FINANCIAL SUSTAINABILITY IN ACTION

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Canadian Water Network
Igniting interest.
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Strategic debt management

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The challenge: Rethinking how municipalities finance new infrastructure

Municipalities across Canada are grappling with a central strategic question: how to finance new water and wastewater infrastructure amid rising construction costs, climate pressures, aging assets, and increasing service expectations. When planning major capital projects, water utilities typically rely on a mix of three financing approaches:

1. Saving cash reserves in advance.
2. Waiting to proceed until sufficient upfront revenues are available from user fees, grants, or development charges.
3. Borrowing and repaying costs over time through debt financing.

Using reserves and relying on upfront funding can help manage financial risk, strengthen credit ratings, and preserve flexibility to address unexpected needs. Debt financing, by contrast, spreads the cost of long-lived assets across the future users who will benefit from them. This supports fairness and intergenerational equity. At the same time, debt can increase long-term financing costs, reduce fiscal flexibility, and heighten exposure to interest rate volatility.[1]

Historically, many Canadian municipalities have limited their reliance on debt. They prefer to fund infrastructure through rates, development charges, grants, or front-ending arrangements with private developers. Québec stands out as a regional exception. For decades, it expanded growth-related infrastructure primarily through conventional municipal debt financing. It only recently introduced legislation comparable to development charge frameworks used elsewhere in Canada.

Today, however, growing renewal backlogs, the urgency of housing-enabling infrastructure, and less predictable development revenues make sole reliance on pay-as-you-go difficult. A resilient financing strategy must ensure that utilities recover their full costs, maintain reliability, manage risk, and protect long-term affordability.[2]

Overview: Risk at the heart of financial sustainability

Risk is central to the infrastructure finance challenge. Political approval processes, regulatory requirements, environmental conditions, supply chain constraints, and contractor availability all affect cost and schedule.[3] Municipalities are therefore cautious for good reason. Unlike federal and provincial governments, they must balance their operating budgets annually and still meet debt service and capital contributions. This heightens sensitivity to project risk.[2]

For instance, Ontario's borrowing framework dictates that municipalities can borrow only for capital works. Also, their debt service must remain within a provincially regulated Annual Repayment Limit tied to own source revenues. The purpose of this structure is not to discourage borrowing, but to ensure that borrowing supports long-lived assets and remains affordable across economic cycles.[4]

Municipal debt is fundamentally different from the deficits incurred by other governments. It is used exclusively for capital projects that provide benefits over decades. When designed appropriately, borrowing spreads the cost of infrastructure across the customers and taxpayers who benefit from it, protecting households from sudden tax or rate spikes.[2] This is consistent with national guidance on full cost recovery, which underscores that utilities must generate enough revenue to operate and maintain systems, fund renewal, service debt, and manage uncertainty.[1]

Foundation for Affordable Capital

The following principles promote strong financial management. They enable communities to preserve a high credit rating and access lower-cost borrowing.

Full cost recovery is an important foundation of sustainable utility finance. Revenues must cover all operational requirements as well as renewal, rehabilitation, debt repayment, and reserves for uncertainty. It is only with predictable future cash flow that lenders and councils can confidently support borrowing.[1]

Cash reserves are essential risk management tools. They buffer revenue volatility, support credit ratings, and prevent utilities from using debt as the first response to short term pressures. Credit rating agencies often consider reserve levels when evaluating the cost of borrowing, making reserve discipline a financial advantage.[5,6]

How utilities can use debt strategically

Utilities should approach borrowing inside a clear framework that explains when and how debt will be used, and how it supports long-term financial health.

Develop a long-term plan first

Before borrowing, utilities need an evidence-based way to compare financing options, evaluate lifecycle costs, and test affordability over time. A structured business case and a 10-to-20-year financial plan that integrates asset management needs, risk tolerance, service level targets, and affordability metrics will identify where debt delivers net value and where cash or phasing is preferable. This discipline ensures borrowing advances projects with strong operational and financial justification, not simply projects that are shovel ready.[4,7]



Treat water and wastewater as revenue backed utilities

When rates are set for full cost recovery, water and wastewater systems generate stable, predictable revenues that can secure repayment and spread costs fairly across the users who benefit over time. Framing borrowing around utility revenues, rather than relying solely on general taxation, aligns repayment with service delivery and reduces pressure on current ratepayers. Canadian guidance on full cost recovery underscores that this predictable revenue foundation is what makes revenue backed borrowing both possible and prudent.[1,2]

Strengthen internal capacity to support responsible borrowing

Debt works best when the organization can deliver on time and on budget. The Water Research Foundation highlights program implementation approaches and systems as a best practice because well-designed governance, controls, and delivery processes reduce cost overruns and protect ratepayers from avoidable increases. Strong funding approval and resourcing processes also matter. They ensure debt requests are justified, the utility has the staffing and financial expertise to manage obligations, and each borrowing aligns with long-range capital strategies rather than ad hoc needs.[7]

Communicate clearly

Councils and customers need to know what the borrowing is being used for, how repayment is secured, and how the approach protects long-term affordability. Open communication builds trust and lowers perceived risk. Early and transparent engagement also helps explain why borrowing is justified for a given project and how it fits into the broader capital program.[7]

Case study: Regina, Saskatchewan

About the City of Regina

Regina, Saskatchewan operates an integrated municipal utility that provides drinking water, wastewater, and stormwater services to roughly 263,000 residents.

Drinking water is supplied through the Buffalo Pound Water Treatment Plant, with treated water delivered through a system that now includes over 2,000 kilometres of distribution piping, seven reservoirs, four pumping stations, and more than 900 kilometres of water mains.

Wastewater services are supported by the upgraded Regina Wastewater Treatment Plant, one of Canada's largest municipal P3 projects, which now provides up to 92 million litres per day of treatment capacity.[8]

The City of Regina has recently decided to intentionally use debt to fund critical new water infrastructure. Council signalled this through a series of decisions in 2025 that increased reliance on long-term debentures, a form of municipal borrowing through which the City issues fixed-term, interest-bearing debt instruments backed by its general credit rather than specific assets.[9]

Debentures are being used to finance growth-enabling and renewal projects while managing affordability and risk. Most notably, staff received City Council approval and later borrowed a total of $170 million in debentures for the Water Network Expansion (WNE).

The WNE is a multiyear program that adds a pumping station, two storage reservoirs on Redbear Avenue, and an 8.4-kilometre water supply main to serve growing east and northeast neighbourhoods. The project addresses fire protection, service reliability, and regulatory objectives. It is central to the long-term distribution plan.[10,11]

Leadership at the City of Regina explained it was important to finance its WNE through debt because the project was considered critical growth infrastructure, and the City did not have enough cash reserves or revenue from development charges to fund it upfront. Debt financing enabled Regina to move ahead immediately while spreading costs over the future residents who will benefit, avoiding further delays, cost escalations, and risks to water service reliability.[14]

Regina paired the borrowing decision with explicit repayment strategies to maintain fiscal health. The administration priced two separate 30-year bullet debentures, one for $100 million in 2024. The second debenture was approved in 2025 for $115 million dollars, of which $70 million was for the WNE, with a coupon of 4.25 to 4.95 percent, respectively. Council approved mill rate increases for both debentures to fund the debt servicing costs. A sinking fund was also approved to ensure the principal would be funded at maturity.[10]

Regina also stayed within its approved debt limit. After the Saskatchewan Municipal Board directed an incremental approach and set a $660 million ceiling in 2023, the City framed subsequent borrowings within that cap. It shifted to phased applications rather than a single large increase.10 As of May 2026, the City's current debt limit is $890 million.

Finally, Regina integrated borrowing with its full-cost recovery utility model. It aligned debt service with user revenues and dedicated tax measures rather than relying on volatile development flows alone. Staff also communicated trade-offs openly during budget deliberations to maintain credibility with investors and the public.[10,12]

In summary, Regina's approach reflects best practice: borrow against clear service outcomes, match tenor to asset life, operate within regulated limits, integrate borrowing with full-cost recovery rates and risk-based reserves, and communicate repayment and affordability strategies in advance.



Key takeaways

- **Anchor borrowing in long-term financial planning.** Develop 10- to 20-year borrowing plans supported by structured business cases that connect each project to service outcomes, lifecycle costs, and clear affordability limits.
- **Use revenue-backed borrowing to improve predictability.** Rely on financing structures tied to full cost recovery so repayment is supported by stable cash flows and aligns directly with the users who benefit from the infrastructure.
- **Match financing instruments to asset life.** Select debt terms that reflect the lifespan of assets and maintain risk-based reserves so borrowing smooths long-term costs without compromising financial resilience.
- **Operate within provincial requirements and set internal safeguards.** Follow provincial borrowing rules and establish internal limits for debt service and liquidity to protect ratepayers and ensure affordability through economic cycles.
- **Communicate borrowing strategies with clarity and transparency.** Explain how funds will be used, identify repayment sources, and demonstrate debt affordability to build trust with stakeholders and lower the cost of borrowing.

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Further reading

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