

*Implementation Committee Recommendations on
Funding Source Water Protection*

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Background

- In public consultations on the White Paper, as well as through Environmental Registry comments on the draft drinking water source protection legislation, funding emerged as the most significant consideration for source protection implementation.
- Feedback from the consultations suggested that, at a minimum, the provincial government should fund the initial development of source protection plans. It was also suggested that the long-term implementation and sustainability of these plans would depend on new sources of funding.
- In the *Part Two Report of the Walkerton Inquiry*, Justice Dennis O'Connor recommended a combination of funding mechanisms to pay for source protection planning. He emphasized three key sources of funding:
 - user fees (municipal water rates, Permits to Take Water);
 - provincial and/or municipal general revenues; and
 - charges on those who discharge pollutants.

Background – Implementation Committee

The Implementation Committee (IC) was asked to undertake the following:

- Estimate the costs of source protection planning;
- Examine the costs of source protection implementation;
- Provide advice on innovative funding mechanisms and incentives for implementation of source protection planning that could address both shorter and longer term financial requirements for the province, municipalities and conservation authorities, agriculture and other stakeholders;
- Provide advice on O'Connor's recommendations for source protection funding mechanisms; and
- Identify and provide advice on potential approaches to impose charges for water takings that could be used toward financing source protection planning.

Funding Principles

- One of the IC's first tasks was to develop guiding principles to inform and direct a proposed strategy to fund source water protection. The principles are fundamental concepts agreed to by the Committee to guide the development of the funding recommendations outlined in the report.

- These principles include:
 - Cost effective
 - Fair and Equitable
 - Ability-to-pay
 - Users Pay
 - Polluters Pay
 - Payment for Benefits
 - Full-Cost Accounting
 - Financial Oversight
 - Accountability and Transparency
 - Adequacy
 - Sustainable, Permanent and Ongoing; and
 - Shared Responsibility.

Assessing the Costs of Source Protection

Due to the lack of significant experience in determining source protection costs within Ontario, cost estimates were based on available information from regions within the province that have undertaken work on some form of watershed protection strategy.

Plan Development

- The cost of plan development was assessed based on previous watershed experiences of several conservation authorities. A high level assessment was undertaken of the potential plan development costs for two of the proposed watershed regions in southern Ontario.
- The estimates are not considered applicable to:
 - central or Northern Ontario (due to significant differences in geology, population and high density land use)
 - high population watersheds in the GTA, where the costs would be expected to be higher.
- The resulting plan development costs were estimated to be \$1,000 to \$1,500 per square kilometer of watershed area or \$6.5 to \$10 million for an average watershed region.

Plan Implementation

- As for plan implementation, the IC was able to make use of the Niagara Water Quality Protection Strategy (2003), which included a detailed cost implementation plan. The resulting cost estimate for the implementation of source protection was \$12.4 million per year. This estimate only provides a first approximation for one region of the province.
- As the development of source protection proceeds through its various phases, more detailed studies of costs will need to be undertaken.

Sustainable Funding for Source Protection

- The IC made several recommendations designed to ensure the long-term sustainability of revenue for source protection planning and implementation, including ongoing source protection plan updating, monitoring and review.

Provincial role

- The Committee emphasized the significant role of the province in funding source protection. The Committee advised that the provincial government should make funding available for source protection planning in 2004 and onwards, to allow technical work to proceed while legislation is being finalized.
- In addition, the IC advised that the province make sure funding responsibilities are delineated to ensure long-term funding is available, and funding shortfalls are addressed, should they arise. Moreover, as costs become more certain, the provincial government should consider whether additional tools are required at the provincial and/or municipal levels.

Contributions from provincial government:

- Provincial general revenue should be the primary source of funding for the implementation of source protection plans. In addition, the province should consider new mechanisms to cover their portion of source protection costs, including pollution charges and water-taking charges. In addition, the province could examine other accounting mechanism such as dedicated funds and special purpose accounts.

Sustainable Funding for Source Protection (cont'd)

The Implementation Committee identified 3 additional key funding sources as fundamental components of source protection planning and implementation:

- **Contributions from municipalities:** Municipalities have a range of revenue sources that may be useful in addressing the costs associated with local source water protection. Such sources could include, but may not be limited to:
 - ◆ Water and Sewer Rates (user fees);
 - ◆ Development charges (for new growth capital only); and
 - ◆ Property taxes.

- **Contributions from the federal government:** The province must encourage federal government participation and funding in source water protection.

- **Contributions from private entities or persons:** Any funding program should require all those impacting on and benefiting from water to share in the responsibility and contribute to the funding of ongoing source protection planning and implementation after the initial plan development.

- Parties responsible for an activity which represents a risk to a source of drinking water should be responsible for funding its management.

Existing Mechanisms

Over and above provincial general revenue, the IC made specific recommendations on three funding approaches considered the most viable to support source protection implementation in Ontario.

1. Water and Sewage Rates

- Water and sewage rates should be used to pay for at least some portion of the municipal share of funding source water protection. The *Sustainable Water and Sewage Systems Act (2002)*, once proclaimed, will make it mandatory for municipalities to assess and report on the full cost of providing their water and sewer services, as well as to prepare long-term cost-recovery plans. These plans will consider, among other things, the costs associated with source protection measures.
- Currently, water consumers on municipal systems in Ontario pay the costs of accessing, treating and distributing water. On average, households in Ontario pay \$45 a month for water and wastewater services, a relatively low rate that does not reflect the true cost of providing these services.
- However, those who take water directly from the source do not pay for the water itself.

2. Water Taking Charges

- The IC recommended that the provincial government proceed with the introduction of volume-based water taking charges to fund a portion of source protection implementation, with only limited exemptions permitted.

3. Pollution Charges

- The IC supported the provincial government's work on pollution charges. The Committee recommended that the province move forward in developing a pollution charge policy framework, including undertaking consultations with experts in the field as well as broad public consultations.

Financial Incentives

The Committee agreed that incentive and assistance programs will likely be a key factor to the success of source protection:

Financial Incentives and Assistance

- Incentive programs and financial assistance should be created to enhance source protection, encourage voluntary implementation of source protection measures, promote compliance, and provide for the long term sustainability of water use.
- Incentives may be defined in a variety of ways and include: partnerships, cost-sharing, grants and loans, technical assistance, tax credits, information and education, and recognition programs. All incentive programs should include an educational and technical component.

Financial Incentives for Agriculture and Farm Water Protection Plans (FWPPs)

- Provincial, federal, and local funding sources should be used to provide additional financial assistance for Farm Water Protection Planning (FWPP) and projects undertaken by farmers in vulnerable areas and for large livestock farms. The provincial government should establish a system of cost-share incentives for FWPPs and other projects early enough to allow improvements to be made in an orderly and cost-effective manner.

Participation of Private System Owners

- Private property owners may stand to benefit from source protection activities, and could also pose a contamination risk to source water. Incentive programs should be developed to encourage and assist private property owners with covering the costs of specific activities on their property that are beneficial to source protection. Furthermore, municipalities should be given the authority to levy source protection charges on properties not connected to municipal systems.