

Intelligence MEMOS



From: Lindsay Jones and Judy Dezell

To: Municipal Infrastructure Observers

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Re: **HOW TO FUND MUNICIPAL WATER/WASTEWATER INFRASTRUCTURE?**

With international news stories in a daily spin cycle, the everyday issues that dominated the headlines in the last year – like housing and the cost of living – haven't gone away.

Housing supply, we know, is insufficient. This is in part because of the challenges associated with funding municipal infrastructure – like water and wastewater services – that enables housing to expand. With a fresh new mandate, the Government of Ontario should address some broken fundamentals.

With a provincial target of increasing housing by 1.5 million units between 2022 and 2031, water and wastewater capacity have become a significant constraint on development – sufficient capacity must exist prior to issuing building permits.

Valued at \$175 billion in 2021, water and wastewater infrastructure made up almost 40 percent of the value of municipal assets in Ontario spread over an estimated 1,100 water systems, owned and operated by a variety of different municipal governments. While maintenance and operations costs are covered by user fees, expansion costs typically are not, relying instead on development charges, levies or property taxes. Funding water and wastewater infrastructure is often a significant proportion of municipal capital budgets.

Is there a better approach?

One answer may be a Municipal Services Corporation (MSC) model – a separate corporation established under the *Municipal Act* owned by one or more municipal governments that provides services. Over the past year, the Association of Municipalities of Ontario (AMO) and its business services arm LAS (Local Authority Services) has explored the issue and in January an LAS expert panel of thought leaders and practitioners in municipal finance, economics, infrastructure, operations, and governance released its [report](#) highlighting the significant potential of MSCs.

The model retains public ownership of water and wastewater systems – an imperative when it comes to ensuring safe, affordable, and equitable access to this most critical resource. At the same time, it can enable enough separation from municipal governments to benefit from a more efficient approach to service delivery, governance and financing. A board of subject area experts can leverage financing and operational expertise and take the politics out of the decision-making process. Separating MSC financial statements from those of the municipality would allow access to different types of financing. And combining multiple smaller systems under a single MSC can achieve economies of scale from an operations and compliance perspective.

MSCs shouldn't be viewed as a silver bullet – there are lots of questions that remain regarding how to transition existing assets and debt from municipalities, how much of the cost of growth capital could be transferred to user fees given the realities of various rate bases (e.g. size, income levels), and therefore the scale of potential benefits. Given that benefits would largely come from economies of scale through different access to financing, the model is much more likely to provide benefits for smaller water and wastewater systems than those already managed at a regional level.

The panel report also highlights that any transition would continue to require some kind of up front investment in the form of either development charges or connection fees to support expansion. But the potential is there to make a significant difference in the way that many municipalities approach the looming challenge of water and wastewater asset renewal and system operations at a time when the overall fiscal sustainability of municipalities in Ontario is under severe stress.

AMO/LAS has put out the call for interested municipalities to be a part of the next phase of work beginning this spring – the development of a business case based on the financials of specific member municipalities to underpin the creation of a Municipal Services Corporation supported by LAS. A successful new model can't come soon enough for many municipalities watching the growing potential for an economic downturn on the horizon.

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