



BACKGROUND

Water & Wastewater Municipal Services Corporations

June 2024

Part I: Purpose & Overview of Water & Wastewater

This section covers:

- Context & Purpose
- Overview of Water & Wastewater in Ontario

Context

Over the next 10 years Ontario's municipalities are planning for between \$250 billion to \$290 billion in capital investments to support unprecedented growth while dealing with aging assets¹.

Municipal revenue sources are neither adequate nor appropriate to meet this challenge alone. All orders of government have a role to play in making the investments necessary to ensure safe, sustainable public infrastructure that meet growing needs.

Municipalities are doing their part, exploring models and tools to do things differently, including partnerships with each other. Municipal services corporations have emerged as one of these tools that has garnered significant interest.

To help municipalities and others to better understand what municipal services corporations are and are not, what they can and cannot do, and some of the benefits and risks involved AMO & MFOA have prepared the following backgrounder.

Purpose

A water & wastewater municipal service corporation is a tool that can offer municipalities dedicated decision making capacity that supports long-term sustainability and may help unlock operating and financial scaling opportunities among groups of municipalities that can improve cost effectiveness over time.

However, given the time and resources required to setup a water & wastewater municipal service corporation, serious consideration should be given to the overall advantages and trade-offs for each local context. They should be viewed as a tool over the long-term, where significant collaboration with municipalities is necessary for their overall success.

This backgrounder is intended to share common facts on water & wastewater municipal services corporations with municipalities so that those interested have a balanced view to begin performing their own local analysis for decision-making.

The responsible and sustainable operation of Ontario's water and wastewater systems is a critical public service, central to residents' and communities' health, safety and prosperity. The creation of a water and wastewater municipal services corporation should always balance the opportunities it may provide to manage assets and services with transparent and accountable public stewardship of these vital systems.

¹[AMO's Social & Prosperity Review](#) Ontario's municipalities are planning for \$250B - \$290B in capital expenditures over the next decade (~\$100 B of that investment connected to growth)

²[Ontario Housing Affordability Task Force 2022](#) & [Task Force for Housing & Climate 2024](#)

Water & Wastewater in Ontario

Water and sanitation are United Nation recognized human rights and integral to public health, safety and economic wellbeing. Ontario municipalities have a strong record of delivering services and managing these key assets including the pumping stations, water treatment facilities, lift stations, and tens of thousands of kilometers of pipes that all help to bring water we drink, clean with and safely take away wastewater for community residents and businesses.

They account for a significant portion of municipal infrastructure, in 2021, water & wastewater accounted for approximately 37% of Ontario's municipal infrastructure value (48% with stormwater)¹.

Water systems are and should remain a publicly owned infrastructure. Since the Walkerton e. Coli water outbreak in 2000 several improvements in water & wastewater delivery standards have been enacted to enhance services for Ontarians.

On the one hand it has improved standards and accountability through numerous legislative and regulatory frameworks² including under the *Safe Drinking Water Act, 2002* a statutory standard of care for councillors who have decision-making authority over municipal drinking water systems or who oversee the operating authority of the system.

On the other it has also placed pressure on costs to ensure water systems remain safe, world-class and affordable. Municipalities continue to pride themselves on meeting the challenge as responsible stewards for this key public good.

There are an **estimated 1,106** water systems in Ontario.

On average, **68.5%** of potable water assets & **67.3%** of wastewater assets were in a state of good repair¹

Estimated value of Ontario municipal potable water & wastewater infrastructure is **\$175.8B**¹

Water **usage is observable and quantifiable** - an individual customer's use can be measured with a meter and billed accordingly.

¹ Financial Accountability Office: Municipal Infrastructure (2021)

² Safe Drinking Water Act; Sustainable Water and Sewage Systems Act, Water Opportunities and Conservation Act, and Drinking Water Quality Management Standard

Water & Wastewater Funding & Financing

Full cost recovery in water & wastewater pricing has no single agreed upon definition, but it is generally agreed that it should, at minimum, include the operating and capital costs of the systems as a financial best practice to ensure long-term sustainability of assets and services.

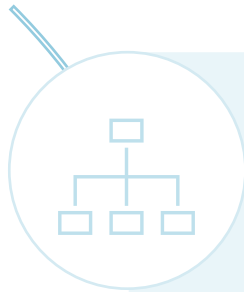
Planning for the full lifecycle of assets is a best practice in infrastructure management. It means considering the full costs of acquiring, operating, maintaining and disposing of water & wastewater infrastructure. It requires budgeting to avoid costly surprises in the future.

Primary Funding Sources				Financing
User Fees	Development Charges	Grants	Reserves	Debt
<p>Major source of ongoing revenue for delivery and are set with a few key things in mind:</p> <ol style="list-style-type: none"> 1. Cost of day-to-day operations (e.g., salaries, routine asset maintenance, treatment chemicals) 2. Cost of lifecycle and asset management activities (e.g., dedicated reserve funds to fund lifecycle maintenance, replace assets in the future) 3. Cost to service debt (e.g., principal & interest) 	<p>Amounts charged and collected from developers for growth.</p> <p>Municipalities have flexibility to use development charges.</p> <p>Typically used to pay for necessary expansion of infrastructure to accommodate new development (e.g., new piping, enhancing system capacity)</p> <p>Alone may not cover the full costs of capital expansion but may help repay debt or reduce the need for user fee increases to repay debt that was secured upfront to build new infrastructure.</p>	<p>Municipalities also can access grants, some of which are dedicated to water & wastewater (e.g., Ontario Housing Enabling Water Systems Fund)</p> <p>Others are broader and can be used for a diverse set of infrastructure needs (e.g., Canada Community-Building Fund)</p> <p>Grants can be a less reliable source of funding for significant water & wastewater capital projects as they may be targeted to fewer municipalities, availability is subject to changes in government direction and broad envelopes compete with other infrastructure needs (e.g., roads)</p>	<p>Dedicated reserves can be built up over-time as a tool to help fund replacement of a major asset in the future or long-term costs, for example a capital levy as a portion of property tax levy.</p> <p>Reserves can also help manage the risk of unanticipated costs or revenue shocks.</p> <p>Reserves are funded by user fees over long periods to ensure rate stability.</p> <p>Development charges collected for water & wastewater must be kept in a separate reserve fund and can only be used on that infrastructure.</p>	<p>Debt to cover capital costs (e.g., costs for replacing a large water treatment plant)</p> <p>Could be a bond or a loan. The amount of debt may be off-set by built up reserves that can help with some capital costs.</p> <p>The amount of debt is also limited by a municipality's annual repayment limit (ARL) - this fiscal indicator, in addition to others, can play an important role in how municipalities are assessed when accessing debt.</p>

Delivery of Water & Wastewater in Ontario

Water & wastewater in Ontario is delivered by multiple means in response to different local contexts, including existing regional setup, geography, historical decisions.

The following are broad descriptions but by no means exhaustive.



Regional & Lower Tiers

Most regional municipalities are responsible for planning infrastructure including water and wastewater, although they may share some responsibility with lower-tier municipalities on delivery or contract out operations to third parties (e.g., Ontario Clean Water Agency- OCWA). Many have economies of scale to help support delivery across lower-tier municipalities including ability to cross-subsidize and have control over major decision making, including setting water rates, debt, and dedicated reserves that are integrated into fiscal planning and council decisions.



Single Tier, Counties & Lower Tiers

In many instances water is delivered directly by a single municipality - their operational arrangements also may vary with some contracting operations out (e.g., OCWA). Counties have various arrangements; in many instances the lower-tier municipalities may manage water and wastewater directly. Whether single, county or lower-tier the municipality has its own infrastructure assets, have dedicated departments and carry key decision making through councils.



Joint Board of Management

Created in the late 90's to govern specific water systems that connected groups of municipalities who have an undivided interest (e.g., Lambton Area, Huron or Elgin water supply systems) – the system was already scaled when transferred versus individual municipalities running their own systems. The boards have representation from municipal members and have various powers including approving operating and capital budgets, as well as setting the rate charged to the benefiting municipalities. Municipalities hold a proportion of the water systems debt.

Municipalities also look for ways to work together to manage and deliver water and wastewater. Some examples include:

- The cities of London and St. Thomas have a jointly operated facility to draw water from Lake Huron and Lake Erie to serve their communities.
- The County of Haldimand and County of Norfolk agreement to share water delivery to allow for a scaled base of users to support capital improvements.
- York Region has agreements with Durham Region with respect to wastewater servicing and with both Peel Region and Toronto with respect to water.

Most municipalities deliver water & wastewater directly, **but some municipalities have a water & wastewater municipal service corporation.**

Part II: Water & Wastewater Municipal Services Corporations

This section covers:

- What is a Municipal Services Corporation
- Benefits & Strategic Risks on Governance, Funding & Finance, Planning & Delivery
- Where a Municipal Service Corporation May be a Best Fit
- Illustrations of Water & Wastewater Municipal Services Corporations

Different Forms of Governance

Degree of autonomy from a municipality



Municipality	Joint Service Board	Municipal Services Corporation	Public Utility	Private Utility
<p>Municipalities that deliver services directly, including owning and managing assets associated with the service (e.g., water pipes, treatment plants) have full control.</p> <p>Municipal councils make all key decisions including asset management, capital funding plans, operational funding and user fee rates where applicable.</p> <p>All assets and liabilities are held by the municipality and consolidated on their financial statements.</p>	<p>Local bodies that may be established by an individual municipality, or by two or more municipalities.</p> <p>The municipality or municipalities can decide many key things around governance (e.g., composition, eligibility of persons to be board members, degree of delegated authority given to the board).</p> <p>Depending on the scope of their setup the decisions may not necessarily have to go back to municipal councils.</p> <p>All assets and liabilities are jointly held by the participating municipalities. This includes how debt is distributed respectively impacting participating municipalities financial information returns.</p> <p>Generally, still within the control of member municipalities.</p>	<p>Some examples are in broadband and a few water and wastewater.</p> <p>Established as a municipally owned corporation for municipal services.</p> <p>Planning and board decisions separate from municipalities with non-elected board members. Financial statements may also be separate*.</p> <p>A water or wastewater municipal services corporation <u>cannot</u> issue any private shares (municipalities sole shareholders)</p> <p>Can be for one municipality or cover broad geographic boundaries across municipal borders.</p> <p>Unlike other utilities (e.g., hydro and gas) water & wastewater does not have an economic regulator.</p>	<p>Most common example are Local Distribution Corporations (e.g., Utilities Kingston, Alectra).</p> <p>Established as a municipally owned corporation (i.e., public).</p> <p>Financial statements, planning and board decisions are separate from municipalities with non-elected board members.</p> <p>Can issue private shares to raise capital but <u>has to be</u> publicly owned.</p> <p>Can be for one municipality or cover broad geographic boundaries across municipal borders.</p> <p>Ontario utilities like hydro or gas are regulated by a provincial board - Ontario Energy Board</p>	<p>Most common example are fully private natural gas utilities (e.g., Enbridge).</p> <p>Established as a privately owned corporation.</p> <p>Financial statements, planning and board decisions separate from municipalities with non-elected board members.</p> <p>Can issue private shares to raise capital.</p> <p>Usually covers broad geographic boundaries across municipal borders.</p> <p>Ontario utilities like hydro or gas are regulated by a provincial board - Ontario Energy Board</p>

* See Appendix B for more detail

What is a Municipal Services Corporation?

Municipalities can establish corporations for delivering municipal services and facilities to residents including - allowing municipalities to work with partners in the public, private or non-profit sectors, potential to provide municipal services and develop facilities more efficiently, potential to increase capital, pool expenses, expertise and staff resources and better economies of scale.

Legal Framework

Under the Municipal Act municipalities have the legal authority to create municipal services corporation¹

The scope of services can be broad, but some services are prohibited (e.g., Ontario Works). Prior to establishing a municipal services corporation municipalities must:

1. Develop a business case study
2. Adopt and maintain policies with respect to the transfer of assets
3. Consult with the public

Establishment & Shareholders

Can only be established by Ontario municipalities or by an Ontario municipality and one or more other public sector entities (e.g., provincial government)²

Not required to be wholly-owned by a single municipality so can be used to structure the governance of a shared service initiative between municipalities. In the case of water & wastewater it must be fully owned by municipalities³ (i.e., cannot issue private shares)

Municipalities have the flexibility to create it as a for-profit or non-profit

Board

Current water & wastewater municipal services corporations tend to have municipally elected members as board members given their intended purpose to deliver key municipal services

However, municipal services corporation boards can have unelected officials to build board capacity and decision making (e.g., selected based on specific skill sets like industry experience) and some do have skills-based positions

Shareholders (i.e., municipalities) can appoint board members

Finances

Can access debt that is not applicable to member municipality Annual Repayment Limits⁴

Can apply for grants and contract services, can collect revenue through user fees

Has similar investment authority as municipalities and can issue revenue bonds⁵

Can receive assistance from municipalities if wholly-owned by municipalities⁶

¹ Municipal Act, 2001 – Section 203; Ontario Regulation 599/06 Municipal Services Corporations

² Ontario Regulation 599/06 Under the Municipal Act, 2001 – Section 3

³ Ontario Regulation 599/06 Under the Municipal Act, 2001 – Section 18

⁴ See Appendix B on Annual Repayment Limit

⁵ A municipal services corporation can only invest under section 418 of the Municipal Act which authorizes municipalities to invest in prescribed securities (described in Part 1 of O. Reg. 438/97). Under O. Reg. 599/06 subsection 18(2) a municipal services corporation may only invest in securities prescribed under section 418 of the Municipal Act. It cannot invest under section 418.1 of the Act that authorizes municipalities to invest in accordance with the prudent investor standard.

⁶ Ontario Regulation 599/06 Under the Municipal Act, 2001 – Section 15

Governance

Opportunities	Strategic Risks and Considerations
<p><u>Long-Term Structure</u> Can offer delivery of water & wastewater to several municipalities in a region under a clear, dedicated long-term governance structure.</p> <p><u>Skills-Based</u> Can be setup to have un-elected officials (e.g., skill-based) serve providing business or sector expertise and perspectives to decision making while also alleviating some of the politically challenging decisions (e.g., increases to water rates).</p> <p><u>Speed</u> Can potentially make decisions faster as they are not competing with other municipal priorities or processes.</p> <p><u>Public</u> Must be wholly owned by municipalities (shareholder) and can be scoped to ensure shareholders still influence major board decisions through by-laws and agreements aligned with the municipal objectives around affordability and risk tolerances (e.g., major capital purchases, significant increases in water rates, issuance of long-term debt).</p>	<p><u>Misalignment</u> Board members have a fiduciary responsibility to the well-being of the utility while councils have a broader mandate to serve their communities. There may be instances where misalignment might arise although municipalities as sole shareholders can appoint or change board members.</p> <p><u>Transparency</u> Corporate board decisions do not have similar visibility as councils (e.g., recorded council proceedings and resolutions versus corporate proceedings). This may be particularly key to setting water rates and may require scoping when establishing an MSC around terms of information sharing and reporting outward.</p> <p><u>Accountability & Trust</u> Because elected municipal members are still liable under the <i>Safe Drinking Water Act</i> it takes time to build trust and willingness to tap into giving a skills-based board autonomy – however in the long-run it can help focus challenging political discussions such as rate setting with long-term sustainability perspectives.</p> <p><u>Practicality</u> While creation of a water & wastewater municipal service corporation does not require a system regulator, depending on the volume of municipalities that are involved in a municipal service corporation it may not be practical to have a large volume of shareholders to help regulate board activity, but this can be dealt with through choosing practical sizes of joint municipal service corporation and board structure.</p>

Funding & Finance

Opportunities	Strategic Risks (to Mitigate or Consider)
<p><u>Relieve Annual Repayment Limits</u> Municipal services corporations can be set up to borrow with no impact on local borrowing capacity (i.e., Annual Revenue Limits*) which can unlock debt as a key instrument to help with major capital expenses for both municipalities and municipal services corporations. Provided the municipal services corporation is properly established and maintained to achieve this objective*</p> <p><u>Does not preclude funding and financing sources</u> Depending on setup, a municipal services corporation can still receive assistance from municipalities offering some flexibility of financial tools to help pay for capital expenses and growth - this could include:</p> <ul style="list-style-type: none"> • Revenues from user fees & government grants • Development charges (although charges cannot be directly collected by a municipal services corporation, but municipalities can collect and transfer as 'equity') • Debt (ideally on favourable terms) <p><u>Equity</u> Equity can be built from transfers made from municipalities (e.g., development charges), proceeds from sale of assets, as well as reserves built up over time through a portion of rates. Equity can also be paid back to municipalities through dividends.</p> <p><u>Economy of scale benefits</u> Grouping municipalities in a municipal services corporation may help to cross subsidize costs offering overall financial sustainability for the group, especially for smaller municipalities that alone may not have the ability to maintain costs. The municipal services corporation may also be in a better position to access more debt channels versus an individual small municipality (e.g., Infrastructure Ontario, banks, Canada or Building Ontario Fund, capital markets depending on the size)</p>	<p><u>Annual Repayment Limit trade-off</u> Municipalities will need to do careful analysis on whether the removal of revenue and debt impacts how much room they have to access debt for other infrastructure needs - see the next slide for an illustration.</p> <p><u>Debt could be more expensive</u> For a municipality - removal of water & wastewater assets, revenues, debt, and reserves may also have a broader impact on how its financial risk is viewed by rating agencies and lending institutions. In addition, a municipality may need to guarantee the debt of the municipal services corporation.</p> <p>For a municipal services corporation - municipalities have excellent credit due to their fiscal framework (annual repayment limit, cannot run deficits, history of risk aversion, healthy reserves). The municipal service corporation may not be able to access debt on similar favorable terms that a municipality has – especially ones with excellent ratings such as regional municipalities - and a financial institution may look to the municipality or municipalities to guarantee a loan. Provincial or federal infrastructure bank programs could offer opportunities to mitigate this in the short to medium-term.</p> <p><u>Transition</u> Setting up a municipal services corporation can create potential complex intergenerational issues that need to be addressed (e.g., if a municipal services corporation stop receiving development charge funds, shifting to full cost recovery pricing). Transferring water & wastewater debt as well as reserve funds for existing water & wastewater assets to the municipal services corporation can be complex to coordinate – especially if this will occur on a periodic basis.</p>

*See appendix B on impact to annual repayment Limit and setting up a municipal service corporation

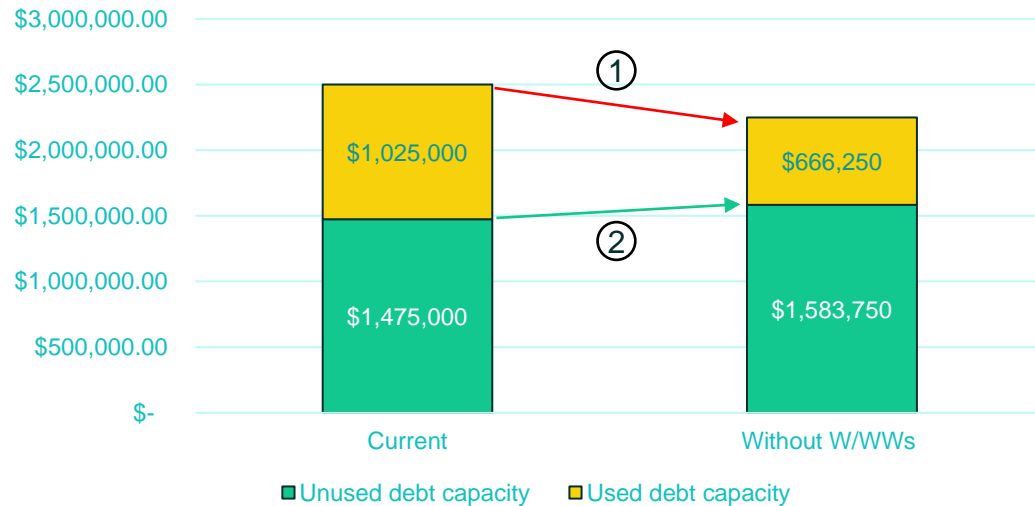
Funding & Finance: Annual Repayment Limit Illustration

The removal of own source revenues and debt associated with water and wastewater could have different impacts based on the current circumstances of a municipality. Some notable changes are worth identifying:

1. The overall debt servicing capacity which is based on 25% of own source revenues of a municipality will be reduced due to the removal of revenue
2. The unused debt servicing capacity could increase if the level of water and wastewater debt the municipality had was high and removed
3. The unused debt servicing capacity could decrease if the level of water and wastewater debt the municipality had was low and removed

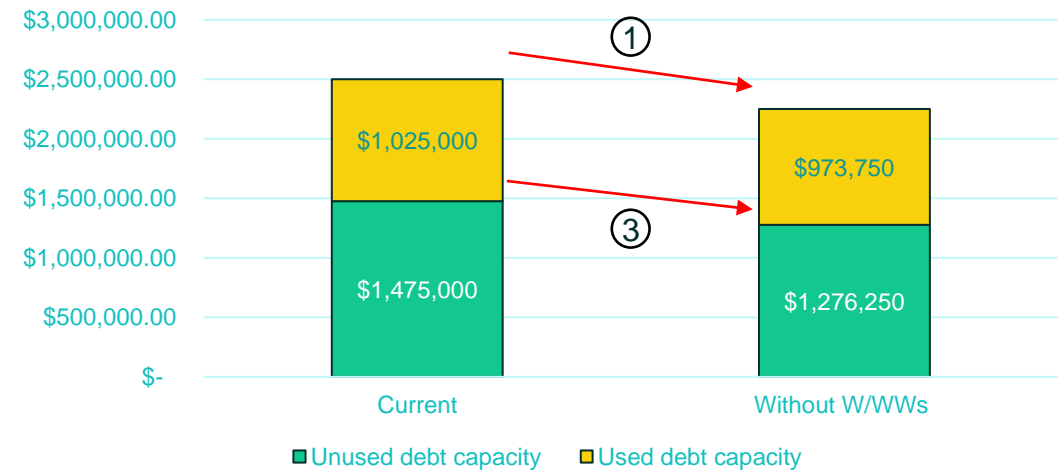
The following illustration provides a simple example of two* potential outcomes:

Scenario 1 – Unused Debt Servicing Capacity Increases



Scenario 1 Assumptions (higher-level of debt associated with water & wastewater)
 Water & Wastewater Principal Payments = \$350,000
 Water & Wastewater Interest Payments = \$8,750

Scenario 2 – Unused Debt Servicing Capacity Decreases



Scenario 2 Assumptions (lower-level of debt associated with water & wastewater)
 Water & Wastewater Principal Payments = \$50,000
 Water & Wastewater Interest Payments = \$1,250

***Common Assumptions Across Scenarios:**

Own Source Revenue = \$10,000,000
 Total Annual Repayment Limit = \$2,500,000 (25% of \$10,000,000)
 Water and Wastewater User Fee Revenues = \$1,000,000
 Total Debt Principal Payments = \$1,000,000
 Total Interest Payments = \$25,000

Planning & Delivery

Opportunities	Strategic Risks (to Mitigate or Consider)
<p><u>Scaled Capital & Operational Planning or Delivery</u></p> <p>In some instances, there could be benefits realized from economies of scale such as:</p> <ul style="list-style-type: none"> • Could help infrastructure planning across municipal boundaries – possibly to connect water systems where it makes sense that can benefit from system rationalization. • Could help to pool delivery expertise. • Could help with administrative efficiencies with one layer of specific administrative functions (e.g., IT, HR, corporate finance support, etc.) as opposed to many within a group of a municipalities. 	<p><u>Long-term & Disruption</u></p> <p>Due to the complexity, especially when involving multiple municipalities, as well time to develop a business case, asset transfer policies and consult it can take time to set up a municipal services corporation (1-2 years*) and more time to eventually reach a mature state (~3 to 4 years). This makes it a less responsive approach to short-term goals such as quickly building housing within five years but responsive to longer-term planning that has less immediate pressures and a runway to shift governance aligned within infrastructure growth plan timelines.</p> <p><u>Complexity</u></p> <p>Removing delivery, planning & decision making from a municipality can create more complexity and coordination issues. Successful growth requires planning, infrastructure and finance to be well integrated, and removing management of key infrastructure may not build houses quickly or worse result in <u>higher</u> cost:</p> <ul style="list-style-type: none"> • Planning issues of coordinating with 3rd party utilities (e.g., tearing up roads twice to do pipe and road work) • Ensuring growth infrastructure is well timed with new housing (e.g., hook-ups are not ready for new builds) <p><u>Transferring Corporate Administration and Resources</u></p> <p>Shifting resources that are needed to operate a water and wastewater corporation will need to be clearly laid out such as IT, HR, corporate finance, legal and day-to-day operational staff all must be considered and can present challenges. It requires a clear plan, transition periods, and may take time to reach full autonomy supported in well-articulated agreements. In addition, setting up and planning the transfer itself takes one-time resources (e.g., consultants for business cases, legal).</p>

Where a Municipal Services Corporation May be a Best Fit

The benefits and strategic risks of a municipal services corporation may also apply differently based on the size and organization of municipalities along with how water & wastewater is currently managed.

This can play a significant factor in determining what marginal benefits this model can offer current municipalities or groups of municipalities. Generally speaking, there would be limited benefits for regional and large single tier municipalities including:

- They currently manage infrastructure across municipal boundaries offering a broader view to support planning
- Growth and asset management planning with other infrastructure is integrated
- They already benefit from economies of scale (e.g., cross-subsidization, pooled expertise, etc.)
- They can access debt on very favourable terms (e.g., often AAA rated) versus a municipal services corporation (e.g., comparator electrical utilities do not have the same credit rating level)
- The transition could be very disruptive to quickly building infrastructure to support rapid and intense housing growth

There may be more benefits gained from groups of smaller to medium size municipalities exploring the model for the benefits outlined in this backgrounder. These will vary considerably from place-to-place but could include helping to in the long-run achieve economies of scale, deal with rapid cost escalations, make politically challenging decisions, and help with debt management to name a few. In addition, some of the benefits are being realized in some smaller areas through municipal cooperation and the use of contracted expertise, such as the Ontario Clean Water Agency.

Ultimately the success of a municipal services corporation is based on how collaborative it will be with its member municipalities, both to generate buy-in needed to smoothly establish a new municipal services corporation as well as in the long run ensuring there is successful coordination to integrate planning and operations so that the right infrastructure is built at the right time in the right place for Ontario's growing communities.

For this reason, **AMO & MFOA firmly believe that this should be sector-led** to achieve the best outcomes.

Part III: Illustrations

Illustrations: Municipality

Innisfil

Effective June 17, 2015, Innisfil Town Council approved the business case for the establishment of a water and wastewater utility “InnServices”.

As a Municipal Services Corporation (MSC) InnServices was setup to help enable strategic infrastructure investments and expansion, specifically into Innisfil Heights.

InnServices is owned by the Town and has a five-member Board that includes the Mayor and CAO, with the Town’s CAO serving as Chair. Operations were structured in a shared-services model with the Town providing certain corporate functions – set out in an agreement.

The corporation has 45 employees, providing services to 12,000 customers in Innisfil and services to a neighbouring municipality.

InnServices has infrastructure under management and operates a user-pay model, with rates set by council.

While the corporation can take on debt, current levels are low, and development charges are still a significant revenue source that finance expansion of the infrastructure and servicing – but it has flexibility.

Oro-Medonte

Effective July 18, 2018, Oro-Medonte Council endorsed proceeding with an MSC and in January 2020 the Hold Co. and Utility (Operating) Co. were incorporated.

The MSC is expected to be a model that can respond to greater demand for future state environmental services (e.g., increased infrastructure demands and associated debt servicing requirements; getting into a broader scope of services and operations; a greater emphasis on rate setting so as to ensure fairness, sustainability and the avoidance of subsidization of environmental services by residents that do not receive them).

The MSC is wholly owned by the municipality and consists of a Hold Co. and an Operating Co. Oro-Medonte Council appointed three (3) skilled based independent directors to Hold Co. and Operating Co; a former member of Council as the municipal member to the MSC Hold Co.; the Township CAO as Chief Executive Officer of Hold Co. and Operating Co.; and the Township Director of Environmental Services as Chief Operating Officer of the Operating Co.

The MSC oversees all municipal water systems currently operated by the Township, existing municipal communal tile bed systems operated by the Township, maintenance of urban stormwater management ponds, maintenance of the Township's street lighting network, and future infrastructure related to water and wastewater, urban stormwater and street lighting.

The MSC does not have its own staff. Technical and administrative support including operating staff are provided by Township staff on full cost recovery basis. Executive support to the MSC is provided by Township senior leadership through job description modifications.

Illustrations: Joint-Municipalities

Frontenac

Effective September 2021, Frontenac County municipalities formally approved the business case for the Frontenac Municipal Services Corporation (FMSC).

FMSC is wholly owned by the four member Townships in the County (Class A voting shareholders) and the County as a 20% Class B, none voting shareholder. The Corporation's mandate is to facilitate the efficient construction and operation of de-centralized communal water and wastewater systems within Frontenac County - a largely rural community in Eastern Ontario.

The board has one members from each founding municipality: The Township of Central Frontenac, The Township of Frontenac Islands, The Township of North Frontenac, and the Township of South Frontenac.

Funding for the FMSC – \$700,000 for the first five years of operation – is divided based upon weighted assessment of the member municipalities, with the County assuming the first 20% of the budget. Operations are anticipated to start in 2025, and work is underway on a full-cost-recovery model.

The current Board of Directors is supported by a technical committee that is providing advise on standards and implementation. The development of an operating corporation is anticipated to take place in 2025.

Union Water Supply System

The Union Water Supply System Inc. (UWSS Inc.) was created on February 24, 2023, as a Municipal Services Corporation.

Union Water Supply System Inc. transitioned from a Joint Board of Management. UWSS Inc. has four (4) shareholders which include the Municipality of Leamington, the Town of Kingsville, the Town of Essex, and the Municipality of Lakeshore.

The system supplies water to a population of around 66,800 within these 4 municipalities. UWSS Inc. is governed by a Board with 12 Board Directors. The board is a mix of municipally appointed members, but limits elected members to 50% of the Board to balance board seats with skilled based positions (e.g., law, engineering, business backgrounds).

UWSS Inc. is independently administered and financially separated from its municipal shareholders. UWSS Inc. retains the municipalities through a Water Services Agreement for customer billing and revenue recovery and remittance.

UWSS Inc. capital program for 2023-2032 is in the range of \$150M and includes major capital projects such as a new reservoir and water treatment plant. To fund these projects, UWSS Inc. needed to obtain debt financing directly an independently of the municipalities.

UWSS Inc.'s Government Business Entity (GBE) designation enables the corporation to access the credit market directly without any recourse to the municipalities.

Appendices

Appendix A: Municipal Services Corporation Governance

Municipal powers include the ability to:

- Create a corporation for any service and/or facility that the municipality itself could provide – but there are limits on which types of service.
- Create a holding corporation
- Appoint or nominate individuals to any corporation
- Buy shares in the corporation that it establishes or that is established by another municipality that is operating within their jurisdiction
- Operate a corporation in another municipality with permission (permission may not be required in two-tier system)
- Structure a corporation with significant autonomy
- Continue to determine how best to provide services

Corporations are not permitted to:

- Establish subsidiaries or other corporations
- Perform any activity other than for the purpose it was created
- Be delegated the power by a municipality to incorporate other Municipal Services Corporations

A Water and Sewage MSC must be Publicly Owned

Regulation O. Reg. 599/06: MUNICIPAL SERVICES CORPORATIONS

Section 18

(5) If any purpose or business of a corporation includes the provision of a public utility for water or sewage,

- (a) the corporation shall not issue shares or give voting rights attached to the shares to a private person if it is a share corporation or, if it is a non-share corporation, it shall allocate voting rights to a member of the corporation only if the member is not a private person; and
- (b) the corporation shall not transfer to a private person any asset that is part or all of a municipal drinking water system or of a sewage works unless the board of directors of the corporation has declared, by resolution, that the asset is no longer needed for the purposes of the system. O. Reg. 599/06, s. 18 (5).

(7) In this section,

- “municipal drinking water system” has the same meaning as in the *Safe Drinking Water Act, 2002*; (“réseau municipal d’eau potable”)
- “sewage works” has the same meaning as in the *Ontario Water Resources Act*. (“station d’épuration des eaux d’égout”) O. Reg. 599/06, s. 18 (7)

Appendix B: Municipal Services Corporations & Annual Repayment Limit

- Subsection 1. (2) of *O. Reg 403/02* provides that the Ministry of Municipal Affairs and Housing will determine the Annual Repayment Limit (ARL) “based on the financial information supplied to the Ministry by each municipality under the Act and under the *Municipal Affairs Act*.”
 - The Financial Information Return (FIR) is structured to gather data reflected in municipal financial statements.
- Under Generally Accepted Accounting Principles for Public Sector entities Government Business Enterprises (GBE) are not consolidated for financial reporting.

If the municipal service corporation is structured to be a GBE, then it’s financials will not be consolidated with municipal financial reporting and will not be reported in the FIR.
If the GBE debt is not consolidated with municipal debt in the FIR, it will not factor into ARL calculations as described in *O. Reg 403/02*

- According to Public Sector Accounting Standards it must have the following characteristics:
 1. Existence as a separate legal entity that can contract in its own right;
 2. Delegation from the establishing municipality of the financial and operational authority to carry out the treatment and distribution of water and wastewater services;
 3. Authority to “sell” (distribute) its “goods and services” (potable water and wastewater) principally to individuals and organizations independently from the establishing municipality; and
 4. Meets, in the normal course of its operation, all of its costs and liabilities from revenues obtained from sources outside of the establishing municipality.
- Not all municipal service corporations are structured as a GBE. Local municipalities should complete their own analysis on the feasibility of structuring a municipal service corporation as a GBE.

Appendix C: Other Alternatives to Addressing Issues

<p>Governance</p>	<p>There may be alternative means to help build decision making expertise or capacity such as:</p> <ul style="list-style-type: none"> • Sub-committees with experts to advise council on specific services or issues • Municipal service boards • Leveraging or building up existing public works capacity
<p>Funding & Financing</p>	<p>There may be alternatives for municipalities to access more debt to meet capital needs</p> <ul style="list-style-type: none"> • Working with the province to increase the Annual Repayment Limit • Establishing a separate Annual Repayment Limit for water & wastewater
<p>Planning & Delivery</p>	<p>There may be alternatives for municipalities to work together to improve delivery or planning</p> <ul style="list-style-type: none"> • Enter into agreements with each other to help share resources including service agreements for one municipality to offer water delivery to another