets) and transfers from other governments (such as conditional grants and the Community Reinvestment Fund, which is a fund to fix any gaps between the transfer of services between the province and municipalities).

Since the single most major source of revenue is the property tax, I want to spend some time on how this is calculated. Every tax has two components: a tax base and a tax rate. For example, with the provincial sales tax, the base is the purchase price of a product, and the tax rate in Ontario is 8%. The tax base with respect to property is a property's market value.

As you may know, the property assessment system in Ontario was changed in 1997 so that the entire province is now being assessed on a "current market value" basis. The province has policy setting responsibility and there are numerous pieces of legislation and hundreds of regulations that direct the nature of the assessment and the tax setting authority of municipal government.

The tax rate is established by the municipal council, however the province sets the education tax rate. The property tax is based on rates established for different classes of property (e.g., single family, farmland, institutional, C and I (commercial and industrial) and there are sub-classes as well. Any municipal property tax rate set by a council must be within a provincially defined range of fairness - to get tax equity within a class within the same market. This is why there are scheduled re-assessment periods - to keep assessments up to date. There are also tax exempt properties, such as land owned by the federal and

provincial governments, lands held in trust for a First Nations body or band, school boards, and charitable and non-profit organizations.

The ratio of property classes (e.g., the percentage of residential to commercial), the rate of municipal growth and the market assessment value of properties will vary from municipality to municipality. Given this variety of circumstances in municipalities and the reliance on the assessment base as the major source of municipal revenue, different levels of revenue will result. Those with a varied assessment base, and with a growing tax base can find it somewhat easier to deal with new service requirements than those with a static or shrinking tax base. Ontario's diversity has its pluses and minuses.

This is about all I want to say about the new assessment and taxation system, other than to say the move to CVA was applauded by municipal government when it was proposed. However since the concept was introduced, a number of consequences developed. Property tax reform resulted in a redistribution of tax burdens within classes and to some degree among classes. Some properties enjoyed tax decreases, others had increases and in a few cases, rather significant increases. As a result, a series of further legislative and regulatory changes occurred over the course of the last three years, such as the 10- 5- 5 phased capping requirement for commercial and industrial and multi-residential properties. This was done to phase-in significant tax increases which generally has translated into those with decreases in a class funding those with increases. Recent legislation, bill 140 continues this phases processes on a 5% per year increment. In many cases, that 5% is very small. A threshold rather than percentage approach would have been a better approach. However, the Province did not take this advice and the impact of its capping approach means that it will take a long time in some parts of Ontario for properties to be effectively taxed in a current market value assessment regime. And if I can quote a municipal treasurer, and it is not Mr. Bellchamber, "in moving to a simpler approach, things are a lot more complicated".

It normally takes about 90 minutes to impart to new councillors the most basic aspects of CVA and Ontario's property tax system, so I hope that you appreciate the relatively little pain that I have inflicted upon you, but I also encourage you to read pages 10 and 11 of our paper. As part of our councillor training program, we prepared a Primer on Property Assessment and Taxation and if you wish a copy, let us know. It needs to be updated to reflect the most recent assessment/taxation bill and regulations related to Bill 140 which continued the capping regime and added more tools and more rules. It will give you a more in-depth understanding of the changes and impacts on the major source of municipal revenue.

Municipal Revenue Sources

In terms of the other municipal own sources of revenue (user fees, development charges, licensing, and fines), they generally have limits in the amount that can be charged (i.e., reasonable cost recovery) and have defined processes for developing the fee and collecting it (development charges).

For example, user fees can be used to pay for the cost of specific services. Your area aware of the use of fees to recover the partial or full cost of hydro, water and sewage services. User fees are also used for other services and are generally set at lower than cost rates to provide access to recreational activities and public transit operations to the public and low-income residents. License fees are for specific purposes and must be limited to reasonable cost recovery related to the issuance of the license.

Similarly the scope of development charges is restricted - in this case to growth related capital costs, but not capital projects that serve the entire or a broader area of the municipality, such as hospitals and waste management services. DCs work well for high growth areas, but in areas that are trying to attract economic growth, they are a disincentive.

Fines are only as good as the enforcement process and the ability to collect.

Direct transfers over the years have become very limited both from the province and the federal government. It was part of their plan to manage their budget deficits. For example, between 1993 and 1998, Ontario municipal governments absorbed over \$1.7 billion in provincial transfer payment cuts.

Now, the transfers are generally limited to the Community Reinvestment Fund, SuperBuild infrastructure programs, some library funding, and one-of programs, such as community policing which require matching municipal funds.

On the expenditure side, simply put, the nature of services that municipalities must deliver (the mandatory programs) and discretionary programs has changed as a result of the province's Who Does What initiative, which is now referred to as Local Services Realignment.

While some of the changes were welcomed, it has been a long held position that the property tax base is not the place to finance social and community health programs. They are more appropriately financed through provincial income redistribution. While municipalities are best placed to deliver them, being the order of government closest to the public, the province is best placed to finance them.

Depending on the municipality and the assignment of service delivery, up to 90% of a municipal budget is mandatory spending to meet legislative requirements and prescribed service standards. This means that the amount of spending over which council has absolute control is relatively small.

Municipal Budget Process

The municipal budgeting process differs from the other two governments.

- . the municipal fiscal year is calendar - province and federal governments? is April to March
- . the municipal budget process is very public - all deliberations are conducted at public meetings.

It is an annual process and requires the prioritizing of services, policies and programs as mandatory and discretionary. Often municipalities develop strategic plans that provide another source of public input and direction - the budget cycle being part of the implementation program of the strategic plan.

The budget has two components: current and capital. The current budget allocates expenditures for the day-to-day operations (salaries, supplies, etc.). Municipalities are prohibited from budgeting for a deficit in any current year budget. Any deficit in the operational budget in one year becomes the first item of expense in the following year's budget.

The capital budget relates to major expenditures on physical assets, which have an economic life or provide a benefit over a number of years. As such, it is usually accompanied by a multi-year capital forecast of expenditure items and sources of financing. Municipalities are permitted to finance capital expenditures through debt, but only to a limited extent.

These rules make it very difficult to manage new, in-year, expenditures. If a new expenditure is not budgeted, it must be paid for from reserves, or cuts to planned programs or tax increases in the subsequent year.

Finance Management Strategies

In addition to direct revenue, municipalities can expand their financial capacity by using some management strategies, such as debt financing for capital expenditures and the accumulation of reserves.

Again, there are provincial rules for debt financing of capital projects - rules that are designed to ensure municipalities do not become overextended financially. The back drop is that the Province has the authority to "supervise" a municipality that is in financial difficulty. This has happened only a couple of times in the last several decades.

The debt that municipalities issue must only be related to a capital asset and both the interest and principal must be repaid - not unlike your mortgage should you have one. There is no option to pay only the interest on the debt, which means that debt repayments must be within manageable levels or their ability to finance day-to-day operating expenditures may be threatened.

The annual payments for debt and long-term financial obligations is limited to 25% of a municipality's own purpose revenue sources (property taxes, etc.). The province calculates this figure and it is part of a regulation. Only the Ontario Municipal Board can approve exceeding this amount.

Because of the added expense that debt repayment contributes to the current budget, and the concern that they may not have the additional revenue to make the repayments in the future, more municipalities financed long term capital expenditures out of current revenue. This saves municipalities money in the long run. However, the combined pressures of freezing or reducing property taxes, the increase in expenditures due to downloading have constrained the ability to finance capital from current revenue.

Municipalities, rather than relying on paying back the cost of capital works through debt financing, are electing to accumulate funds (reserves) so that capital works can be paid for entirely or partly up front - developing a savings program rather than "maxing out" the credit card is the analogy.

Municipalities also develop reserve funds to cushion impacts in the case of an emergency and to help deal with unanticipated in-year expenses/programs or potential overruns (e.g., social service costs). The last recession in the early 90's depleted many reserve funds and the intervening years has put a lot of pressure on municipalities to freeze taxes and reserves have been used as part of that financing tool.

I hope this has provided you with a thumbnail sketch of municipal financing. In closing, there are several things that we know to be true as of today:

- that municipalities are "offspring of the province" - constitutionally
- that stability and predictability make for better business planning however, at the same time we know that provincial and federal governments come and go and thus the policy basis and priorities will also change
- that municipal governments are the most conservative in terms of fiscal management while providing vital public services and also lowest on the financial food chain, and
- that being a municipal treasurer is perhaps one of the most challenging and difficult jobs in the municipal sector.

Appendix B:

Presentation to Walkerton Expert Meeting

By: Brian F.P. Murphy
Mayor, City of Moncton
and
L.E. (Al) Strang
City Manager, City of Moncton

Introduction

Moncton is located in the heart of the Maritimes; it is a commercial, tourism and service centre with an enviable quality of life, a dynamic economy, a bilingual and bicultural community and with some of the world's best seafood at our doorstep?

Turning to potable water issues, Moncton relies on **a surface supply** of water since before its incorporation as a City (1890), three different reservoirs, the latest, Turtle Creek opened in (1966)

Body of the presentation

Moncton serves its municipality as well as the two neighbouring communities of Dieppe and Riverview with approximately 80,000 people receiving water from the same source.

Until recently, Moncton's **report card** on water did not achieve high marks: it featured delivery through **aging infrastructure**, was only treated with chlorine and certainly did not meet the Canadian guidelines for drinking water quality.

A **Master Plan** of our water system was completed in 1989. Chief among the recommendations were the need for water treatment and better overall management of the resource.

Citizens, in random sample surveys conducted by the City, consistently showed concern about **water quality** as the leading municipal service issue.

The Master Plan led to three other initiatives: a pre-design report for water treatment in 1993, the installation of water meters in 1994, and the raising of the gates at the reservoir's dam to increase its capacity (1998).

The next major step was water treatment facilities.

Requests for funding under the earlier Federal-Provincial Infrastructure Program and the New Brunswick Environmental Trust Fund in the early to mid 1990s were unsuccessful.

The municipality did not have access to the funding required for the plant estimated at **\$32 million** in 1995.

A partnership with the private sector seemed, on the surface at least, able to provide **a possible option** for the municipality. At the very least it deserved a closer look.

The municipal council of the day authorized staff to conduct a careful and **in-depth review of a public-private partnership** to determine the feasibility of a public-private solution.

The review showed the possibility that the plant could be built **faster**, at a **lower cost** and with a

substantial **transfer of risk**.

As a municipality, we were approaching this with few similar and no direct models for comparison. It was most essential to get the best **professional advice** possible we could, and we did.

Expert consultation in the areas the P3 **process**, **legal** and contractual matters, **financial** matters and **technical** requirements provided the municipality with the advice, the information and the guidance needed to successfully follow through and conclude the process. This **investment** cost the municipality \$680,000.

A request for qualifications (RFQ) was issued in **November 1995**. The municipality received considerable interest, 20 packages were requested from a variety of parties.

The events that followed placed an even greater focus on the need to address water quality: a **boil water order** was issued in 1997 when high levels of bacteria were found in the regular testing process. Another followed in 1999.

In the end, however, nine international consortia responded to the RFQ. Three of these were short listed and invited to answer a request for proposal (RFP). As a side issue, one of these dropped out leaving the City with two parties. Satisfied that we could proceed, we did and eventually negotiated a successful contract with US Filter and its partners.

Why were they chosen?

The size of their plant, the operational features included and the patented technology they offered.

All these combined would deliver the water quality required, and more, for \$11 million less (\$9 million in Capital and \$3-\$6 million in Operating cost-savings) than we could by following the traditional route. Moreover, the plant was promised to be operational in 500 days and, in October 1999, 500 days later, it was delivered!

As the first public-private partnership of its kind in Canada, the City of Moncton was confident that the 20-year lease-license arrangement for the \$23 million plant was the right decision for the residents and for the municipality.

The traditional municipal method would have added \$120 a year to a typical user's water bill (four-person household), with the savings achieved in the partnership, users would see a **\$91 annual increase** to their water bill.

Here are a few of the features of the agreement:

- \$15 million **guarantee** was issued from the parent company as protection to the City of Moncton
- A **repair and replacement** program was included in the contract to ensure that the plant, which would be turned over to the City after the 20 years, was in acceptable condition. A portion of the fees paid is reserved specifically for renewal and maintenance.
- User **costs are fixed** and controlled by council except those for which neither party has control: electricity, sludge disposal (more than one tonne of sediment is removed from the water supply every day!) as well as the cost of chemicals are all subject to increases.

- Complete **transfer of risk** from the municipality
- Stringent **water quality guarantees**. The water treatment facilities' **performance standards** included in the contract must exceed the Canadian Drinking Water Guidelines (chart).
- The contract includes a **dispute resolution mechanism** that protects the municipality in the event that guarantees are not met.
- The contract includes an **Innovation Clause** that provides mutual incentive to both parties to develop or take advantage of new technology and methods.
- A unique twist that contributes to the lower cost is a **ruling** obtained from Revenue Canada which provides:

Designated municipal status:

the partner company will make the supply of potable water HST exempt because the supply of water is considered an exempt supply of a municipal service, the partner company can claim the municipal rebate (.5714%) on its purchases of goods and services.

As well as a

Lease/License Arrangement

Lease payments for the right to use the facility for 20 years are fully deductible each year by the partner company (the City owns the plant from day-1)

License for the exclusive right to sell water to the City for 20 years must be capitalized and depreciated each year.

Conclusion:

Today the cleanest, purest water flows out of our treatment plant, probably the best water in Canada, not only in terms of the performance standards, the advanced technology, the protection against bacteria and parasites but also in terms of its pure taste and crystal clarity.

The 3P alternative is a definite success in Moncton. Such a partnership deserves careful review for any municipality who faces a similar situation.

Key to a successful partnership is going into it with your eyes wide open, armed with expert advice and mindful of the long-term impact on your citizens, the municipality and your employees.

A thorough understanding of each other's business (the public sector and the private sector partners) is fundamental to the success of a 3P.

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The story doesn't end here. The City of Moncton has now turned its sights on its aging infrastructure, some pipes as old as 122 years, but on, average, the bulk of the distribution system is between 30 and 70 years old.

The cost to replace and rehabilitate the system is estimated at \$70 million and could, with the current capital works program, take up to 20 years to complete.

The City of Moncton has recently received a proposal on the management, operation and maintenance of our water and sewer system.

We are currently performing our due diligence to determine if a potential exists.

If it can be demonstrated that a private sector firm can do it better, faster and cheaper, all while keeping control in the hands of council and protecting the jobs, salaries and benefits of our employees - stay tuned!