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## VIA ELECTRONIC MAIL

The Honourable Dennis R. O'Connor  
Commissioner  
The Walkerton Inquiry  
180 Dundas Street West, 22nd Floor  
Toronto, Ontario  
M5G 1Z8

Dear Commissioner O'Connor:

**Re: Walkerton Inquiry - Part II - Ontario Water Works Association ("OWWA") and Ontario Municipal Water Association ("OMWA") - Summary Statement of Recommendations for Public Hearing # 8 on Issue 14 - Financing Water Infrastructure**

I am attaching the following document for Public Hearing # 8, on September 24, 2001:

- A summary statement of recommendations prepared by Mr. Gary Scandlan, B.A., PLE on behalf of OWWA/OMWA. (The attached statement is based on a larger review prepared by Mr. Scandlan that was filed with the Commission in early September 2001 on Issue 14).

The recommendations contained in the attached statement are the same as those contained in the larger review prepared by Mr. Scandlan. We would ask that this summary statement also be placed on the Commission website.)

I trust the above is satisfactory.

Yours truly,

"Joseph Castrilli"

Joseph F. Castrilli

Encl.

c.c. James Van Loon

c.c. Gary Scandlan, consultant to OWWA/OMWA

c.c. Rod Holme, OWWA  
c.c. Jim Craig, OMWA  
c.c. Judy A. MacDonald, OWWA  
c.c. John Braam, OWWA  
c.c. Max Christie, OMWA  
c.c. Doug James, OMWA  
c.c. R.L. Beck, OMWA  
c.c. Susan Andrews, OWWA  
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**STATEMENT BY THE  
ONTARIO MUNICIPAL WATER ASSOCIATION (OMWA)  
AND THE  
ONTARIO WATER WORKS ASSOCIATION (OWWA)  
BEFORE  
MR. JUSTICE DENNIS O'CONNOR, COMMISSIONER  
RESPECTING  
PART II OF THE WALKERTON INQUIRY**

**STATEMENT ON ISSUE 14 - FINANCING WATER INFRASTRUCTURE**

**FOR**

**PUBLIC HEARING 8  
SEPTEMBER 24, 2001**

**PRESENTED BY**

**GARY SCANDLAN, B.A., PLE  
CONSULTANT TO OWWA/OMWA**

**INTRODUCTION**

Good morning Commissioner O'Connor. I am appearing before you today as a consultant to the OWWA/OMWA.

I will be making a statement to you this morning related to Issue 14 – Financing Water Infrastructure – from the Commissioner's original list of Part II issues released in August 2000 and amended in December 2000.

My comments to you today on Issue 14 matters are based on a larger report I prepared that was filed with the Commission by OWWA/OMWA in early September 2001. That report and the recommendations that follow address a number of concerns including financial planning for water systems, full cost pricing and recovery, sustainable asset management and lifecycle costing and other related matters.

**FINANCING WATER INFRASTRUCTURE**

We have made ten recommendations on financial matters that OWWA/OMWA submit the Commission should in turn recommend to the Ontario Government:

- 1. That the full-cost accounting for the provision of water should be adopted by water service providers in Ontario.**

Our submission identifies that full cost accounting and full cost recovery should be practised by public water providers. This practice would ensure that all costs of providing the services, including appropriate overhead and asset costs, are identified within the budget process and recovered through rates and fees.

2. **That Ontario water service providers should implement full-cost pricing. Pricing should not be limited to water rates as the sole basis for recovering costs, but also should encompass a combination of various fees and service charges that would be adopted by individual service providers. Implementation of various funding measures including those set out in Recommendation 4 should be done carefully to ensure consumer understanding of the actual or true cost of water (i.e. that low water rates do not encourage economic efficiency or water conservation).**

It is important that all costs of providing the water service be recovered by water user fees and charges and not be recovered through property taxes. This ensures that the water service is not considered as part of the property tax deliberations at budget time, but are considered as part of individual charges for the service.

It is also important to distinguish that full cost pricing does not represent the recovery of all water costs by the water rate alone. Municipalities and other water service providers presently use a variety of rates, charges and fees which reflect recovery on a benefits received basis, and hence cost recovery is sought for specific actions or services.

3. **That water service providers not be restricted as to the types of rates structures that they may select to recover their water costs. This may include the use of flat rate structures for water systems where it may be cost prohibitive to incur the costs of installing meters in homes. However, declining block rate structures should be discouraged.**

There are four commonly used rate structures, those being flat, constant, declining block and increasing block. The selection of any one rate is based upon a balancing of policy matters which the municipality must weigh in selecting the appropriate rate structure. These issues include administrative ease, equity, conservation, economic development and security of revenue recovery. Water service providers are most in touch with customer profiles, issues facing the community, usage patterns, economic matters, etc. Hence, no one rate should be mandated as it would remove the potential benefits derived by the flexibility to determine the appropriate structure for the community.

It is noted that the associations are in favour of water metering. The flat rate does not require meters as it averages the cost of providing the service across individual uses on an average cost basis. However, for very small systems, say less than 300 users, the cost of installing meters may be too large to implement. In these cases, the associations support the use of a flat rate. In regard to the declining block rate, the associations are concerned that this form of rate may be least effective in attaining water conservation objectives. Hence, as a general principal, the associations would discourage its use. However, this rate could be established in a way which creates conservation for residential users while providing economic incentives for businesses. If used, the associations would wish to ensure that there is consideration of water conservation objectives in its determination.

4. **That, in light of the provincial initiative to adopt a new *Municipal Act*, water service providers maintain the ability to use a variety of user fees and charges and funding mechanisms as follows:**

- a. Debt
- b. Reserves
- c. Reserve funds
- d. Development charges
- e. Local improvement charges
- f. Local services installed by developing landowners
- g. Special assessments such as s.221, 222 of the *Municipal Act*
- h. Private/public partnerships (s.210.1 of the *Municipal Act*)
- i. Various service charges

As noted earlier, municipalities use a variety of fees, charges and funding mechanisms to recover the cost of operating and capital expenditures. The OWWA/OMWA would wish to ensure that these financial tools continue into the future. Concern is raised however with respect to the province's reform of the *Municipal Act* which is currently in process. While limited information is available at this time for us to know whether our current financial mechanisms will continue, we wish the Commission to recommend that these financial tools continue into the future. We would also note that, based upon recent discussions with the development community, we understand that the province may also undertake a review of the Development Charges Act. The last review in 1997, placed new restrictions on municipalities as to what services were to be included along with restrictions which reduced the municipality's ability to recover costs related to new growth. We would ask the Commission to recommend that the existing Development Charges Act, as it applies to water and wastewater, be continued.

5. **That loans be made available to small municipalities to assist with the implementation of new regulations on a transitional basis. Consideration of whether the loan program needs to be continued subsequently should be based upon an evaluation of the impacts of the Commission's recommendations. Loans should be contingent upon a commitment to achieve system viability in accordance with Recommendation 7 below.**

It is anticipated that the Commission's recommendations will elicit regulatory changes to public water service provisions in Ontario. These changes may be expensive to small municipalities and cause significant increases to rates and/or cause potential problems related to debt financing. For transitional purposes, we would recommend that loans be made available to assist with these transitional costs. It is felt that loans are a better method of assistance than grants, as it ensures accountability for repaying the cost of any system upgrades. Subsequently, this program may require further review to address whether there is a need on a continuing basis, similar to the state revolving loan fund regime established under the federal safe drinking water law in the United States. This need would be dependent upon several factors (e.g. condition of individual systems, cost to implement and maintain commission recommendations, etc.) which may not be quantifiable at this time.

6. **That water service providers be required to keep accurate and up to date information on their physical assets. As well, that an assessment of the water system infrastructure be undertaken at least every five years. In conjunction with this asset condition assessment, that a long-term financial plan be developed for the maintenance, upgrade and replacement of infrastructure. In particular, the principles of sustainable asset management and lifecycle costing should be implemented to ensure that**

**proper management and replacement of physical assets of the water system are being carried out.**

The practices of monitoring the asset conditions, potential useful life, potential replacement costs, etc., represent good engineering management practices which should be followed by water service providers. We would note that most municipalities do monitor their systems and have detailed inventory information on their systems. For many smaller municipal systems, were constructed as part of the provincial initiatives since the late 60's/ early 70's and information on the system should be readily available. Larger municipalities with older systems generally have good inventory information on their systems resulting from GIS initiatives over the recent past and as a result of initiatives in the past such as WIMS (Water Information Management System) undertaken by many municipalities in the early 1990's. The OMWA/OWWA agree with the principles of sustainable asset management and lifecycle costing and recommend that these principles be included in regulations to ensure that proper management of the physical assets of the water systems are being carried out on a regular basis.

In regard to financial planning, many municipalities have addressed their short to medium term replacement needs via the capital budget process and use a combination of direct transfers from the operating budget, debentures and/or reserve transfers. Provision for longer term financial planning can be addressed through the establishment of lifecycle reserve funds. The OMWA/OWWA endorse the need to have all municipalities develop very long term financial plans to address their infrastructure replacement needs. However, the approach to how this financial replacement plan is developed should be left to the individual municipalities to decide. This would allow flexibility to consider alternative financing methods and to implement a plan which balances rates increases at affordable levels. If this requirement is regulated, the update of the assessment of the physical assets should be reviewed every four to five years and the financial plan be revisited in concert with this review.

- 7. Recognizing that the Commission may recommend watershed planning as a means of protecting source waters, a systems viability analysis should be performed and in conjunction with, or pending the results of, that analysis regulations should be developed that would permit municipalities to decide how to achieve a legislative obligation to have sufficient financial, technical, managerial and operational expertise and capacity through such options as hiring staff, retaining consultants, sharing resources with adjacent municipalities, voluntarily entering into amalgamations, or other inter-municipal arrangements.**

The OWWA/OMWA do support regionalization of smaller systems where the viability of the smaller system to protect public health and conserve public resources may not be sustainable. This issue is discussed at length in the OWWA/OMWA Issue Paper #8 submission. Viable systems are defined as self-sustaining systems that have the financial, technical, managerial, and operational expertise and capacity necessary to reliably meet all present and future requirements in a comprehensive manner that assures the continued delivery of safe drinking water. Given the number of small systems in Ontario, a system viability analysis to ensure all systems are self-supporting entities is needed. Accordingly, amalgamation of systems may be necessary to ensure

the viability of some systems. The problem, as outlined in the Commission's Issue 8 report, is likely the 89% of the plants which serve 11% of the population. In some instances, these plants/systems may not be viable and may be the cause of varying levels of service across Ontario.

A more detailed analysis is necessary to determine: where are the small systems; what are the costs to operate these systems; is regionalization with a nearby larger system feasible; can a number of small systems operate as a "larger" regional system to achieve economies of scale; how will the larger geographic area in Northern Ontario impact regionalization; does the smaller geographic areas and larger populations in the Southwestern and Eastern Regions make a consolidation of the systems more feasible.

**8. That all water service providers be required to undertake capital and operating budgets that forecast budgeted expenditures and revenue sources including rates over a minimum five-year period.**

Good financial management practices encourage forecasting of operating and capital budgets for longer periods than the current year. Employing longer term forecasting allows for better planning of the rates which users will face and encourages proper financing decisions on a year-to-year basis. These concepts have been advanced by Municipal Finance Associations such as the Municipal Finance Officers (MFOA) and the Association of Municipal Managers, Clerks and Treasurers (AMCTO) for almost two decades. The Province also encourages this practice. In March 2000, the Province circulated a "Capital Budget Handbook" to all Ontario municipalities which presents this process in great detail. The requirement to undertake longer term financial forecasting should be regulated to ensure that proper financial practices are undertaken by all water service providers.

**9. That dedicated revenues be mandated for public water service providers, requiring that all revenues be used for the benefit of the public water system and not for other purposes.**

While it is necessary to ensure that all costs of the water service are identified and recovered, it should also be recognized that water revenues should not be a source of financing for other services. While limited examples are known, there are instances where water service derived revenues are used to reduce property taxation. Water service revenues should only be used for water service expenditures. While certain charge backs to other departments may be reasonable in certain circumstances (e.g. for purchasing services, computer systems, etc.), water revenues should not subsidize any other programs.

**10. That the above recommendations be incorporated into new regulations and that a reporting structure be developed for ensuring the proper financial management of water systems in Ontario.**