

# Detailed Funding Plan for Water Treatment Long Term Capital Strategy

## ISSUE

Saskatoon Water has developed a detailed plan for implementing the Water Treatment Long Term Capital Strategy (the Strategy) over the past two years. An important part of that planning work is the development of a detailed funding plan. *Council Policy C02-045 - Purchasing Policy* states that approved funding, in an amount sufficient to cover the procurement value, must be available prior to initiating procurement and entering into a contract. This report seeks approval for the Funding Strategy, as required by policy, to proceed with the Water Treatment Plant (WTP) projects.

## RECOMMENDATION

That the Standing Policy Committee on Environment, Utilities, and Corporate Services recommend to City Council:

1. That the detailed funding plan for the Water Treatment Long Term Capital Strategy be conditionally approved, subject to an increase in the City of Saskatoon's debt limit by City Council and the Saskatchewan Municipal Board; and
2. That future updates to the plan be brought forward as part of future Multi-year Business Plan and Budget Deliberations.

## BACKGROUND

As Saskatoon and surrounding region continues to grow, a strategy is required to increase the water treatment capacity to 450 million litres per day to provide safe and reliable drinking water for approximately 500,000 people. Work has been occurring over the past 20 years to plan for a second WTP. The Raw Water Intake Facility, commissioned in 2012, was designed to serve a population of 500,000 and to support a second WTP. Planning work became more focused in 2019 through 2021, with the completion of an updated Capital Development and Expansion Plan. That work was followed up with an internal Long Term Capital Strategy (Appendix 1), which confirmed the decision to invest in existing infrastructure and to both increase system capacity and improve resiliency through the construction of a second WTP. A project team was formed in 2023 to undertake the detailed planning work and deliver the capital projects.

At its meeting on August 8, 2022, the Standing Policy Committee on Environment, Utilities and Corporate Services received [The Water Treatment Long Term Capital Strategy](#) information report. As outlined in that report, an estimated \$651 million investment, over an 18-year period, was planned, with conceptual design of the new WTP starting in 2024. The strategy provides for a lower overall cost to the City of Saskatoon (City) than previous long-term plans, and in order to implement the Strategy a formally approved funding plan is now required.

Options to inform the development of a funding plan were presented to City Council at its meeting on January 25, 2023, in the [Funding Strategy for the Water Treatment Long Term Capital Strategy](#) approval report. City Council directed the Administration:

“to build a detailed funding strategy for the Water Treatment Long Term Capital Strategy and this funding strategy be incorporated into the 2024/2025 water utility rate recommendations.”

City Council approved the water utility rate for 2024 and 2025 during the Business Plan and Budget Deliberations meeting on December 1, 2023. An estimate of funding for future capital requirements was included as part of the approved water utility rates.

Further definition of the project scope has occurred since these reports and a more detailed funding plan is now able to be developed. This report summarizes the detailed funding plan for the Strategy.

### **DISCUSSION/ANALYSIS**

#### General Overview

It is important to ensure that there is enough capacity in the water treatment and distribution system to provide customers with water when they need it. Flow estimates are required to ensure that adequate capacity is available in the future. This ensures that Saskatoon Water can meet its service level objectives and Permit to Operate requirements. The *City's Corporate Risk Appetite 2019* document states: “The City has a low appetite for risks that would significantly affect our ability to provide uninterrupted essential services to our citizens or that jeopardizes public safety”. Failing to have adequate water treatment capacity would meet this criterion. Saskatoon Water has determined that a low-risk tolerance would amount to a ten percent chance of demand exceeding the supply, thus requiring water restrictions. As water demand increases, the existing water treatment infrastructure will reach a point over the next several years where there is a greater than ten percent chance of estimated demand exceeding available supply. To mitigate this risk, construction of the new WTP should begin in the next few years so supply and demand concerns can be eliminated, and water restrictions can be avoided.

Saskatoon Water has developed a detailed plan for the delivery of the Strategy. The effort to plan and deliver this collection of capital projects is referred to internally as the Waterworks Program. The objectives of the Waterworks Program are to increase water treatment capacity, improve the resilience of the treatment system, and to ensure that the existing infrastructure remains reliable.

#### Project Cost Estimates and Funding

Capital projects that are supported by the water utility rate are primarily funded by Utility Revenue transfers to the Waterworks Capital Projects Reserve. Larger projects are often also funded through borrowing, with the repayment funded through utility revenues. Procurement activities are initiated when a project is fully funded, or in the case of large projects, when an approved funding plan is in place. The intention is to fund the projects by a combination of capital reserve transfers and borrowing. Opportunities for funding from other levels of government will be evaluated as they

arise. Funding has been accruing in the Waterworks Capital Projects Reserve since 2022 and will continue to accrue over the duration of the project.

The preliminary cost estimate for the Waterworks Program is \$500 million (Class 4 estimate). This amount will increase accordingly due to inflation and updated estimates will be reflected in future reporting. Three groups of projects have been identified during the planning work. Two of the project groups are located at the existing WTP and support the goal of ensuring that existing infrastructure remains reliable. The major project associated with the Waterworks Program is the construction of a second WTP. This project is driven by increased demand for treated water as a result of population growth. It supports the objectives of increased treatment capacity and improved system resilience. The construction of a new WTP is a significant capital investment that will be delivered over the course of several years. At present, there is \$55.9 million in approved funding available within the project, and it is planned to transfer an additional \$8.1 million in funding from other previously approved project budgets for a total currently available funding of \$64 million. A request to transfer the \$8.1 million in approved funding will be brought to the Standing Policy Committee on Environment, Utilities, and Corporate Services in a subsequent report. The remaining \$436 million in new funding will come from future utility revenues through the Waterworks Capital Project Reserve and from debt. The funding plan proposes that \$73.4 million will be transferred from the Waterworks Capital Project Reserve and the balance of the projects will be funded by borrowing an estimated \$362.6 million. All debt will be repaid through utility rates. Appendix 2 summarizes the estimated project costs, timing, and funding sources. Appendix 3 provides an overview of forecasted overall utility rate increases for the duration of the Waterworks Program.

As part of the [City of Saskatoon Debt Update](#) at the December 2, 2025, Business Plan and Budget Deliberations, it was highlighted that the City's debt projection is expected to peak at \$442 million in 2026, based on currently approved projects, which did not include projections for the WTP project. With approximately \$362.6 million required for the WTP project and a current debt limit of \$558 million, this project would not be able to proceed until an increase to the debt limit is approved by City Council and by the Saskatchewan Municipal Board. As such, the approval of this funding plan is contingent on an increase to the debt limit. If the funding plan is approved, a report to an upcoming Standing Policy Committee on Finance meeting will be brought forward that recommends an appropriate update to the City's debt limit. Upon approval by Committee and City Council, the Saskatchewan Municipal Board would need to review and approve the increase as well. This could take up to six months based on past experiences. If the debt limit increase was not successful, options for the funding plan and project would need to be brought back for Committee and City Council's consideration. Debt for the Waterworks Program will be repaid through water utility rates. A combination of borrowing and utility rate funding allows for consistent water rates and for generational rate equity.

The following measures will be implemented throughout the Waterworks Program to provide financial oversight:

- Saskatoon Water will work closely with Finance to ensure an amount sufficient to cover the procurement value will be available to fund the project as it is delivered.
- Project sequencing will be planned to ensure that expenditures remain within the available capital funding on a year-over-year basis.
- A stage-gate approach will be used to approve project phases and to ensure that senior leadership has appropriate oversight. The project team will not commence the next stage of the project prior to receiving approval from the Executive Steering Committee to pass through the project gate. This will occur at major project intervals, such as the transition from planning to design and then to construction.
- Exit management clauses (i.e., off ramps) will be evaluated for incorporation into agreements to ensure the City is protected from unanticipated events.

This funding plan is based on conceptual design work. Conceptual design is an early phase of the design process, in which the broad outlines of function and form of the future projects are articulated. As the design progresses through preliminary and detailed phases, updated project costing will be available. Updates to the funding plan will continue to be brought forward as part of future Multi-year Business Plan and Budget Deliberations.

### Procurement / Project Delivery Method

An evaluation of project delivery methods has resulted in Construction Management at Risk (CMAR) being identified as the preferred delivery method for the Waterworks Program. CMAR involves the hiring of a construction manager (i.e., general contractor) during the pre-construction phase to provide constructability, cost estimation, and scheduling expertise. CMAR is otherwise very similar to the traditional Design-Bid-Build delivery model that is commonly used by the City for large capital project delivery. Two key factors in the project delivery method decision-making process are related to project cost certainty and the ability to design to a budget. Cost certainty is the likelihood that a project's total cost will remain within the allocated budget. CMAR is expected to result in greater cost certainty by incorporating additional construction cost estimation expertise throughout the design phase. It also allows for design changes and scope revisions to be made prior to accepting a final price for construction (i.e., designing to a budget).

### **FINANCIAL IMPLICATIONS**

Proceeding with procurement and entering into an agreement prior to all capital funding being in the Waterworks Capital Projects Reserve will allow the process to proceed sooner and reduce the cost to deliver the project by reducing the impact of inflation. The City has experienced a reduction of its purchasing power as a result of the significant increase in the construction cost index over the last four years. Proceeding in this manner will reduce the cost of borrowing that will be necessary to delivery these projects. Ensuring the City can meet the demand for potable water, will avoid loss of revenue that would result from water restrictions. The proposed approach will allow for generational rate equity by keeping future water utility rate increases at a modest level, while ensuring that the city and the surrounding region can continue to grow and thrive.

The Administration has projected water rate increases to 2039, allowing for a five percent or less increase in each year with all water and wastewater capital and operating expenses estimated, including debt repayment for the works outlined in this report.

The development of the funding plan will be further refined as the design progresses and the program scope is better understood. Any significant changes will be reported to City Council with appropriate recommendations.

Opportunities for alternative funding sources, including funding from other levels of government, will be evaluated and pursued throughout the project, where appropriate. In addition, a potential funding source that could be considered is a development levy for newly developed properties. Additional treatment capacity is required exclusively due to growth and a levy associated with funding future growth is an option.

### **OTHER IMPLICATIONS**

Saskatoon Water will work with the City Solicitor's Office and Supply Chain Management to develop a procurement plan and appropriate agreements to protect the City's interests. Both parties are represented throughout the project governance model and are project team members.

Social and environmental implications of the capital work, included within the Strategy, will be reviewed and addressed as each project is brought forward for implementation.

### **NEXT STEPS**

Saskatoon Water has developed a detailed plan for delivering the capital projects contained within the Strategy. Proper oversight has been established to ensure that projects are delivered in an efficient and effective manner. The detailed planning work is nearly complete, and the establishment of a funding plan provides clarity and certainty for moving forward to the preliminary and detailed design phases.

If approved, a future report will be presented to Standing Policy Committee on Finance to proceed with updating the City's debt limit.

### **APPENDICES**

1. WTP Long Term Capital Strategy Decision Quality Review Executive Summary
2. Project Cost and Funding
3. Forecasted Utility Rate Increases

#### **Report Approval**

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