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Constructing Ontario's Future

Financing Water and Sewer Systems in the Greater Toronto Area: What Should be Done?

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Fact Sheet

Findings and Observations

- The practice of financing water and sewer infrastructure has changed over the past 15 years.
- Federal and provincial grants have declined dramatically – from 12% of capital spending in 1995 to 1% in 2005 – while reliance on reserves and development charges have increased in relative importance.
- "Historically, annual asset replacement costs have been excluded from operating costs because municipalities relied on grants from senior levels of government (seen as free money to the municipality). This situation, by the way, is the same in most countries except for Australia and Brazil where water utilities are now required to recover a portion of capital costs from users."
- Water and sewer systems should be financed on the basis of benefits received. Here, the underlying principle is straightforward – those who benefit from a service should pay for it.
- To achieve fair and efficient pricing, water use has to be metered. An added advantage of metering is that it would permit water delivery agencies to get information about the leakage in their systems.
- As well, metering would allow variable rates to reflect differences in distance from source of supply and differences in the level of use according to season of the year or time of day.
- Municipalities should include asset replacement costs in annual operating costs.

- Financing water and sewer systems through reserves is asking current users to pay for infrastructure that will benefit future users. This creates intergenerational inequities and has the potential for leading to a level of capital spending that is not efficient.

- Borrowing makes better sense because the benefits from this infrastructure accrue to future users. As such, this form of financing is fair, efficient and accountable.

- Generally, municipalities impose an identical development charge on all properties of a particular type (single residential, or commercial, or industrial, for example). This fails to recognize that there are different costs associated with different locations or types of properties.

- For example, residential dwellings in low density neighbourhoods are levied the same charge as residential dwellings in high density neighbourhoods. This creates an incentive to over-develop low density housing and under-develop high density housing.

- Although there is little experience in Canada, evidence from the United Kingdom indicates that greater private-sector participation delivered an average savings of 17 to 20 percent compared to conventionally provided public infrastructure, even though private sector borrowing costs were higher. Similar results have been noted in other countries.

- “Because the private sector operates in a competitive environment, it is almost always more innovative in infrastructure design, construction and facility management when compared with the public sector.”

Recommendations

- Implement water prices based on volume used – to improve the efficient use of local resources and encourage conservation.

- Water prices should vary by time of day or season of the year.

- Annual asset replacement costs must be included in annual operating costs.

- Revenue bonds for borrowing should be permitted for all municipalities.

- Development charges should vary by neighbourhood or development.

- Greater use should be made of private-sector financing and procurement systems.