

The logo features a stylized graphic of a city skyline with three buildings of varying heights. To the right of this graphic, the word "TORONTO" is written in a large, bold, sans-serif font. Further to the right, the words "STAFF REPORT" are written in a smaller, bold, sans-serif font.

TORONTO STAFF REPORT

May 31, 2002

To: Joint meeting of Policy & Finance and Works Committees

From: Chief Administrative Officer

Subject: Recommended Governance Structure for Water & Wastewater Services

Purpose:

To report the results of the study on public sector governance options for water and wastewater services, to request approval of a specific model and the development of an implementation plan for transition.

Financial Implications and Impact Statement:

Adoption of the recommendations in this report will result in an adjustment to inter- and intra-departmental charges and recoveries with respect to water and wastewater services, which will in turn have an impact on the property tax base. This impact is yet to be determined and in itself is not dependent on the governance model adopted.

In addition, there may be further impacts, both positive and negative, on the costs and revenues of both water and wastewater services and the tax base if centralized services are repatriated to the water and wastewater operations if that is the desired approach with the municipal service board model. These impacts can only be determined during the detailed implementation planning stage.

The Chief Financial Officer and Treasurer has reviewed this report and concurs with the financial impact statement.

Recommendations:

It is recommended that:

- (1) Council endorse the municipal service board model for water and wastewater services as described in this report, with the following key characteristics:
 - The City is the employer,
 - Council appoints the board,

- The board comprises a mix of Councillors and expert citizens,
 - Council approves annual operating budgets and multi-year capital programs,
 - Council approves the water rate;
- (2) the CAO report back to Policy and Finance Committee in November 2002 with a detailed implementation plan, including an effective implementation date, using the process outlined in this report;
 - (3) the CAO continue to monitor developments in provincial legislation respecting the City's authority to create a municipally-owned not-for-profit corporation for water and wastewater services and report back on any opportunities arising out of those developments that Council may wish to consider;
 - (4) the current review of inter- and intra-departmental charges be undertaken with a view to ensuring the services provided meet the business needs of Water and Wastewater Services;
 - (5) service-level agreements be initiated for charge-backs to Water and Wastewater Services;
 - (6) the current review of inter- and intra-departmental charges include the development of a policy on payment for water and wastewater services by City Departments, Agencies, Boards and Commissions; and
 - (7) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Background:

In October 2000, the Chief Administrative Officer and CUPE Local 416 were requested by Council to comment on a motion of Councillor Jakobek's that the Chief Administrative Officer develop a Feasibility Plan for the creation of a publicly-owned Water and Wastewater Utility Corporation. In January 2001, the Policy and Finance Committee received communications from CUPE Locals 416 and 79 relating to this proposal, which the Committee referred to the CAO for comment.

At its meeting on November 6, 7 and 8, 2001, Council adopted, with amendment, the Chief Administrative Officer's recommendations to undertake a study of public sector governance options for water and wastewater services. The CAO was directed to report back to a joint meeting of the Policy & Finance and Works Committees in June of 2002.

The goal of the study was to determine the governance structure which would best serve Toronto's long-term water and wastewater needs. This was not a response to any perceived operational or management problem with the City's water and wastewater services; it is well-recognized that Toronto's water system performs well above the standards set for it, and management has been pro-active in seeking efficiencies while maintaining and improving those standards. Nor was the study driven by a desire to hand over this important municipal service to

the private sector. Rather, the impetus for this study derives from the need to ensure the continued high level of performance of the system in the long-term. It is a matter of good management practice to undertake a regular cycle of reviews of all city services.

The key issues identified by Toronto's Water and Wastewater Services division were significant long-term infrastructure investment requirements, recent and anticipated changes in the legislative environment, the unavoidable need for future rate increases to achieve full-cost recovery, and a desire for greater strategic policy focus on water and wastewater issues. Alternative governance structures were to be reviewed and evaluated against the status quo.

This report describes the results of the above-noted study in the context of the current issues and legislative environment for municipal water & wastewater services. It outlines the study methodology, the current legislative environment, the current situation of Toronto's water & wastewater services, and the key issues and objectives for water and wastewater. The report then goes on to identify and evaluate the options under consideration, describes the preferred option and proposes development of an implementation plan for transition.

Comments:

(1) Study Methodology:

The study team was led by the Chief Administrative Officer, in collaboration with the Commissioner of Works and Emergency Services and the Treasurer and Chief Financial Officer. The study was conducted by staff of the Strategic and Corporate Policy Division in the Chief Administrator's Office in conjunction with staff from Water & Wastewater Services and with input from a variety of City departments, notably Corporate Services, Finance, Public Health and Works and Emergency Services.

The study workplan comprised:

- research into the practices of other jurisdictions;
- a review of existing and new provincial legislation;
- an identification of the available options and their primary characteristics;
- an identification of the City's public policy, financial and administrative objectives;
- an evaluation of the available options in the context of the identified objectives;
- the selection of a preferred option; and
- the identification of implementation steps for transition to the preferred option.

The study also included consultation with affected bargaining units, the general public and stakeholder groups, specifically environmental groups, service suppliers, industrial users and neighbouring municipalities. The consultations focussed on the identification of objectives for the City's water and wastewater services, and served a secondary purpose of educating the public and stakeholder groups about the City's water and wastewater services and about the study. A study web-site was launched, and all reports and other information about the study were posted there. A dedicated e-mail address and phone, fax and TTY lines were established, and members of the public were encouraged to submit comments. Issues raised at the consultations were considered in the course of this review, and the main themes are summarized in Appendix 1.

(2) The Provincial Landscape:

▪ Walkerton Inquiry

In May 2000, the drinking water in Walkerton, Ontario became contaminated with a deadly strain of *E. coli* bacteria. Over 2,000 people in the town became ill and seven died. The Provincial government responded by calling an Inquiry, appointing Dennis R. O'Connor, a Justice of the Court of Appeal for Ontario, Commissioner. The Commission's mandate was to inquire into the cause of the tragedy and to make recommendations to ensure the safety of drinking water in Ontario.

The Inquiry was divided into two parts. Part 1 related directly to the events in Walkerton and the circumstances that caused the outbreak, including the effect of government policies, procedures and practices. The Part 1 Report was made public on January 18, 2002. The Commission's Part 2 Report, containing recommendations for the future safety of drinking water in Ontario, was released to the public on May 23, 2002.

The majority of the 93 recommendations contained in the Part 2 report relate to source water protection, health and safety standards, and operator training. Chapter 10 of the report focuses on the role of municipal government in the delivery of water services, and identifies the key financial issues which our study has also addressed. The chapter describes the governance options available to municipalities in Ontario, and notes: "There is no one-size-fits-all solution." In fact, in light of recent municipal restructuring, ongoing changes to the water industry, and the recommendations of the Walkerton Inquiry, Justice O'Connor recommends that:

"Municipalities should review the operating and management structure for their water system to ensure that it is capable of providing safe drinking water on a reliable basis."
(*Recommendation 44*)

Justice O'Connor cites three options for municipal management of a water system. Identical to the options studied in this review, they are:

- municipal department (or division)
- public utilities commission (or municipal service board, *Municipal Act (2001)*)
- municipally owned corporation

Justice O'Connor does not recommend one option over another.

▪ Bill 155 (Full-Cost Accounting and Full-Cost Recovery)

Provincial Bill 155, titled the *Sustainable Water and Sewage Systems Act, 2001*, received first reading December 12, 2001, and is endorsed by Justice O'Connor in the Walkerton Inquiry Part 2 report. The Act would apply to all regulated entities (including municipalities) that provide water and/or wastewater services to the public, and is meant to ensure that water and wastewater systems generate sufficient revenue to recover fully all their long-term operating and capital costs. The Act requires system owners to undertake a full accounting of the costs associated

with delivering the services, and to submit these Cost Reports to the Minister of Municipal Affairs and Housing for approval.

The Act specifies that the full cost of providing these services includes “operating costs, financing costs, renewal and replacement costs and improvement costs associated with extracting, treating or distributing water to the public and such other costs as may be specified by regulation.” Service providers will also be required to submit for ministerial approval a Cost Recovery Plan for recovering all costs identified in the Cost Report.

The Act is intended to ensure that the age and condition of assets and associated infrastructure investment needs are fully understood; to ensure long-term planning and life cycle asset management practices; and to ensure that all revenues collected for water and wastewater purposes are used for water and wastewater expenses.

It is not known whether this Bill will remain on the legislative agenda in 2002, or if it will be re-introduced with amendment at a future session of the Legislature.

- Ontario SuperBuild

Ontario SuperBuild is a five-year initiative of the province to improve capital planning and priority setting across the province. The Ontario SuperBuild Corporation, which implements the program, is an agency of the Ministry of Finance. In August 2000, SuperBuild was directed to “guide the development of a long-term water and sewer infrastructure investment and financing strategy” for Ontario. Full-cost recovery is one of the principles underlying this strategy.

In preparation for the development of a position paper, SuperBuild awarded contracts for eight studies on different aspects of water and wastewater systems, infrastructure, organizational form, pricing and financing. These commissioned studies were expected to be published in the spring of 2002, but have not yet been completed.

- Municipal Act

The *Municipal Act* is the key piece of legislation under which municipalities in the province operate. The Ontario Legislature gave Royal Assent to a new *Municipal Act* on December 12, 2001. The new Act will replace the existing *Municipal Act*, which dates from the mid-nineteenth century. With the exception of two sections immediately proclaimed into force, the new Act will not come into force until January 1, 2003. The new Act repeals most of the existing *Public Utilities Act* (PUA); in particular it repeals those sections of the PUA which permitted a public utility commission to operate a municipal water service. Under the new *Municipal Act*, a municipal service board (described in detail later in this report) is permitted as a new mechanism for the delivery of water and wastewater services.

(3) Toronto’s Water and Wastewater Services:

The Water and Wastewater Services division (W&WW) of Works and Emergency Services supplies potable (drinkable) water to all Toronto residences and businesses and collects and

treats all wastewater, both sewage and stormwater. In addition to providing service within the City of Toronto, the Division supplies water on a wholesale basis to the Region of York and, under a reciprocal arrangement, treats wastewater from a portion of the Region of Peel and the Greater Toronto Airport Authority.

The Division operates four water treatment plants, four wastewater treatment plants, two central laboratories, seven plant-specific laboratories, 10 water storage reservoirs, 18 water-pumping stations and 45 wastewater-pumping stations. There are over 5,000 kilometres of watermains in the City's water distribution system, and about 10,000 kilometres for wastewater collection. These assets are valued at almost \$20 billion. The Division employs over 1,600 workers, 85 percent of whom are represented by CUPE Locals 416 and 79.

(a) Drinking Water Quality and Public Health

In Canada, the federal government has joint responsibility with provincial and territorial governments to establish guidelines for drinking water quality. Each province and territory develops its own measures based on these guidelines. In Ontario, the Ministry of the Environment (MOE) administers the *Ontario Water Resources Act* and the *Environmental Protection Act*. The local Medical Officer of Health, through the *Health Protection and Promotion Act*, is responsible for protecting public health from hazards including those arising from pathogens and contaminants in drinking water.

The Province of Ontario's new Drinking Water Protection Regulations (DWPR) were enacted in August 2000 in direct response to the Walkerton tragedy. The Regulations require mandatory testing and treatment of drinking water, the use of accredited laboratories and licensed staff for testing, and that all water treatment plants undergo independent assessments to verify compliance with the Regulation and identify required improvements. The MOE has also implemented a program of annual inspections under its new Sewage and Water Inspection Program. These procedures to ensure drinking water quality were endorsed by the City Auditor in a review prepared in January 2001. The City of Toronto's water supply consistently meets or exceeds the new Provincial water quality guidelines, its labs are accredited and routinely pass all inspections, and its testing staff are appropriately licensed.

W&WW works with Toronto Public Health (TPH) under the terms of a formal agreement in order to ensure that, in accordance with the requirements of the DWPR, TPH is among those notified in the event of a test showing adverse water quality. TPH also receives all daily bacteriological testing data from W&WW. TPH and Water & Wastewater Services are both first points of contact in the case of inquiries and complaints from the public, and they have implemented an agreement which clearly sets out roles, responsibilities and response protocols.

In the event of a "major water quality event", where water quality is compromised on a very large scale, the Medical Officer of Health plays an important role. That role is detailed in an Adverse Water Quality Incident Response protocol. TPH is currently working with W&WW and the MOE to develop a Local Water Quality Advisory Group in accordance with the guidelines for implementation of a Boil Water Advisory, and TPH and W&WW are jointly developing a communications plan pertaining to water quality issues in general. TPH plays a

significant research and advisory role in the development of key policy instruments such as the City of Toronto Municipal Code Chapter 681, Sewers (the sewer-use by-law) and initiatives such as the biosolids pelletizing plant at Ashbridges Bay.

Responsibility for monitoring water quality along Toronto's 14 waterfront beaches is also shared between W&WW and Toronto Public Health. Staff of W&WW take samples from each beach four to seven times each week during the summer months (from early June through to Labour Day Weekend). The samples are sent for analysis to the Ministry of Health, which provides the data to Toronto's Medical Officer of Health. It is the Medical Officer of Health who is responsible for posting notices at Toronto's beaches if they are deemed unsafe for swimming due to elevated bacteria levels.

(b) Protection of the Environment

Regulations enacted (e.g. under the *Ontario Water Resources Act*) are part of a broader package of environmental laws and natural resource management practices overseen by federal, provincial and municipal governments. In Ontario, for example, the Ministry of the Environment (MOE) administers several significant environmental statutes that directly impact source water quality and the ability of local authorities and other stakeholders to safeguard local watersheds. These statutes include the *Environmental Protection Act*, the *Environmental Assessment Act*, the *Environmental Review Tribunal Act 2000*, the *Drainage Act*, and the *Pesticides Act*.

The Ministry of Natural Resources also plays an important role in the regulation of drinking water quality and watershed management in Ontario through its administration of the *Conservation Authorities Act*. This act provides the legal basis for the establishment of the province's 36 conservation authorities. The function of these local environmental agencies includes the mitigation of potential flood damage and watershed management. As an advocate and steward of the local watershed, for example, the Toronto and Region Conservation Authority (TRCA) provides technical expertise, works with volunteer groups to improve the health of the watershed, and manages a network of conservation areas to promote enjoyment of natural areas and awareness of conservation issues.

The City of Toronto enjoys a close relationship with the TRCA. The City appoints 14 of the TRCA's 28 board members and makes an annual contribution towards the TRCA's operations and capital projects. In 2002, the City will contribute over \$5.4 million from general revenues towards the TRCA's operations and over \$5.7 million for capital projects. The contribution to capital projects is supported by a combination of general revenues (\$3.4 million) and water rates (\$2.3 million). TRCA watershed management initiatives financed by the City include groundwater studies, watershed monitoring and erosion control. At the planning level, the TRCA, along with other watershed groups and the general public, is working with the City to develop a wet weather flow management master plan (WWFMMP) to reduce, and ultimately eliminate, the adverse effects of wet weather flow on the built and natural environment.

(c) Political Interface

W&WW reports to Council through the Works Committee. Consistent with all divisions within the City structure, W&WW must report to Council on all policy, budget and financial matters, as well as on any major changes to operations. The awarding of contracts requires approval by either the Bid Committee, the Works Committee or Council, depending on the circumstances, including the value of the contract.

In February 2002, Council appointed a Water Advocate, with the mandate to act as the chief political liaison with government and non-government organizations and agencies on matters dealing with water issues, to act as the lead representative on Council with respect to long-range water and wastewater planning initiatives, to promote public education on water and wastewater issues, and to champion water and wastewater improvement initiatives.

(d) Administration

W&WW is fully integrated into the City's structure. It is one of seven divisions of the Works and Emergency Services Department (WES). WES provides technical and support services to W&WW through its Technical Services and Support Services divisions. The Finance Department provides meter reading and billing services and maintains the customer service function for billing inquiries. It also provides financial analysis for rate determination, and a range of centralized financial services which are provided to all City departments. The Corporate Services Department provides services through its Legal, Information and Technology, Human Resources, Facilities and Real Estate, and Fleet Services divisions, as well as the City Clerk's Office. A detailed list of services provided to the Water and Wastewater program can be found in Appendix 2. The Water and Wastewater program is charged for most of these inter- and intra-departmental services and these charges are in turn reflected in consumer rates, as are corporate charges allocated to the division for general overhead. A full discussion of the charges applied to W&WW for direct services and corporate overheads appears later in this report.

(e) Finances

The Division's revenues are derived from user fees for water consumption and sewage treatment, and not through property taxes. In 2002, the projected revenue from all fees and charges is \$486.3 million. Revenue not allocated to operating expenditures is applied to Council-approved capital programs. The City maintains a Water and Wastewater Capital Reserve Fund in which funds are held for the purpose of moderating the program's capital pressures from one year to the next. When capital requirements exceed available current capital allocations from revenues, funds are drawn from the reserve and similarly, when surplus revenues are available, or under-expenditures occur, a contribution is made to the reserve. The balance in the Capital Reserve Fund on December 31, 2001 was \$100.1 million, the bulk of which was pre-committed for capital projects that were carried forward from 2001 to 2002.

The City also maintains Water and Wastewater Stabilization Reserves for the purpose of receiving revenue surpluses. These Reserves act as a source of funds to stabilize the impacts on the water and sewer rate resulting from variations in consumption from year to year. The Stabilization Reserves had a combined balance of \$44.7 million on December 31, 2001.

Of the \$486.3 million projected revenue in 2002, approximately \$337.4 million represents operating expenses, including \$12.0 million in payments to the City in lieu of property taxes, and \$25.4 million in debt charges (comprising interest and payments against principal). Consequently, \$148.6 will be available to be contributed to and drawn out of the reserves.

The approved 2002 budget for Capital Programs is \$271 million. In years when debt is required to achieve W&WW's approved capital program, the City of Toronto debentures on behalf of W&WW, but all related debt charges are paid for through revenues derived from the water rate.

(f) Service Improvements

The Division has embarked on two major programs to reduce its direct operating costs over the next few years. The Works Best Practices Program, started in 1996 by the former Metro Toronto and currently in Phase 2, will see the implementation of new technologies, work practices and organizational structures in the operation of the treatment plants. The program is structured to achieve annual operating savings of \$36.2 million beginning in 2004.

Through its proposed District Service Improvement (DSI) project, W&WW will implement new work practices and technology upgrades to achieve further efficiencies in the division's non-plant operations. The implementation of DSI, if approved by Council, would be complete by the end of 2004. The division estimates that this program will generate additional annual operating savings of \$12 million by 2005.

The costs of both the Works Best Practices Program and the DSI project are funded through the Water and Wastewater Capital Program, as approved by Council each year.

W&WW is also implementing an extensive asset inventory and management system. The system is designed to collect information that can be used to determine the state of the City's water and wastewater infrastructure, which in turn can guide decision-making to ensure long-term sustainability, reliability and integrity. It is expected that this program will be completed by the end of 2003.

In June 2002, the Commissioner of WES and the Chief Financial Officer and Treasurer will be reporting out on a recommended strategy for replacing the ageing meters across the City as well as introducing a uniform, automated meter reading technology. The introduction of a uniform, automated reading technology will significantly reduce operating costs, while enhancing customer service. The replacement of ageing meters will allow for more accurate measurement and billing of water consumption.

Other Current Initiatives:

- A 25-member, multi-stakeholder Steering Committee is guiding the development of a Wet Weather Flow Management Master Plan, and a report recommending a city-wide strategy is expected to be submitted to Council in the fall of 2002. Early cost estimates for implementing such a strategy are in the hundreds of millions of dollars, with a timeline spanning decades.
- The recently completed Western Beaches Tunnel is designed to reduce stormwater pollution reaching Lake Ontario by catching and storing the overflows from combined storm and sanitary sewers following heavy rainfalls. The cost of this project is approximately \$55 million.
- In order to eliminate the need for sewage sludge incineration at the Ashbridges Bay Treatment Plant, W&WW has been working to implement the preferred method of beneficial use of biosolids. The cost of new facilities for this project was approximately \$90 million.

All of these programs have significant costs, primarily capital, associated with them. They will, however, achieve substantial benefits, either by way of sustainable operating cost savings, increased reliability of data needed for long-term planning, or improved source water and environmental protection.

(4) Issues:

(a) Business Issues:

- Infrastructure Investment Requirements

Municipalities across North America are operating with an ageing water and wastewater infrastructure and the City of Toronto is no exception. In addition to regular maintenance and upgrades of treatment plants and other aboveground facilities, the underground watermain and sewer systems require immediate and ongoing investment in order to continue to ensure security of supply, high quality water and environmental responsibility.

More than 50 percent of Toronto's water distribution system and about 30 percent of its sewer system is greater than 50 years old, with eight percent of the watermain network and three percent of the sewer system being greater than 100 years old. The expected life of underground networks is between 80 and 100 years, and an ongoing replacement rate of one percent per annum would be optimal. Capital budgets from 1999 to 2001 only allowed for replacement at the average rate of 0.5 percent for watermains and 0.35 percent for the sewer system.

Analysis undertaken by Water & Wastewater Services in the fall of 2001 indicated a need for an average water and sewer main renewal expenditure of about \$195 million per year for the next 10 years. In light of that analysis, the Commissioner of Works and Emergency Services recommended an infrastructure renewal strategy based on gradual increases in renewal rates to a new level by 2008, after which the renewal rate would remain constant to the year 2025.

Accordingly, Council approved a 2002 capital budget for W&WW which included an expenditure on water and sewer mains of \$53.8 million, an increase of 14.5 percent over 2001 for that category of capital spending. The capital infrastructure investment demands of this program are the basis on which Council implemented a nine percent increase in the water rate for 2002.

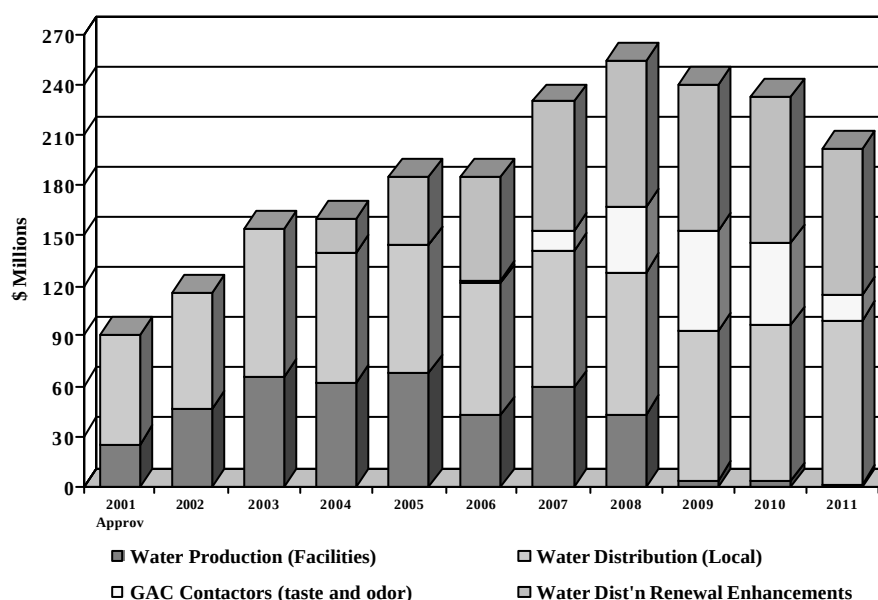
In addition to the renewal and replacement of existing water and sewer infrastructure, the Division has identified as a priority the Wet Weather Flow Management Master Plan, putting even greater pressure on the Division's Capital Program.

W&WW projects total annual capital spending needs ranging from \$400 to \$470 million per year over the next ten years, as compared to the 2002 approved capital budget of \$271 million. The following charts provide a detailed representation of these water and wastewater infrastructure requirement projections.

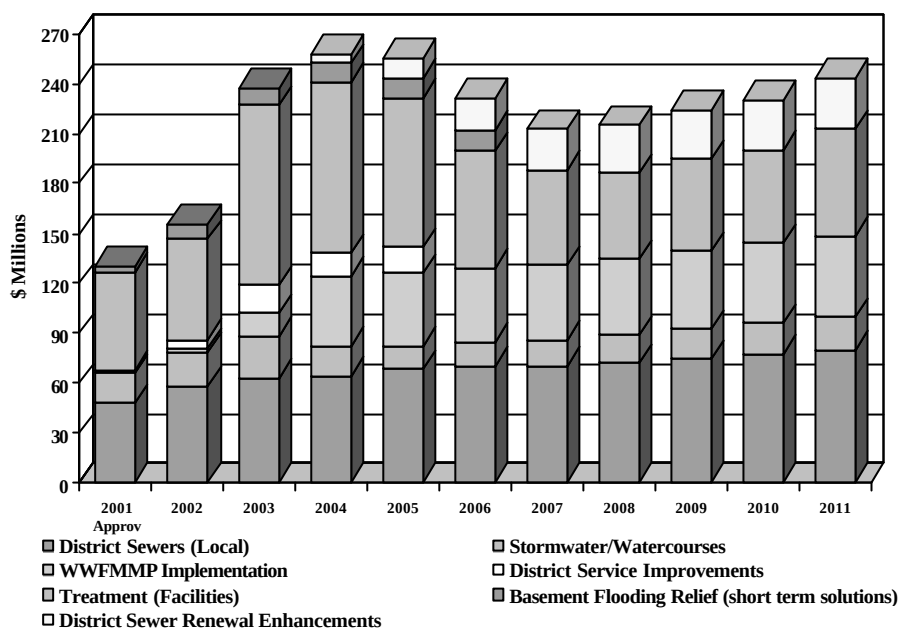
It is standard practice to say that municipalities can cover the costs of their capital programs three ways: through fees and charges as described above, through funds accumulated over time in reserve funds, and through the issuance of debt. In fact though, in the absence of federal or provincial subsidies, all three of these methods amount to financing our capital programs through the water rate, as reserve funds simply represent rates collected in past years, and debt must be paid off with rates collected in future years. The key is to achieve the appropriate balance between past, present and future, in order to mitigate the need for large rate increases in any particular year. Unfortunately, Toronto's Water and Wastewater Capital Financing Reserve Funds are nearly depleted at the present time, limiting the availability of revenue sources to current rates and debt financing.

Adequate maintenance of the water and wastewater system requires a long-term planning cycle and a commitment to building reserve funds to pay for replacement and improvements in the future. To ensure ongoing confidence that the system can guarantee sufficient supply and high quality water in the future, there must also be assurance that sufficient funding will be available as needed.

WATER - 10 YEAR CAPITAL PRESSURES



WASTEWATER - 10 YEAR CAPITAL PRESSURES



In recent years, Council has chosen to limit both increases in water rates and levels of new debt, thereby limiting the funds available for capital spending and deferring infrastructure investment. Continuing to defer capital expenditures increases the risks of:

1. increased maintenance and repair costs;
2. reduced ability to co-ordinate planned underground infrastructure projects with road and transit construction
3. continued inability to meet the demands of residents and businesses to resolve pressure problems and to replace lead and galvanized pipes;
4. continued inability to resolve the environmental issues related to combined sewer overflows and stormwater management; and
5. increased disruption to the system as unforeseen failures occur.

■ Rates and Full-Cost Recovery

Water and Wastewater Services' operating and capital budgets are funded through revenues generated from water rates, sewer surcharge rates, development charges and the bulk sale of water to the Region of York. From the time of amalgamation to 2001, Council approved annual rate increases at about the rate of inflation. For 2002, City Council approved an increase in the water rate of 9 per cent, comprising a 5 percent increase for a wide range of capital improvements, and an additional 4 percent for an accelerated pipe renewal program. This rate increase applies to all volume-based charges, including sewer surcharges for industries discharging over-strength waste.

Water and wastewater systems are meant to be self-sustaining, neither paying nor receiving subsidies. Charging the full cost of water and wastewater services through rates and other user fees supports the short- and long-term needs of the system and, consistent with other

conservation efforts, sends the appropriate price signals to customers. Economic development objectives play a countervailing role in rate setting, resulting in the implementation of different block-rate structures for residential and industrial users.

In calculating “full cost” for the purposes of cost-accounting and cost-recovery, the life-cycle costs of all assets must be added to the current operating and capital requirements of the water and wastewater service. The new Asset Management System to be implemented by W&WW will provide the detailed information required to establish the long-term costs of maintaining and renewing the system’s assets.

In an integrated municipal administrative structure such as is currently the case in Toronto, costing also involves the determination and allocation of a complex series of direct and indirect costs and corporate overheads, representing services provided, which should be charged back to water and wastewater services.

An additional issue for the calculation of “full cost” is the determination of the bundle of services that fall within the purview of water and wastewater. In Toronto, consistent with the view of many environmental organizations as well as the Toronto and Region Conservation Authority, water and wastewater services include stormwater management and contributions to watershed conservation and source water management. This is also consistent with comments made by Justice O’Connor in the Walkerton Inquiry Report Part 2, though the appropriate level of a municipality’s contribution to what he refers to as “environmental costs” may be open to debate.

▪ Inter- and Intra-Departmental Services and Charges

The structure of W&WW is built around its core operations. The division does not have its own support functions such as accounting, clerical, human resources or information technology, nor does it manage its meter reading, billing and customer service functions or produce its own engineering designs and surveys for capital projects. W&WW receives and is allocated costs for these services from other City departments and divisions. (See Appendix 2 for a list of services.) The majority of these services are required for day-to-day operations, while some of the services, notably those provided by the Technical Services division of Works and Emergency Services relate to capital projects.

As a division within the City structure, W&WW is required to purchase its support and non-core services from within the City, rather than purchasing them from outside sources. With the exception of a recently negotiated agreement with the Facilities and Real Estate Division for security, caretaking and rental property maintenance, there are no formal agreements in place to set expected levels of service and pricing guidelines for internally-provided services. There is little control that Water and Wastewater management can exert, for example, over scheduling for services provided by others, even when they are dependent on these services for the timely completion of W&WW work.

In 2002, approved charges to W&WW for internally-provided services total \$78.4 million. This figure includes \$54.5 million in charges for direct services and \$0.8 million contribution to the City’s Insurance Reserve Fund, as well as a \$23.1 million in corporate allocation for overhead

costs for the division and the overhead allocations related to the centrally-provided services they consume. \$78.4 million represents 23.2 percent of the division's operating budget of \$337.4 million. If one were to net out the chargebacks for Technical Services (which should rightly be charged against W&WW's capital program), the administrative cost ratio is reduced to 19.6 percent.

According to a 1999 survey by the American Water Works Association, administrative costs for medium to large-scale water and wastewater operations in the U.S. ranged from 17.5 to 34.0 percent of operating budgets. While comparisons of this type are always questionable, it is interesting to note that Toronto places in the low-middle end of the range. According to research provided by Strategic Alternatives for the City, Toronto also falls in the low-middle range of a selected sampling of Canadian municipalities.

That being said, a number of issues bear investigation. The rationale for determining the allocation of \$23.1 million for corporate overhead costs has been lost to history. It is imperative (and the policy objective behind Bill 155 reinforces this) that an accurate accounting be made for all costs attributable to water and wastewater services. It is therefore essential that a detailed, zero-based determination of these charges be undertaken.

In order to determine the appropriate level of charges for services supplied to W&WW, the Chief Financial Officer and Treasurer organized an interdepartmental group to review the services provided and allocation methodologies applied. The work was co-ordinated with the corporate team that is beginning a review of Inter-Departmental Charges (IDCs) across the corporation, as directed by Council. This effort also relies on input from the Ontario Municipal CAO's Benchmarking Initiative (OMBI) concerning the allocation of indirect costs, which provides consensus guidelines for determining costs to be allocated and appropriate cost drivers for determining allocations in various service areas. In the future, full development of OMBI cost allocations may enable the comparison of costs on a service-by-service basis to other municipal water services.

The preliminary findings of this review indicate that some interdepartmental charges to W&WW may be overstated while others are not charged at all. However, the conclusion of the review, based on the preliminary findings of the inter-departmental team, is that while a number of adjustments may be appropriate to the individual charges, the aggregate level of charges in the budget is a reasonable reflection of the cost and volume of the services provided. The potential for adjustment falls well within the probable accuracy of the analysis at this time. Further refinements may occur as the City proceeds with its corporate review of IDCs.

It would be beneficial for W&WW to be able to compare its costs on a service-by-service basis to other municipal water services. Until a more detailed analysis of such charges is available, no meaningful service-by-service comparison can be made.

While adjustments to IDCs and overhead allocations would normally be a purely administrative matter, the situation is different with respect to W&WW because of the need to ensure that water and sewer rates are used only for the provision of water and wastewater services. Where it is determined that the charges are to be adjusted, there will not only be an impact on the W&WW

budget, but there will be a corresponding impact on the tax base as well. For this reason, significant adjustments to IDCs and/or corporate overhead charges may need to be phased-in over time.

- Inter-Departmental Recoveries

W&WW currently recovers the cost of water services supplied to some City services but not others. Services that have been identified as non-paying, large-volume water users are Parks and Recreation, Transportation Services and Exhibition Place. W&WW estimates the combined value of water used by these services to be \$2.6 million. Fire Services also is a large-volume user, served mainly through the provision and maintenance of the fire hydrant system. Unfortunately, there is currently no validated estimate of the value of the water services used for firefighting across the City. It is an interesting and important policy question, whether water supplied to other municipal services should be borne by the tax base or shared among all water users through the water rate. A review of policies in this regard in selected municipalities in Ontario (see Appendix 3) indicates no clear municipal position on this issue. The current review of inter- and intra-departmental charges should include the development of a policy on payment for water services used by all City departments, agencies, boards and commissions.

- Corporate-wide Administrative Policies and Procedures

As a division within the City structure, W&WW is bound by all City administrative policies and procedures. These are policies and procedures which have been developed to apply across the board to all City services, and therefore are not tailored to address the needs of a particular “business” such as water and wastewater services.

For example, procurement procedures have been cited by W&WW as one factor among others contributing to delays in the implementation of their capital program. The process is currently under review by the City Auditor, who will be assessing the procedures in terms of their effectiveness in ensuring a fair and cost-effective process that meets the needs of the operational and business requirements of the "client" departments.

Other City-wide policies include human resource and labour-relations policies. In W&WW, as well as other operating divisions, the ability to enter into industry-specific side-agreements with the bargaining units representing their workforce would assist with introducing new work processes and gaining operational efficiencies.

(b) Need for Strategic Focus

As described elsewhere in this report, W&WW is currently facing a number of public policy issues that need a concentrated effort to fully understand, to connect to impacts on future operations, and to commit to long range planning and development.

The Works Committee meets monthly with a large agenda covering many important City service issues. Any meeting could be focused on a particularly pressing issue in another service area under the Committee’s purview. At Council, water and wastewater services is only one of 39

businesses requiring attention and decision-making. Only the most contentious water and wastewater issues receive full public debate when having to compete with other service areas. That is not to say that the most important water and wastewater issues do not receive attention. Committee and Council both take the time and attention necessary for the highest priority issues. However, many of the water and wastewater issues, when compared to others at any given time, do not top the political priority list. This is an indication that the system operates effectively with no major problems. However, it also makes it difficult for Councillors to fully appreciate the system's needs and priorities.

Council's recent appointment of a Water Advocate is a positive acknowledgement of the importance of water issues. However, no matter how dedicated and hard-working the Advocate may be on these issues, they still represent only one of 45 voices at Council. Because water and wastewater services is one of the most important services the City provides, a decision-making body with attention focussed on water and wastewater issues would be appropriate.

Similarly, the public service within water and wastewater services needs to develop a greater capacity for public policy development. In the past, attention to operational matters has been paramount. This focus has ensured that the system continues to operate at standards well above the required levels and is commendable. However, water and wastewater services will also need to address emerging public policy issues and creatively consider new approaches to addressing environmental concerns.

(c) Other - International Trade Agreements

During the consultation process, some individuals and organizations raised the issue of the vulnerability of municipal services and regulatory authority under the North American Free Trade Agreement (NAFTA) and the General Agreement on Trade in Services (GATS). In particular, they raised the spectre of possible trade challenges under NAFTA Chapter 11 and under the market access and national treatment provisions of GATS if water and wastewater services were to be provided through an arm's length mechanism.

As the Chief Administrative Officer reported to the Policy and Finance Committee in September 2001, the possibility that any of Toronto's services or regulations could be challenged under GATS cannot be dismissed with complete certainty. For this reason, Council endorsed, at its meeting on October 2, 3 and 4, 2001, a resolution by the Federation of Canadian Municipalities calling on the federal government to protect municipal services and regulatory authority in the course of its international trade negotiations.

Review by CAO staff reveals no indication in the provisions of either NAFTA or GATS that the structure of governance under which the City maintains a service has any bearing on the degree of vulnerability which may be experienced. The City of Toronto operates its water and wastewater service as a monopoly (there is only one service provider), and will continue to do so whether it is governed through a municipal department, through a municipal service board or through a municipally-owned corporation.

The NAFTA challenge examples cited by those who raised this issue represent situations where municipalities had entered into or were about to enter into relationships with the private sector for operations of entire treatment plants and/or systems. This has always been a service delivery option for the City of Toronto's water and wastewater services, but has never been under consideration before, nor is it now under consideration as part of this governance review.

If Council wishes a review of the implications of international trade agreements on water and wastewater services with respect to the governance model that it approves, the City Solicitor could review the trade agreements and report back on this issue at the same time that the implementation report is submitted.

Summary of Key Issues

In summary, the key issues for W&WW are:

- the need for significant infrastructure investment and the attendant need for secure financing;
- the unavoidable need for future rate increases to achieve full-cost recovery;
- the need to rationalize the system of inter-departmental charges and recoveries;
- the need for administrative policies and procedures that match the business needs of the service; and
- the need for increased strategic focus on water and wastewater issues.

The need to resolve these issues is the catalyst for this study, and any governance option that is considered must be evaluated against this goal.

(5) Key Desired Characteristics for Water & Wastewater Services:

Through the study's research and consultation processes, characteristics of an ideal water and wastewater service were explored and refined. These characteristics can be classified under four broad objectives:

- Accountability and Public Transparency
- Quality Assurance and Environmental Responsibility
- Efficient and Effective Management
- Capacity for Innovation and Flexibility

What follows is a brief description of the key characteristics under each objective and of the related issues that have been identified:

- Accountability and Public Transparency

Throughout the consultation process, the strong public service mandate of the City's water and wastewater services was reinforced, and the attendant need for clear lines of accountability to the public. Many members of the public felt that direct access to the decision-makers was crucial, and they reinforced Council's already-stated position that the service must remain in the public domain.

Open meetings, published agendas and reports, a high level of public involvement, and elected officials at the helm were the key characteristics identified under this objective.

▪ Quality Assurance and Environmental Responsibility

The mandate of Toronto's water and wastewater service is "to provide quality water services to the community in order to protect public health and safety and the environment".

The paramountcy of drinking water quality, the effective treatment of water returned to Lake Ontario, the promotion of water conservation, and continued participation in watershed issues were the key characteristics identified under this objective.

▪ Efficient and Effective Operations

During the consultations, one resident stated that, as a water rate-payer, he wanted to know he was receiving the best service at the best price. That simple statement was elaborated on in many ways through consultations with senior management, water and wastewater staff and the public.

The key characteristics identified under this objective were:

- An educated, qualified and motivated workforce
- Sustainable asset management approach to infrastructure
- Administrative policies and procedures that support the operation's needs
- Service agreements in place for all centrally-provided services
- A focussed political interface for policy direction

▪ Capacity for Innovation and Flexibility

There were conflicting views expressed with respect to the capacity of a city service to be innovative and flexible within a bureaucratic structure. Some stakeholders held the view that Toronto has shown itself to be a leader in the use of innovative practices, while others felt the current situation was hampered by overly cumbersome decision-making processes and politically-motivated decision-making that has not always been in the best interest of the service.

Nonetheless, the following key characteristics under this objective were identified with some degree of consensus:

- Innovation through public involvement
- Apolitical decision-making for operational issues
- Mechanisms for timely decision-making

Summary of Key Desired Characteristics

The status quo exhibits many of the above-stated characteristics. The full set of Key Characteristics, in concert with the Key Issues identified in the previous section of this report, are used to review each of the governance options being considered.

(6) Overview of Governance Options:

In the report approved by Council at its meeting on November 6, 7 and 8, 2001, the following public sector governance options were identified for consideration through this study:

- status quo
- enhanced or modified status quo
- public utility commission (municipal service board)
- subsidiary of Toronto Hydro
- stand-alone municipally-owned corporation

In Ontario, there have been historically two governance models for municipal water services – a city department or division, or a Public Utility Commission, providing water, electricity and/or other utilities such as natural gas. Hamilton, Ottawa and Sudbury are examples of cities that have long managed their water and wastewater services from within their city structures. In other cases, a municipality would house the responsibility for sewage collection and treatment within its Public Works Department, and delegate the authority for the water service to a Public Utility Commission, as was the arrangement in Scarborough prior to amalgamation.

Responsibility for different aspects of water and wastewater systems was (and in some cases in the province still is) split between upper- and lower-tier municipal governments. For example, prior to 1998, the Municipality of Metropolitan Toronto treated water taken from Lake Ontario and sold it at a wholesale rate to the lower-tier municipalities, which in turn handled the local distribution, meter reading and billing. The lower-tier municipalities also collected wastewater for treatment at Metro's wastewater facilities.

Municipal amalgamations, the introduction of the *Electricity Act (1998)* and, more recently, changes to the *Municipal Act* and the *Public Utilities Act*, irrevocably altered the landscape for water and wastewater services in Ontario. Appendix 3 of this report presents an overview of the current governance structures and practices of selected municipalities in Ontario.

Following the enactment of the *Electricity Act* and the “corporatization” of municipal hydro-electric services, a number of municipalities brought their water systems in-house, to be operated within their city structure. According to officials at the Ministry of Municipal Affairs and Housing, only about 15 Ontario municipalities currently manage their water systems through a public utility commission, down from nearly 200.

One example of a municipality that retained its PUC is Peterborough. In Peterborough, the public utility commission, which is responsible for managing Riverview Park and the Peterborough Zoo in addition to operating the water system, has a very close relationship with Peterborough Utility Services Incorporated, the service subsidiary of the electricity holding company established under the *Electricity Act*. The PUC is, however, a separate body, with a Council-appointed board of directors. In general, it is the smaller municipalities that have retained their PUCs, often to involve their community and to compensate for a lack of expertise on staff.

The new *Municipal Act (2001)*, which received Royal Assent on December 12, 2001 and comes into effect January 1, 2003, replaces both the existing *Municipal Act* and large portions of the existing *Public Utilities Act*. The new Act permits a municipal service board to operate a municipal water and wastewater service. (The municipal service board model is discussed in detail below as Alternative Governance Option #2.) A public utility commission established under the *Public Utilities Act* is deemed to be a municipal service board under the new *Municipal Act* as of January 1, 2003.

- Subsidiary of Toronto Hydro

The *Electricity Act* required that municipalities incorporate their electricity utilities as *Ontario Business Corporations Act* corporations. The *Ontario Energy Board Act, 1998*, permits the establishment of water and/or sewer services as a subsidiary of a “hydro” service, though few municipalities have gone this route (one exception being Kingston). The availability of this option to the City of Toronto permits a review in the context of how well it meets the test of the desired characteristics. The impact on Toronto Hydro was also assessed.

Toronto Hydro was structured as a private, for-profit corporation, wholly owned by the City. Council chose to give it a high degree of autonomy and operational independence from the City. In addition to its monopoly distribution business, Toronto Hydro operates within a competitive retail environment and has a profit objective among other public interest and business objectives. They share significant interest with water and wastewater services in environmental matters, but on very different topics.

A water and wastewater subsidiary of Toronto Hydro would have a dedicated board of directors. However, the Toronto Hydro parent board has been selected for their expertise in business matters respecting electricity. The composition of the Toronto Hydro board would have to be altered if water and wastewater services were added to the structure. This would result in a board with mixed expertise and focus spread between the two businesses. This may not be the optimal solution for either electricity or water and wastewater services.

Under this option, disentanglement of support services provided by the City would be an imperative. As a legally separate corporate entity, a water and wastewater corporation would develop its own administrative policies and procedures to suit its business needs and be responsible for its own labour agreements.

The City has the ability to retain full ownership of Toronto Hydro, to sell all or part of the operation, or to invite investment from third parties. These options provide the City with very significant financial levers with respect to Toronto Hydro’s business objectives and the City’s interests. Council has, however, stated that it is imperative that water and wastewater services remain publicly-owned.

In summary, although there are similarities in business requirements and some business benefits to creating a water and wastewater subsidiary corporation of Toronto Hydro, combining the two organizations could negatively impact the City’s investment in Toronto Hydro. Such a change would also virtually double the size of the corporation and cause disruption within Toronto

Hydro, a relatively new company still in development. The key distinction between the two services is the treatment of Toronto Hydro as an investment, whereas water and wastewater services are purely a public service. Mixing two different motivations in one corporate family complicates the clear direction needed for each service. Because of the different market environments and the profit/non-profit distinction, there would also be a conflict between privacy and openness of meetings. This approach is not recommended.

- Stand-alone Municipally-owned Corporation

The new *Municipal Act (2001)* may, subject to the filing of regulations, also permit municipalities to establish certain types of public corporations for certain municipal services, without the necessity (and uncertainty) of seeking special legislation. Unfortunately, the regulations pertaining to the corporations section of the legislation have not yet been developed, and it is unclear whether they will include water and wastewater services in any list of services for which a corporation may be incorporated..

In the absence of regulations, which in any event would not come into force until January 1, 2003, or if the regulations do not permit corporations for water and wastewater services, the City still has the option of requesting special legislation. This would only be worthwhile if the City could gain approval for a corporation with a particular set of features that would result in very clear benefits above and beyond those offered by other models.

If the City sought special legislation to enable it to incorporate a corporation to provide water and wastewater services, such a corporation could be established under the *Ontario Business Corporations Act (OBCA)* with the City as sole shareholder, and the legislation could contain provisions that the shares neither could be split nor sold. Said corporation would operate in a not-for-profit manner, with no dividends paid and therefore no income tax obligations. Council would appoint the members of the corporation's board, and there would be no restriction in the legislation as to the numbers of Councillors or citizens on that board. As an OBCA corporation, neither open meetings nor compliance with the *Municipal Freedom of Information and Protection of Privacy Act* would be required, and the corporation would under law be able to own the water and wastewater assets, engage in capital financing, and set the water rates. It would be independent of all City policies, procedures, services and charges, and would be the employer of the water and wastewater services workforce. The legislation would carry forward to the new corporation the current arrangements regarding payments-in-lieu (PIL) of property taxes and the municipal four-percent GST rebate.

A water and wastewater corporation which owned its own assets and could secure financing against those assets and against the water rates revenue stream would, according to recent bond rating agency studies, enjoy a credit rating at least as good as the City of Toronto's, if not better. In addition, a corporation would set water rates by means of a needs-based formula which is objective, transparent and removed from political influence, thereby raising maximum revenue to support the long-term needs of the system. The revenues, being held by the corporation, would be protected from subjective use by the City for other, unrelated purposes.

However, the negative financial impacts of not receiving approval for some of the above-noted characteristics would be significant. For example, should the proposed water and wastewater corporation not be allowed to continue the PIL arrangement currently enjoyed by W&WW, the city would no longer receive the school board portion of the total property tax payable in addition to its own. This would represent an annual loss to the City of approximately \$6.4 million. The additional costs to a water and wastewater corporation, should it no longer enjoy the municipal rebate of four-percent on all GST payable, would be a minimum of \$8.2 million annually.

One of the most significant issues, however, regarding this option is the reduced level of direct accountability to local residents that would be an unavoidable feature of a corporation such as this. This model would only meet the test for Accountability and Public Transparency if Council, through a Shareholder Declaration, were to impose the requirement for open meetings, the application of the *Municipal Freedom of Information and Protection of Privacy Act* and other such policies, and ensure significant Councillor representation on the board of directors of the corporation.

Given that there is a wide range of characteristics to consider in establishing a corporation and it is still unknown what regulations the Province might establish to govern the City's choices, it is not feasible to pursue this option at this time. If the regulations do not permit the incorporation of corporations to provide water and wastewater services, it is questionable whether the province would favourably entertain an application by the City for special legislation. However, it is recommended that the CAO continue to monitor developments in provincial legislation respecting the City's authority to create a municipally-owned corporation for water and wastewater services and report back on any opportunities arising out of those developments that Council may wish to consider.

In summary, neither the subsidiary of Toronto Hydro, nor the municipally-owned corporation, is suitable to our needs at this time. The characteristics of Toronto Hydro are not well matched to the desired characteristics we have articulated for water and wastewater services, and the full extent of what might be available to us as a corporate model for water and wastewater services under the new *Municipal Act* is still unknown.

(7) Options for Consideration and Evaluation:

The following options are currently available to the City of Toronto for the governance of its water and wastewater services:

- Status Quo
- Modified Status Quo
- Municipal Service Board

This section describes each option in detail and presents the results of the evaluation of each option against the water and wastewater services' business requirements and good governance principles, described earlier in the Key Desired Characteristics section of this report.

▪ Status Quo

Objectives	Characteristics
Accountability and Public Transparency	▪ Council, directly accountable to the public, makes both policy and operating decisions ▪ Transparent process, open meetings ▪ Process encourages public input and debate ▪ Open to media scrutiny
Quality Assurance and Environmental Responsibility	▪ Mechanisms and processes in place to meet new, more rigorous provincial requirements ▪ Addition of Quality Assurance function for oversight (DSI) ▪ Coordination and co-operation between environmental advocates and W&WW ▪ Integration with other city departments and agencies to pursue public health and environmental objectives
Efficient and Effective Operations	▪ WBP and DSI improvements ▪ Reviews underway of IDCs, Overheads, Procurement Process ▪ Addition of Special Projects function for policy coordination (DSI) ▪ Limited by City administrative policies and procedures ▪ Required to use City services, regardless of appropriateness or pricing
Capacity for Innovation and Flexibility	▪ All partnerships and new programs and initiatives require Committee and Council approval ▪ Range of alternative service delivery models available within Council authority ▪ Innovation possible, but requires considerable public debate and time to implement

Operating as it does within the City structure, the status quo W&WW division of WES offers direct accountability to the public through Council, and a transparent and open process. The status quo affords W&WW regular opportunity for interaction with environmental and other corporate-wide initiatives. Being situated within the city structure also promotes interaction and partnership with Toronto Public Health, as is evidenced by the strong relationship currently enjoyed by the two parties.

Mechanisms are already in place to meet the new, more rigorous provincial health and safety requirements, and the District Service Improvements (DSI) consultants' report that was submitted to the Works Committee on May 28, 2002 recommends a new Quality Assurance unit reporting directly to the General Manager to provide an additional oversight function. Clearly, the status quo is not static, given the number and scope of activities which are affecting various aspects of W&WW's operation at this time.

The Council-approved Works Best Practices Program will lead to operational savings in the water and wastewater treatment plants over time, and the implementation of the DSI recommendations, should Council approve them, will extend those efficiencies to the non-plant

areas of operation. Also recommended in the DSI consultants' report is the creation of a small Special Projects unit, reporting to the General Manager, which would be responsible for project management, research and policy development. This should improve the public policy capacity of the division and enhance the strategic focus at the political level.

On the other hand, maintaining the status quo could fall short of ensuring that water rates revenue will be used only for water and wastewater services. As Justice O'Connor points out in Part 2 of the Walkerton Inquiry Report, the current structure can easily lead to water-related revenues being used to support other programs. In fact, the City Auditor, at the direction of Council, has recently conducted a detailed review of all additions to and withdrawals from the Water and Wastewater reserve accounts since amalgamation to determine to what degree this practice may have been in evidence here.

This diversion of funds can also occur indirectly through inappropriate charges for corporate services and overheads. As previously mentioned in this report, reviews are now underway regarding the allocation of corporate overheads and inter-departmental charges. These reviews may serve to rectify some of the historical problems that have limited W&WW's ability to operate in an efficient and effective manner, but it must be acknowledged that this is an inherent problem for any municipal department or division.

Also at issue is the political nature of decision-making under the status quo arrangement. This can be a serious enough issue regarding operational decisions, but it is of particular concern with respect to establishing an appropriate water rate to ensure the integrity and long-term sustainability of the water and wastewater system. There is also a concern, expressed by Justice O'Connor in his Part 2 report, that Councillors may not have sufficient knowledge of or interest in the water system to adequately fulfill their oversight responsibilities.

- Alternative #1 - Modified Status Quo

A number of alternative arrangements within the City structure have been suggested as possible modifications to the status quo. One such suggestion is the establishment of a separate Water and Wastewater Department. This change could serve to raise the profile of the operation so that there is more scrutiny and focus on budget and policy issues both politically and from the public service. However, this arrangement does not address any of the business issues directly and has two, more serious drawbacks.

First, setting up a separate department is in conflict with the concept of operational clusters. At amalgamation, it was deemed appropriate to establish clusters of similar businesses that would benefit from joint strategic planning and shared administrative and executive support. This approach has worked fairly well for the new City for the most part. This move would establish a precedent and may encourage other business units within the Works and Emergency Services Department and in other large departments to pursue that option as well. Such a movement could potentially result in an expansion of the number of departments, making executive management unwieldy and the political interface more complicated.

Second, establishing a separate department under the current City structure would change the reporting level of all management staff, which would more than likely lead to increased management compensation costs. Departmental status is also usually accompanied by an executive office to support administration, planning and budgeting for the department. Such a move would duplicate some administrative overhead costs.

Another alternative reconfiguration within the City structure that was suggested is the creation of a separate Standing Committee of Council for water and wastewater issues. This would benefit W&WW by providing a more concentrated political focus and increasing advocacy for the service. This in turn may provide the incentive to establish long-term financial commitment for capital. It would also afford further opportunities for the public to provide input to the committee through additional deputation time.

However, a separate standing committee also has a number of drawbacks in the current climate. Councillors are already stretched by serving on standing committees, advisory groups and City agency boards. An added committee would also place additional stress and cost on the Clerk's secretariat function and the limited meeting spaces and time slots available for meetings. As with the separate department model, a separate standing committee would set a precedent for other large programs to request standing committees dedicated to overseeing their programs.

A more attractive alternative within the City structure would have water and wastewater services remain within the Works and Emergency Services department, but afforded a type of "Business Unit" status. It would be allowed to operate with a greater degree of delegated financial and operational authority, would have negotiated service level agreements for all centrally-provided services, and operate under administrative policies and procedures tailored to serve the needs of the division. This would be a new arrangement for the City of Toronto, but is worthy of consideration given the nature of water and wastewater services, its independent revenue stream, and its need to isolate its costs. This is the model evaluated for the purposes of this report.

Objective	Characteristics
Accountability and Public Transparency	▪ Council, fully accountable to the public, makes policy and some operating decisions ▪ Transparent process, open meetings ▪ Process encourages public input and debate ▪ Open to media scrutiny
Quality Assurance and Environmental Responsibility	▪ Mechanisms and processes in place to meet new, more rigorous provincial requirements ▪ Addition of Quality Assurance function for oversight (DSI) ▪ Coordination and co-operation between environmental advocates and water and wastewater services

Efficient and Effective Operations	▪ WBP and DSI improvements ▪ Reviews underway of IDCs, Overheads, Procurement Process ▪ Addition of Special Projects function for policy co-ordination (DSI) ▪ Increased authority delegated to General Manager to determine support service requirements, suppliers and costs ▪ Increased authority to determine priority spending based on business need in exchange for contracted performance management, outcome targets, and rewards and consequences ▪ Ability to create side agreements with labour for practices specific to water and wastewater services
Capacity for Innovation and Flexibility	▪ Range of alternative service delivery models available within Council authority ▪ Innovation possible, but requires considerable public debate and time to implement ▪ Less rigid procurement procedures replaced with more innovative processes which meet the same objective and meet the business needs ▪ Ability to more easily engage special expert assistance to provide ideas on innovative practices

By creating a quasi “business unit” out of the current Water and Wastewater Services division of WES, additional benefits could be achieved in the area of Efficient and Effective Operations and Capacity for Innovation and Flexibility depending on how creative and flexible the City administration is prepared to be and subject to any legal constraints.

In other jurisdictions such as the federal government, special business units have been established within the core government structure where it is clear that the function demands more flexible policies and procedures to meet its business requirements and reduce time and cost to carry out its activities. In these instances, Council retains decisions of public policy, but greater operational decision-making authority is delegated to the General Manager of the business in exchange for a stringent program of performance management including establishing parameters, targets and both rewards and consequences. This practice increases management accountability and provides the means through which corrective actions can be taken. The unit’s efficiency increases through outcome measurement rather than input monitoring and control.

Administrative efficiencies could be achieved by providing the General Manager with the authority to determine the support service needs of the business and to negotiate with service providers both internally and externally regarding the level of service and cost. This would also provide the incentive for the internal service providers to become more client-oriented and cost competitive.

It is unclear whether this option would enhance the strategic focus on water and wastewater issues. On the one hand, the increased delegated authority would reduce the number of reports that come to the Works Committee, thereby allowing the Committee to focus on policy issues rather than operational matters. On the other hand, a reduced number of reports for W&WW

may actually reduce the amount of committee time dedicated to water and wastewater issues and have the opposite effect.

In summary, this approach maintains the requirements for accountability and public transparency and the current high level of quality assurance and environmental responsibility, while offering a means of improving efficiency and effectiveness and to some degree the capacity for innovation and flexibility. Some of the business issues can also be addressed such as the support service levels and chargeback costs, and flexible application of policies and procedures to reduce turnaround time on capital project implementation and improved co-operation with labour. Other business issues, such as Council's resolve to increase rates to meet long term capital requirements or to commit to maintaining capital reserves, remain unchanged. These latter two are critical issues, and for this model to address these concerns, Council would be required to demonstrate commitment to raising the rates to a level adequate for full-cost recovery and ensuring water and sewer rates revenues are applied to water and wastewater services.

▪ Alternative #2 - Municipal Service Board

This option is available under the *Municipal Act (2001)*, which takes effect January 1, 2003. The legislation allows municipalities to create municipal service boards for a set list of services, including water and wastewater services, and sets out certain parameters for these boards. The concept of a municipal service board (MSB) replaces the former public utility commission (PUC) model. Under the former PUC model, an elected board set the water rates and managed all or part of the water and/or water and wastewater operations for a municipality. In recent years, a number of municipalities with PUCs shifted away from elected boards to boards appointed by city council. Prior to amalgamation, the City of Scarborough had an elected PUC which managed the local distribution of water purchased from the Municipality of Metropolitan Toronto, which operated the treatment plants through its Works Department.

Unlike the situation under the PUC model, Council must appoint the board of an MSB. Another key difference under the new legislation is that, while the MSB can recommend the levels of fees and charges (i.e., water rates), all fees and charges must be approved by resolution of Council. Other legislated features of the MSB model are:

- Meetings are open to the public
- *Municipal Freedom of Information and Protection of Privacy Act (MFIPPA)* applies
- *Municipal Conflict of Interest Act* applies
- Council retains the authority to approve the operating and capital budgets
- The City continues to own the assets, which are held in trust by the Board
- Council determines the degree of financial and operating authority it delegates to the Board, including establishing which, if any, City policies and procedures must be adopted by the MSB
- The MSB is responsible for paying PILs to the City in the amount equal to both the City's and the School Board's portion of property tax payable (continuation of current practice, as we understand the legislation to permit)

It is with these features in mind that we have evaluated the municipal service board option.

Objectives	Characteristics
Accountability and Public Transparency	▪ Indirect accountability to public through Council ▪ Council accountable for approving rates, operating and capital budgets, and public policy ▪ The City remains the employer ▪ Board appointed by Council and includes Councillors ▪ Transparent process – meetings open to the public, MFIPPA applies
Quality Assurance and Environmental Responsibility	▪ Mechanisms and processes in place to meet new, more rigorous provincial requirements ▪ Addition of Quality Assurance function for oversight (DSI) ▪ Coordination and co-operation between environmental advocates and water and wastewater services ▪ Continuation of agreements with Toronto Public Health ▪ Continued compliance with Environmental Plan, Official Plan and Strategic Plan
Efficient and Effective Operations	▪ WBP and DSI improvements continue ▪ Addition of Special Projects function for policy co-ordination (DSI) ▪ Partial or complete disentanglement from central services and chargebacks ▪ Some procedures, such as purchasing, could be tailored to business needs ▪ Authority for day-to-day operations delegated to Board ▪ Board members become advocates for recommended rates ▪ Reduced political interference in operational decisions
Capacity for Innovation and Flexibility	▪ Some authority to enter into agreements delegated to MSB ▪ Council approval required to sell or lease entire service

Accountability under the municipal service board option rests with the board of directors and its reporting relationship to Council. Under this model, Council determines board composition and membership. By ensuring that members of Council sit on the board of the MSB, Council maintains a degree of direct accountability. Council retains the authority to approve operating and capital budgets, as well as to approve the fees and charges (water rate). In that way, Council remains fully accountable for the viability and integrity of the service. In addition to financial matters, the MSB would bring policy matters directly to the attention of Council as needed.

By law, municipal service boards are required to hold their meetings in public, and they are bound to comply with provincial legislation guaranteeing openness and transparency (*MFIPPA*).

An MSB would have strong ties to the City, allowing for the appropriate level of interaction with other programs and services. The MSB would be charged by Council at its creation to adhere to the City's Official Plan Strategic Plan and Environmental Plan, and partnerships with Toronto Public Health, for example, would continue uninterrupted.

The City would remain the employer of the water and wastewater workforce, and all City labour practices and human resource policies would continue to apply. However, other administrative practices, such as the City's one-size-fits-all purchasing procedures, could be tailored to better suit the business needs of water and wastewater services. By delegating a greater degree of operational authority to the MSB, Council would provide the incentive for strong business principles to guide the organization. Through the delegation of operational authority, the MSB would also be free to purchase services from other city divisions and departments or from outside providers on a competitive basis.

A dedicated board of directors would provide an increased strategic focus to the City's water and wastewater services and the long-term needs of the system. The members of the board would become strong advocates for strengthening the system and would work hard to ensure that Council recognized the need to set rates appropriately and ensure water and sewer rate revenues are applied to water and wastewater expenditures. An added benefit of citizen board members is the ability to bring in relevant expertise in areas such as the environment, industry, labour relations and business practice.

(8) Preferred Option:

In order to ensure a high level of accountability and transparency, and also meet the business needs of the water and wastewater services, it is recommended that the City of Toronto create a municipal service board as permitted by the *Municipal Act (2001)*. As previously stated, the new *Municipal Act* comes into force on January 1, 2003.

This model offers the best opportunity for future infrastructure needs to be addressed through long-term strategic planning, full-cost recovery, and a focus on the business and policy needs of the service.

A water and wastewater MSB would be a hybrid, a new type of City agency designed under a new legislative authority, to specifically serve the City's water and wastewater service needs. As a hybrid, it could have features similar to other existing City agencies. In that the City remains the employer, a water and wastewater MSB would be akin to Toronto's Board of Health. In other ways, notably a greater degree of delegated operational authority, it would resemble the Toronto Transit Commission.

The board of directors of the water and wastewater MSB could consist of four Councillors and five expert citizens, selected for appointment on the basis of their collective experience or knowledge with respect to water and wastewater systems and operations, environmental matters, finance, public sector governance, and labour relations.

(9) Implementation Plan:

The CAO will report back to the Policy and Finance Committee in November 2002 with a detailed Implementation Plan to guide the City and Water and Wastewater Services through the transition to a water and wastewater municipal service board. The Implementation Plan will include:

- Results of the reviews of corporate overhead allocations and IDCs
- Determination of right service/right charge for internally-provided services
- Determination of phase-in schedule for shifts between the water rate and the tax base
- Development of policy on payment for water services used by City departments, agencies, boards and commissions
- Determination of which City policies and procedures will apply to the MSB
- Development of phase-in schedule for administrative changes, if any
- Business and financial plan for transition to the new model, including impacts on other City divisions and departments
- Development of delegation by-law and amendments of other City by-laws as required
- Detailed process for board appointments
- Identification of the roles and responsibilities of board members
- Established/confirmed protocols for the MSB regarding water quality and public health issues, in co-ordination with Toronto Public Health

Conclusions:

In accordance with good management practice, the City reviewed the options available to deliver its water and wastewater service through the most accountable, effective and economical means. Models reviewed include continuing operation within the core City structure, through a municipal service board, and through a city-owned corporation. This six-month review included numerous consultations with the public, large industrial users, environmentalists, bargaining units, and other stakeholders and assessment of options against business requirements and good governance principles key to water and wastewater such as public accountability and assurance of continued water quality and environmental protection.

A Municipal Service Board model is recommended to alleviate some of the challenges faced in the current delivery of the service by creating an environment which supports more focused, informed decision-making and provides opportunities to focus on long term capital and operating budget requirements. The City would continue to own all assets and Council would appoint the new board and continue to approve operating and capital budgets and all fees and charges (water rates) recommended by the Board. Employees remain employees of the City. The CAO will report in November 2002 on a detailed implementation plan if this model is approved.

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List of Attachments:

Appendix 1 – Consultation Process
Appendix 2 – Inter- and Intra-departmental Services Provided to Water and Wastewater
Appendix 3 – Overview of Water and Wastewater Services in Other Ontario Jurisdictions

APPENDIX 1: CONSULTATION PROCESS

OVERVIEW

The water and wastewater governance study involved consultation with the general public, relevant bargaining units and specific stakeholders, including environmental groups, service suppliers and industrial users.

The primary objective of these consultations was to receive input on the characteristics and criteria that ought to be used by city staff and councillors when evaluating the governance options for the city's water and wastewater service. A secondary purpose was to inform the public about the governance study itself and to raise awareness about the challenges facing Toronto's water and wastewater service.

The set of consultation activities undertaken to ensure broad public input into this study included:

- Meetings with various stakeholder groups, such as: (i) Water and Wastewater staff; (ii) Locals 79 and 416; (iii) environmental organizations; (iv) association of industrial water users; (v) contractors and consulting engineers; and (vi) representatives from neighbouring municipalities.
- Creating a website for the governance study – www.city.toronto.on.ca/involved/utilitystudy -- and regularly updating this site with relevant reports and information.
- Establishing a dedicated e-mail address and phone, fax and TTY lines to receive submissions, comments and questions about the governance study from the public.
- Holding “open-house” events in four civic centres for the dual purpose of sharing information about the governance study with the public and soliciting their input. City councillors and staff from both the Chief Administrator's Office and the Water and Wastewater division attended these events. Individuals who attended were encouraged to complete and return a “comment sheet”.

Summary statistics for these outreach and consultation efforts are presented below:

Open Houses

Date	Location	Number of Attendees Signing-In *	Number of Comment Sheets Submitted at Open House
April 2	Metro Hall	74	10
April 4	Scarborough Civic Centre	46	11
April 10	North York Civic Centre	40	2
April 13	Etobicoke Civic Centre	36	7
	Total	196	30

** Signing-in is optional and approximately twenty people did not sign-in.*

Comment Sheets Received from Individuals

Location/Mean of Submission	# of Comment Sheets
Open Houses	30
Written (fax, mail and email)	54
Total # of comment sheets received	84

Other Submissions (not Comment Sheets) Received from Individuals

Format	# Submissions
Email	60
Phone	41 (13 of 54 calls received were information requests)
Written (fax and mail)	16
Total # of submissions received	117

Letters Received from Organizations

Organization	Letter Signed By	Contact Information
Toronto and York Region Labour Council	John Cartwright, President	Tel. (416) 441-3663 Fax (416) 445-8405
Save the Oak Ridges Moraine Coalition (STORM)	Margaret Casey, Board Member	Tel. (905) 880-3465 Fax (905) 880-3465
Hotel Employees, Restaurant Employees Union – Local 75	Paul Clifford, President	Tel. (416) 216-0875 Fax (416) 216-0876
Canadian Institute for Environmental Law & Policy	Christine Elwell, Senior Legal and Policy Analyst	Tel. (416) 923-3529 Fax (416) 923-5949
CAW Local 112	John Kennedy, President	Tel. (416) 635-5988 Fax (416) 635-5580
Environment Probe	Elizabeth Brubaker, Executive Director	Tel (416) 964-9223 Fax (416) 964-8239
Toronto Civic Employees Union, Local 416 CUPE	Brian Cochrane, President	Tel. (416) 968-7721 Fax (416) 968-7829
Toronto Water Watch		torwaterwatch@yahoo.com
Toronto and Region Conservation	Brian Denney, Director, Watershed Management	Tel. (416) 667-6290 Fax (416) 661-6898
Don Regeneration Council (DRC) and the Humber Watershed Alliance (HWA)	Mark Wilson, Chair, DRC; Lois Griffin, Chair, HWA	Tel. (416) 661-6600, x. 5283

BACKGROUND

This appendix presents a synthesis of the main themes and ideas that surfaced during the public consultation. These important comments, concerns and insights are grouped according to the four sets of criteria for which public input was explicitly solicited, namely (i) accountability and transparency; (ii) quality assurance and environmental responsibility; (iii) efficient and effective operations; and (iv) innovation and flexibility.

ACCOUNTABILITY AND PUBLIC TRANSPARENCY

A significant majority of individuals who made submissions believe that a city-run water and wastewater service (i.e. Option #1) would be more transparent, accountable and responsive to the public than either a municipal service board or corporation. The most frequently cited comments and concerns associated with this viewpoint are noted below:

- Many people believe it is easier to scrutinize the actions of a municipal councillor than an appointed board member.
- Many people believe it is easier to contact an elected official than a private citizen who might serve as a board member and, more generally, that a city department/division provides more opportunities for public input and consultation than an arm's-length entity.
- Many people believe that elected officials have a stronger incentive than board members do to respond to public concerns.
- Many people are concerned that the Municipal Freedom of Information and Protection of Privacy Act (or equivalent legislation) may not apply to either a municipal service board or corporation. (Note: This issue is addressed in the description of the various models.)
- Many people are concerned that the Board of Directors of either a municipal service board or corporation may (now or in the future) be permitted to hold closed meetings. (Note: This issue is addressed in the description of the various models.)
- Many people are concerned that even if City council were to exercise full control over an arm's-length entity today (especially a share-based corporation), the independent structure of such bodies makes them easier than a city-run department to privatize in the future. In turn, people worry that a private entity would operate in a far less accountable or transparent manner than the City's existing municipal water and wastewater service. In a fiscal crisis, some individuals queried, would the city not be tempted to sell its shares in a corporation to generate revenue?

Some individuals and organizations anticipate that a municipal service board or corporation would provide a more accountable governance structure:

- These parties believe that Board appointees are in a better position than elected officials motivated by short-term political considerations (i.e. 3-year election cycle) to take a long-term view of the water system's needs.
- These parties believe that it is easier for Board appointees than elected officials to take politically unpopular decisions that may nonetheless be in the best interests of the system (e.g. to raise rates to the level required to finance necessary investment).

- These parties believe that compared to a division/department led by municipal politicians, the leadership of an arm's length entity (i.e. appointed Board of Directors) would likely possess a broader range of expertise and perspectives.

Suggestions to improve the accountability and transparency of the water and wastewater service, irrespective of the governance model that is ultimately selected, included the following:

- Expanding the role and resources available to the City's water advocate in order to support further public education about the city's water service and the need for residents and businesses to conserve water.
- Whenever new technologies/innovations are used or in development, a stronger effort should be made to explain the rationale for such initiatives to the public.
- A dynamic, informative website should be created for the city's water service to better share information with the public regarding water operations, rates, environmental considerations, etc.

QUALITY ASSURANCE AND ENVIRONMENTAL RESPONSIBILITY

Virtually every submission received during the consultation process stressed the paramount importance of maintaining the quality and safety of the city's water.

A broad consensus emerged on the need to augment the city's efforts to conserve this precious resource. Increased public education and the use of full-cost recovery pricing for water were frequently identified as mechanisms to advance conservation goals. Highlighting the concept of "water resource management", a smaller number of submissions suggested that the cost of water and wastewater services should include the expense of protecting source water quality (i.e. watershed protection and preservation) and public education in addition to the costs of processing, treating and delivering water.

A significant number of people expressed the view that residents would be willing to pay higher water rates (in the short term) for the sake of maintaining water quality if they were better informed about the state of Toronto's water and wastewater service and its significant capital financing needs.

Many individuals and organizations anticipate that a water and wastewater division situated within the city's administrative structure (option #1) would operate in a more environmentally responsible manner and maintain higher quality standards than would an arm's-length entity. The most frequently cited comments associated with this viewpoint are noted below:

- Many people believe that a municipal water and wastewater division is much more likely than a corporation and somewhat more likely than a municipal service board to integrate and co-ordinate its activities with other city departments (e.g. planning, waste management, etc.). Such co-ordination is critical because the activities of other city departments can have a significant impact on the city's water quality and the ability of its water service to operate in an environmentally responsible manner.
- Many people believe that a water and wastewater division is much more likely than a corporation and somewhat more likely than a municipal service board to be responsive to suggestions and influence from the public with regards to introducing environmentally responsible practices.

- Many people believe that a water and wastewater division/department is much more likely than a corporation and somewhat more likely than a municipal service board to maintain a well-trained, well-paid workforce motivated by a public-service ethic whose primary concern is to ensure water quality.

A majority of the submissions received during the consultation suggested that a city-run water and wastewater division (option #1) is much more likely than a corporation (option #3) and somewhat more likely than a municipal service board (option #2) to secure an ample supply of water for future generations of city residents and businesses. This assessment is based on the view that arm's-length entities could (more) easily become privatized and that, in turn, a private corporation would commodify the city's water and make it available for sale to the highest bidder.

Many submissions expressed a related concern that moving to a corporate governance model would render the city's water and wastewater service vulnerable to challenges under GATS or NAFTA, resulting in a subsequent reduction in control over the city's water supply. (Note: This matter is addressed in the "Issues" section of the report.)

EFFICIENT AND EFFECTIVE OPERATIONS

Participants in the consultation process articulated a broad range of ideas regarding the criterion of "efficient and effective operations". The most frequently mentioned issues related to this topic are reviewed below.

Staff Motivation and Costs: There was wide support for the idea of having motivated, qualified personnel running the water and wastewater system. Some parties suggested that the higher revenues and savings generated by a corporation (option #3) could be used to attract and retain better-qualified personnel. A more commonly expressed view was that a water and wastewater division/department (option #1) situated within the city's bureaucratic structure would be more likely than the alternatives to maintain a motivated, well-paid, well-trained workforce.

A similar difference of perspectives emerged with regards to staffing costs. Some argued that an arm's-length entity would face lower total personnel costs, while others anticipated that an arm's-length entity would face higher salaries for its senior managers than a city water and wastewater division/department.

Subsidization of Other City Departments: Almost every submission referring to the issue noted that revenues generated by the water and wastewater service should not be used to subsidize other aspects of the city's operations. Some parties suggested that establishing an arm's-length entity would reduce the likelihood of cross-subsidization. Others maintained that it is possible to account for shared resources, overhead and other indirect costs while keeping the water and wastewater department within the city's administrative structure.

Business-Oriented: Some parties argued that an arm's-length entity with a board of directors would be less subject to political interference (e.g. reluctance to raise water rates in an election year) and city policies, thereby allowing it to carry out business transactions more quickly and efficiently. A somewhat smaller group of individuals anticipate that a corporation would have the most flexibility to pursue other revenue opportunities, which could subsequently be re-invested to improve the efficiency and effectiveness of the city's water service.

Taxes and Cost of Capital: A handful of submissions underscored the need to review the potential loss of revenue to the City that would arise if an arm's-length entity paid property tax, 50% of which would go to the province for education, instead of payment-in-lieu of taxes (PIL) which flow entirely to the city. A

few submissions also expressed concern that a corporation would face a higher cost of capital than a city water and wastewater division.

Customer Focus: Many parties voiced support for increasing the customer focus of the water and wastewater service. Suggested mechanisms to achieve this goal included increasing the use of web technology, more call-centre staff, and an expanded role for the city's water advocate.

INNOVATION AND FLEXIBILITY

Noting the City of Toronto's record of success in delivering potable water that exceeds provincial standards and its willingness to employ new technologies/processes to address community concerns (e.g. odour and coloration in water), many submissions forecast that staff working for a city water and wastewater division/department would continue to embrace innovation. Elaborating on this view, many individuals and organizations argued that a city water division (i.e. option #1) is much more accessible than a corporation and somewhat more accessible than a municipal service board to public sources of innovation (e.g. councillors, direct citizen input). Likewise, many submissions suggested that a city division's close(r) integration with other city departments creates synergies and opportunities for innovation that might be missed by an arm's length entity.

Other parties suggested, to the contrary, that a municipal service board or corporation would be able to adopt innovative technologies and ideas more quickly than a city division because it would experience less political interference and not be bound by (as many) cumbersome municipal policies and decision-making processes. For example, it was suggested that an arm's-length entity might have more flexibility than a city division to establish incentives and cultural norms that encourage innovation.

APPENDIX 2: INTER- AND INTRA-DEPARTMENTAL SERVICES PROVIDED TO WATER AND WASTEWATER SERVICES (2002)

CORPORATE SERVICES

City Clerk's Office

- Printing and Photocopying
- Records Management

Facilities and Real Estate

- Custodial Care of Facilities

Fleet Services

- Fleet Management, Fuel, Safety and Maintenance Services

Human Resources

- Staffing and OH&S Services
- Business Unit for W&WW

Information & Technology

- Corporate Systems
- Business Unit for W&WW

Legal Services

- Legal Services

FINANCE

Accounting Services

- Accounting Support

Budget Services

- Budget Support

Development, Policy & Research

- Research and Analysis, Policy Development

Payroll Services

- Payroll, Benefits, Pension Services

Purchasing & Materials Mgmt

- Procurement - Processing & Issuing of Purchase Orders and Contracts
- Warehouse Management - Issuing and Delivery of Warehoused Goods

Revenue Services

- Meter Reading, Billing and Customer Service

Treasury and Financial Services

- Investment and Debt Management
- Financial Planning - Rate Setting and Capital Financing, Rate Structure Analysis, Reserve Fund Analysis

WORKS & EMERGENCY SERVICES

Solid Waste Mgmt

- Ash Disposal
- Clean Fill, General Waste, Other Disposal

Support Services

- I.T. - Desktop and Application Support
- Financial Services - AR/AP, Petty Cash, WES Internal Controls
- Administrative Services - Payroll Processing, Clerical Support, and Records Management
- Customer Service - Troubleshooting and Emergencies
- Financial Planning - Budget and Financial Planning Coordination
- Communications
- Business Support Services - Strategic and Business Planning, Performance Development, etc.

Technical Services

- Facilities and Structures - Planning, Design and Construction Management
- Survey & Mapping - Engineering Surveys, Mapping Services
- Environmental Services - Environmental Coordination, Public Consultations, Policy Development
- Engineering Services - Planning, Project Management and Inspection for District Infrastructure Projects, Development Reviews
- Emergency Planning - Troubleshooting and Emergencies

Transportation Services

- Road Maintenance and Repair

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Brantford http://www.city.brantford.on.ca/ 519-759-1350 Chuck Boyd, Superintendent	• The Water Section of the City of Brantford's Engineering Department is responsible for providing a safe, sufficient supply of water to city residents. • The Engineering Department designs and maintains the city's sewer system, tests sewage at a water pollution control plant and maintains a storm sewer system. • Environmental Engineer goes directly to Council for approval of water department's budget • Council sets water rates • Contracts, awards and purchases in excess of \$50,000 require Council approval	• Water and Sewer have a \$1 million service agreement with other city departments for various corporate services. Key services provided include billing + customer service. Superintendent believes this is a "fair price". • All city departments pay full cost for use of water • No distinction made between storm and sanitary sewers. Sewer charge (consumption based) covers both types of expenses.	• Meter reading contracted out to Hydro • Some testing done by City; most done by accredited third-party labs • Operations of sewage plant contracted out to OCWA

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Hamilton http://www.hamilton-went.on.ca/ 905-546-2140 http://www.hamiltonucorp.com Lou Di Geronimo, Director, Utility Services	- W&WW division is part of City of Hamilton's Transportation, Operations and Environment Department (TOE), which reports directly to Council's committee of the whole. - According to the Director of Utility Services, water issues receive "adequate" attention from Council; Council approved rate increases of 10%, 15% and 8%, respectively, in past three years. - Members of the public can depute at Council's Hearing sub-committee - Hamilton has a 10-year O&M contract with RWE AG (formerly Azurix) valued at \$187 million which is set to expire in 2005 - Council may strike a Council Steering Committee to review all options before O+M contract expires in 2005; a public advisory group may also be formed. - Hamilton may consider whether its water service should become a subsidiary of Hamilton Utilities Corporation (HUC), as had been recommended by the Transition Board during amalgamation.	- W+WW division pays designated amount for certain corporate services (IT, HR, legal, etc.). This so-called "cost allocation" charge is based on a best estimate of resources used, not full-cost accounting. - Other city departments do not pay for their water use; many facilities/ parks are not metered. - Billing and meter reading were recently contracted out to Hamilton Utilities Corp. (Hydro)	90% of storm sewer costs are priced into water rate; other 10% supported by property tax. - The current Utility Service Director reports that: i) O+M contract has achieved its original objectives; ii) after initial problems, labour relations improved; and iii) Hamilton has developed capacity to effectively manage large-scale contracts. - Hamilton's city-owned lab is certified to do some, but not all, tests. The city uses accredited labs for tests that its lab is not certified to perform.

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Kingston http://www.city.kingston.on.ca/ http://utilities.kingston.com Jim Keech, President & CEO, UK: 613-546-1181x2217	- Water and wastewater services are provided by Utilities Kingston (UK), a subsidiary of Kingston Electricity Distribution Ltd. (KEDL). The City of Kingston is the sole shareholder of KEDL, while KEDL is the sole shareholder of UK. - In addition to water and sewer services, Utilities Kingston provides natural gas, electricity, and various network services (e.g. broadband wireless, fibre optic). - The City of Kingston has a management agreement with UK to manage and operate water, sewer and natural gas utilities. - City of Kingston owns all water and sewer assets. - UK is responsible for meter reading (which it outsources to a 3rd party) and billing services (which it does directly). - UK Board composition = President/CEO, Vice President, City CAO, IBEW rep, and one citizen - KEDL Board composition = President/CEO, City CAO, Mayor and two citizens - KEDL Board is appointed by Council, which in turn appoints UK Board. - Council approves UK's capital and operating budgets; approves rates; and annually appoints KEDL's officers - Council approval for O+M contracts not required; but UK would likely seek council approval for major award. UK's board must approve sole-source awards.	- As mandated by the Shareholder Directive, UK purchases central services from the City of Kingston - UK has service agreements with City Departments for various corporate services, including finance, human resources, legal (minor), fleet, and customer service (call centre). Charges for these services are based on a "best estimate" of time/value of service provided. These services and rates are now under review.	- Employees of UK are members of the International Brotherhood of Electrical Workers - Storm sewer costs are covered by the property tax base (general revenues) - UK collects water samples; testing done by certified 3rd parties

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
London (ON) http://www.city.london.on.ca/ 519-661-4925 Ivor Anderson, Director of Operations, Drinking Water 519- 661-5437	• The City of London’s Environmental Services Department has separate water and sewer divisions, both of which report to Council’s Environment and Transportation Committee • The water and sewer divisions have separate engineering units, but a combined operations unit. • Water services were formerly provided by a PUC; but were brought back in-house in 1993 as part of an annexation. • London purchases water, wholesale, from the Joint Boards of Management, a public water supplier which it co-owns with neighbouring municipalities. • Engineering unit meets with key stakeholders (e.g. large corporate users like Labatt) before proposing rate hikes.	• The water and sewer divisions are charged for a portion of corporate service expenses (e.g. for audit, finance, tech services, HR, etc.) incurred by the Environmental Services Department. No formal service-level agreements are in place. Instead, an estimate (based on some research, but mostly on an “educated guess”) is used to determine the intra-departmental charges paid by the water and sewer divisions. • City departments are <i>not</i> charged for their use of water.	• The Joint Boards of Management, of which London is a leading member, recently entered into an O+M contract with American water for both its Lake Huron and Lake Erie source water treatment facilities. Previously, this service had been provided by OCWA. • Billing, meter reading and customer service are contracted out to London Hydro • Water samples tested by a certified 3rd party lab; but London is considering developing certified in-house capacity. • Sewer improvement tax charged on water bill covers both storm and sanitary sewers.

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Ottawa http://www.city.ottawa.on.ca/index_en.html Mike Tobalt: 613-580-2400 Pat McNally, Director, Utility Services 613-580-2424 X22609	• The City of Ottawa’s Transportation, Utilities and Public Works Department (TUPW) houses the “Utility Services” division, which in turn houses separate service units for drinking water and wastewater & drainage. Utility Services reports to Council’s Environmental Services committee through the General Manager of TUPW. • The City of Ottawa has no standing citizen advisory groups on water; open-houses and public consultation are used on an <i>ad hoc</i> basis for large projects. • Council approval would be required for large-scale O+M contracts that would have significant labour-relations implications.	• Drinking Water and Wastewater & Drainage units are charged for some corporate services. General “service level agreements” are in place for some services. The water and sewer units have virtually no flexibility to purchase services from outside parties. • A corporate service group within the Finance Department handles meter reading and billing. • All city departments are to pay for the water they use – and will be required to do so in the future. Currently, however, some facilities are not metered so no charges are collected.	• A lab for both water and wastewater testing was recently established as a separate unit; previously there had been separate labs. While Ottawa does most of its testing itself, it does use a certified 3rd party lab for some of its “organics” testing. • Ottawa contracts out watermain replacement • The vast majority of storm water/sewer costs are covered by a sewer surcharge. This charge is based on the (consumption-based) water bill paid by a business or homeowner.

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Peterborough http://www.city.peterborough.on.ca/ John Hart, City Solicitor: 705-742-7777 x1603 http://www.puc.org Wayne Stiver, VP, PUC: 705-748-9301 x1237	Water - Peterborough's Public Utilities Commission (PUC) is responsible for providing water to area residents and businesses. - PUC has synergies and a close relationship with Peterborough Utility Services Inc (PUSI), an OBCA corporation. For instance, since the PUC has no employees <i>per se</i>, it contracts with PUSI for labour. - PUC <i>is not</i> incorporated under the OBCA. (Note: Part II of the Walkerton Report incorrectly referred to PUC as an OBCA entity). - PUSI <i>is</i> incorporated under the OBCA. - Council appoints the PUC's 5 Board members to three-year terms. The Board (Commission) is comprised of 2 Councillors, 2 citizens, and 1 representative from PUSI. - PUC meetings are all public; citizens can depute at Commission meetings if they have made prior arrangements to appear on the agenda - PUC sets water rates and provides Council with its budget and annual compliance reports for information purposes. Council approval of water rates or budget is <i>not</i> required. - PUC would not need Council's approval if it wished to enter into a large-scale O+M contract. Wastewater - Peterborough's Environmental Services division is responsible for the city's sewers and wastewater.	- PUC has an agreement with the Peterborough's Public Works Department to maintain its vehicles. - PUC and City of Peterborough share a common IT facility/ service. - PUC does not charge all city departments for use of water; but it does levy an annual charge (\$700,000) for fire protection	- PUC has an in-house lab but it is not certified to do all tests. Accordingly, many tests are done by accredited outside labs. - Peterborough's Environmental Services division does wastewater testing. - PUC contracts with a 3rd party to do meter reading, but most residences are not metered. - General tax revenues cover expenses associated with storm water/sewers.

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Peel Mark Schiller, Dir., Water Treatment: 905-7917800 x4394	- Region of Peel's Public Works Department is responsible for regional roads, waste management, water and sewer. This department reports directly to Peel's Council via the "General Committee in Council". - The Region of Peel has no standing citizen advisory group on water; but residents may depute before Council. - Peel is in the 4th year of a 10 year contract with OCWA which covers treatment facilities & primary transmission and storage in South Peel. Council established a committee to review and subsequently approved this agreement, which promises savings of \$67 million over 10 years. Future contracts of similar magnitude would require council approval.	- The water and sewer division of Public Works enters into annual service agreements with other city departments for corporate services. The water and sewer division has some leeway to out-source for these services but has not typically done so. The current Director believes that W&WW gets good value for money spent on corporate services. - Other city departments are charged for use of water; their facilities are metered. - Region of Peel does meter reading and billing.	- Storm sewer costs are covered by the property tax base (general revenues) - Peel does its own tests on distribution and ground water; OCWA does in-plant water testing (e.g. "process sampling"). - Peel recently signed an agreement to supply the Region of York with water in the future.

APPENDIX 3: OVERVIEW OF WATER AND WASTEWATER SERVICES IN OTHER ONTARIO JURISDICTIONS

CITY NAME + CONTACT INFO	STRUCTURE + GOVERNANCE	ADMINISTRATIVE RELATIONSHIP WITH (OTHER) CITY DEPARTMENTS	OTHER KEY CHARACTERISTICS
Windsor http://www.wuc.on.ca Jackie Merlow Corporate VP, Windsor Utility Commission 519-255-7130 x766 Tom Murray, Director of Sewers, Public Works Dept. 519 -255-6257 X6490	Water: • The Windsor Utility Commission (WUC) provides water to area residents and businesses. • WUC's board members appointed by Council. • The Board is comprised of the mayor + 4 others (currently 3 citizens and 1 Councillor). Board members serve 3-year terms. • All WUC meetings are public • WUC provides annual financial report to City Council. Council approval of budget is <i>not</i> required. • WUC sets water rates • City of Windsor regularly studies whether or not to join water and wastewater. Reports (including recent one) were inconclusive, leading to no action. Wastewater: • The Sewer Division of the City of Windsor's Public Works Department is responsible for sewers and wastewater. • Public Works reports through the City Administrator to Council. • Citizens typically make deputations regarding sewer service during budget hearings (November). • Sewer division of Public Works Dept. would require council approval to award an O+M contract	• WUC does not use any corporate services from the City of Windsor. • WUC bills the sewage surcharge for the City.	• WUC employees are members of the International Brotherhood of Electrical Workers (a hold-over from pre-Electricity Act days) • WUC contracts-out meter reading and billing to ENWIN. • Testing of water is done by ENWIN, which recently received certification. • The Public Works Dept does wastewater testing. • Storm sewer costs are covered by the general tax base