

2

WATERTIGHT – A REPORT OF THE WATER STRATEGY EXPERT PANEL

(Regional Council at its meeting on October 27, 2005, amended the following clause by adding the following recommendation:

- 3. A Council workshop be held as soon as possible regarding the Regional consolidation of water and wastewater services referred to in recommendation 1(c).**

The Transportation and Works Committee recommends the adoption of the recommendations contained in the following report, September 26, 2005, from the Commissioner of Transportation and Works:

1. RECOMMENDATIONS

It is recommended that:

1. Transportation and Works staff report back on any legislation or Provincial policy changes arising from the 'Watertight' report specifically related to:
 - a. Provincial approvals streamlining.
 - b. Delivery of water and wastewater services through a municipal corporation.
 - c. Regional consolidation of water and wastewater services.
2. The Regional Clerk forward this report to the Clerks of the local municipalities.

2. PURPOSE

This report is to provide the members of the Transportation and Works Committee and Regional Council with the summary of the findings in the 'Watertight' report.

3. BACKGROUND

The Expert Panel on Water and Wastewater strategy was convened by the Province in August 2004 to provide advice on the organization and long-term financing of Ontario's water and wastewater systems. The three panel members were:

- Harry Swain, Chair, formerly the Federal Minister of Industry and a past CEO of Hambros Canada.
- Fred Lazar, Associate Professor of Economics at York University.
- Jim Pine, CAO of Hastings County.

Biographies of the panel members are included as Attachment 1. The Panel focused on providing solutions on how to best and most economically deliver the high quality standards recommended by Justice O'Connor in the Walkerton Report (2000) also including recommendations regarding wastewater services. The research for the report began in 2004 and the report was released on July 22, 2005.

The Panel was mandated to recommend the best way to organize and deliver water and wastewater services to achieve these objectives, while ensuring continued public ownership of these systems. This objective was achieved by travelling to communities all over Ontario and soliciting the view of municipalities and individuals with an interest in the water sector.

The Panel's report provides recommendations on the future organization, governance, investment needs, pricing and financing of the province's water and wastewater systems.

4. ANALYSIS AND OPTIONS

The recommendations made by the Panel were grouped into the following categories:

- Structure, capacity and scale.
- Governance.
- Regulation.
- Timing and Funding.
- Pricing and Rates.
- Innovation.
- Ontario Clean Water Agency (OCWA).

The recommendations made in 'Watertight-Annex F' have been attached to provide the full text from the report (*see Attachment 2*). Those same results are summarized below.

4.1 Structure, capacity and scale

The Panel suggested that new relationships must be developed in order to provide services more cost effectively and efficiently. The Panel concluded that a locally-driven, bottom-up approach is needed with the municipal sector taking the lead in the changes. To provide more effective risk management, a broader rate base and increase access to improved technology, recommendations were made providing for the following:

- A regulated Ontario Water Board.
- Geographical based business plans driven by regulatory requirements of the Sustainable Water and Sewage Systems Act and the Safe Drinking Water Act.

- Amalgamation of smaller communities into a regional or county type structure that effectively becomes a single tier service delivery system including changes to the Municipal Act enabling this power.

York Region was identified specifically in this section, along with the regions of Waterloo and Niagara, as being the only remaining regional municipalities still operating under a multiple tier governance model. It was suggested that this model, in some cases, presents friction between the regional position and the local level. The Panel suggested that consistency needs to be brought into the multi-tiered arrangements and that the Municipal Act should be amended to give regional municipalities exclusive jurisdiction over all elements of the water and wastewater sector.

4.2 Governance

The Panel examined the question of whether water services should continue to be handled by municipalities that are overseen directly by a council. The Panel found that, in some cases, there are drawbacks to direct municipal governance, specifically in relation to under funding. The Panel further recommended that water services should be run in a corporate governance model with power being granted under the Municipal Act. A local water board should be created and the members of the water board should be appointed and drawn from both technical and political groups, with the recommendation being two thirds from private life and the remaining appointed from municipal council.

The finances of the board should be transparent and separate from the municipality as a corporation to prevent funding conflicts. The board should be responsible for metering, billing and collecting. The municipality should be priced at the same rate that other customers pay and all other transactions between the parties be priced at market value.

4.3 Regulation

The Panel has recommended the establishment of an Ontario Water Board, which would be a new regulatory body reporting through the Minister of the Environment (MOE). The Board's mandate would include the analysis and rule on water service business plans and compliance with quality management certifications. Information regarding compliance and business plans should be provided to the Water Board in fixed cycles, as well as being made available to the public. The Ontario Water Board members should be appointed and should not be static.

Regulatory changes recommended include:

- Amendments to the Safe Drinking Water Act to include licensing of wastewater operations using the model of the Drinking Water quality Management Standard.
- Any changes made to a system that has been licensed should not require any applications for approval provided the system continues to report compliance and business plans as required.

- More extensive training for MOE staff responsible for Inspections and Enforcement to help them understand the systems that they are inspecting or investigating.

4.4 Timing and Funding and Pricing and Rates

Consumers should pay the full cost of the services they consume, which will require extensive metering. The Panel sees this recommendation as leading to conservation of resources and the prevention of overbuilding infrastructure. Rate structures should be examined fully to ensure full cost recovery for service provision as well as the levying of development charges and the provision of subsidies. The Panel recommended that the Province have the ability to assume the costs for major industrial developments that will benefit the provincial economy as a whole. Additionally, wastewater facilities should be able to charge for septage handling and treatment.

The Panel recommended several financial options for the municipalities including the power to issue revenue bonds and establish government grant programs. A recommendation was made to make the Province responsible to take over systems that are considered to be unsustainable in a contract-type role.

4.5 Innovations

It is recommended by the Panel that the MOE take a more active role in research and development. They should devote additional resources on a continuing basis to assisting in the adaptation of innovative technologies and techniques for use in the water and wastewater sector. Additionally, the MOE should be taking a larger role in the training of water and wastewater operators and ensure that appropriate training is available in the smaller communities.

The Panel further recommended that the MOE should work more closely with the professional associations for the water and wastewater sector, such as the Ontario Waterworks Association and the Ontario Municipal Works Association, to assess the needs of the industry as it relates to staffing. As part of these assessments, the MOE should take a lead role in offering training and skills upgrading as necessary to sustain the workforce.

4.6 OCWA

The Panel suggested that the current structure and function of OCWA needs to be revisited. There is an implication that OCWA, while housing many technical resources, is an organization that has become top heavy and too centralized. Additionally, it does not operate with a satisfactory 'arm's length' from the MOE, with a governing board that consists of five deputy ministers and the heads of two provincial agencies. The Panel specifically recommended that OCWA be re-evaluated from a legislative perspective and be captured under the Ontario Business Corporations Act with the Province as a shareholder only. Staff from OCWA should also cease to be members of the Ontario Public Service.

5. FINANCIAL IMPLICATIONS

The Panel addressed the issue of the replacement of water and wastewater infrastructure briefly in their report. They estimate that Ontario's water and wastewater assets are valued at over \$72 billion, with \$20 billion in treatment plants and the remaining in collection and distribution systems. Over the next 15 years, the Panel estimated that an investment in Ontario's water and wastewater assets of upwards of \$30 to \$40 billion will be required just to preserve the existing infrastructure.

The Panel also examined the cost to date for the water and wastewater services in Ontario following the Walkerton tragedy in 2000. Changes to regulations and requirements have cost the Ontario municipalities upwards in \$800 million, with additional capital investments required. Operating, training and testing costs have gone up as well.

The Panel recommended several changes to water and wastewater services in Ontario to assist in the financial burden. Full cost user rates and reducing the multiple tier municipalities should assist in providing for their water and wastewater assets in the long term.

6. LOCAL MUNICIPAL IMPACT

The recommendations made by the Panel suggest that York Region should consider moving away from a two tier approach to water and wastewater services. Instead, York Region should move towards consolidation of services. Effectively, the local municipality would no longer be responsible for water and wastewater services, if the recommendations of the Panel were to be mandated. This is the current structure for municipalities in Durham, Peel and Halton Regions.

The "Watertight" report is, however, light on analysis regarding this issue. There are also costs to be considered with an upper-tier consolidation including, for example, duplication of billing, inspection and some overlap with emergency services (i.e. fire).

7. CONCLUSION

The 'Watertight' report made many recommendations on changes to the provision of water and wastewater services in Ontario. The Panel has recognized that water and wastewater service provision is becoming more costly as the infrastructure changes. The recommendation of full cost recovery for service provision and assets is not a new concept and municipalities should welcome the recognition and public exposure of this concept as presented by the Panel.

(The attachments referred to in this clause are attached to this report.)