



Staff Report

Administration – Chief Administrative Officer

Report To: COW - Operations, Planning and Building Services
Meeting Date: February 3, 2026
Report Number: ADM.26.015
Title: Investigative Report – Craigleith SLS, Mill Street SPS and Bay-Grey Street Linear Works
Prepared by: Adam Smith, Chief Administrative Officer

A. Recommendations

THAT Council receive Staff Report ADM.26.015, entitled “Investigative Report – Craigleith SLS, Mill Street SPS and Bay-Grey Street Linear Works” for information.

B. Overview

The purpose of this staff report is to summarize the findings of an investigation into the budget increases associated with the Craigleith SLS, Mill Street SPS and Bay-Grey Street Linear Works bundled projects.

C. Background

At the December 16, 2025 Council meeting, OPS.25.049, entitled “Request for Construction Budget Increase for Craigleith SLS, Mill St SPS and Bay-Grey Linear Works” was received by Council and inclusive of approving additional budget for the relevant capital works and direction to enhance reporting along with other measures to address concerns with respect to the projects including the following:

AND THAT as a result of the above approval, Council directs staff to provide a “what/when/where” investigative report, no later than February 3, 2026 (interim report), with a more fulsome staff report to the February 24, 2026 Committee of the Whole meeting, outlining consequences of staff actions as well as recommendations for corrective measures that strongly emphasize accountability and prevention so no event of this nature “ever happens again”;

Based on this direction, a review has occurred with respect to the timeline provided through the staff presentation in OPS.25.049. Focus was directed towards the issuance of construction tenders associated with the Craigleith Sewage Lift Station (September 2025), Bay and Grey Street Linear Works (October 2025) and the Mill Street Sewage Pumping Station (untendered). At this stage, there is generally a strong understanding of project costs and is a critical point in which if there are budgetary pressures they should be identified and addressed through a

combination of reengineering or budgetary amendments. However, options for significant changes do become more limited once designs are complete and at construction, tenders can become more rigid.

Since 2023, staff have been managing the capital works related to the Craigeleigh Sewage Lift Station, Bay and Grey-Street Linear Works and the Mill Street Sewage Pumping Station as a bundled project in an effort to realize cost efficiencies.

In 2024, the Town applied and successfully received \$24.5 million from the Province through the Housing Enabling Water Systems Fund (HEWS) for the bundled projects which were based on Class C/D cost estimates for the associated capital works meaning there remained significant uncertainty as to the anticipated costs to be received at the time of tender. While this grant has represented a tremendous opportunity for the Town for projects that otherwise would completely be at the Town's expense (through DCs and other reserves), it was also provided to the Town with the intent of quickly realizing residential units in the Town's development pipeline and aligning with the provincial focus on expanding housing supply. As such, aggressive project milestones were identified within the application alongside budget figures that did not fully capture the financial risks and the uncertainty remaining in the Class estimates, particularly given the state of design and the compressed timelines of the HEWS program.

In addition, Class C estimates include a standard $\pm 25\%$ contingency. Further, the application framework itself permitted an additional 25% contingency to be applied to construction costs, and it appears this was intentionally built into the program to recognize the tight application timelines and the preliminary nature of many projects being advanced. However, the full extent of these allowances was not applied in the submission alongside construction estimates that were not fully complete. As a result, the amounts submitted may have understated both the total eligible project value and the overall financial scope and risk profile of the bundled projects at the time of application. Even so, the maximum funding limit of the HEWS grant is \$35 million per application and it is unclear if inclusion of additional allowances would have led to the Town receiving the full value of the grant.

Following confirmation of the grant, the estimates used within the application served as the figures within the 2025 Budget and again within the 2026 Budget. The basis for these figures not changing is that at the time of both budgets being formulated, the refined estimates known as Class A often being those used for any issuance of tender, were not provided in a timely manner to Finance staff to include within the capital forecast.

Importantly, including this increase earlier in the capital budget would not have changed the tax rate, as the tax rate is driven by the annual operating budget and debt servicing requirements, not by the total value of a capital project in any single year. Capital projects are funded and financed over many years, so a higher project cost affects long-term financial planning rather than the immediate tax levy.

Although it would have been helpful to have a clearer understanding of these costs much earlier in the budget process, including this increase at that time would not have impacted the tax rate, as capital project values do not directly drive the annual levy. It could, however, have

delayed approval of the overall budget without providing any immediate financial benefit to residents. Timely budget approval is important to support operational stability, contract planning, and effective delivery of services, and adopting a budget later in the year is not considered best practice from a governance or financial management perspective.

That said, the magnitude of this increase will have a material impact on the Town's capital program and long-term financial plans which will need to be updated. As this occurs it will also require a careful review of cash flow, reserve strategies, debt projections, and the prioritization of other capital projects to ensure the Town remains financially sustainable. It also reinforces the importance of timing. Beginning in July 2025 with the release of the tender for the Craigeleith SPS, sufficient variances existed from estimates to warrant a report to Council, despite the fact that this project was a small component of the overall bundle. In August 2025, with the release of the tender for the Bay and Grey Linear Works, it became clear that insufficient budget would remain to support the Mill Street SPS.

As cost pressures or scope changes start to emerge, that information should be escalated as early as possible. Projections are only as accurate as the information available at the time, and earlier visibility would have allowed staff to update relevant plans sooner and better prepare Council and the community for the financial implications. While this would not have changed taxes or the overall budget timeline, it would have strengthened transparency and long-term financial planning. This is an important lesson coming out of this project and one that will help improve how major capital projects are managed going forward.

Generally, overages pertaining to capital projects are not unusual and in many instances the scale can be difficult to foresee given economic conditions, contractor availability, scope modifications etc. Additionally, major infrastructure such as pumping stations and water/sanitary distribution pipes are critical services that the municipality is required to build, operate and maintain which constrains decision-making when a project is over-budget.

However, among the major challenges confronting the management of these capital works is that two of them, being the Mill Street SPS and Bay-Grey Street Linear Works, have certain components that are tied together. As a result, the Town's options following the awarding of the Bay-Grey Street Linear Works become limited.

D. Analysis

In reviewing the budget exceedances for the Craigeleith SLS, Mill Street SPS and Bay-Grey Street Linear Works, various measures have either been put in place or planned to occur including:

1. Discontinuing the practice of grouping project budgets (this was brought into force with the start of the 2025 budget, recognizing this project was approved as part of the 2024 budget);
2. Additional sign-offs for expenses in excess of \$500,000 prior to the award of a tender;
3. New requirements for identifying prospective risks be it financial or otherwise in requested bid award forms to be signed off by the appropriate staff;

4. Ensuring staff reporting and budgetary requests to Council include consideration of options to address prospective cost escalation or other project risks;
5. Exploring thresholds to trigger a value engineering exercise for major capital projects.

To the extent possible, responses have also been provided to many of the questions posed by Mr. John Milne during his deputation on January 26, 2026.

Will the report explain how the overrun reached \$19M before Council was advised, including what “red flags” should have been visible around the \$2M, \$5M, and \$10M marks?

The release of the tender for the Craigeleith SLS with a \$2.6 million difference between initial estimates and contract award would serve as the optimal point in which a pause would occur to evaluate options and increase the overall project budget. Subsequently, with the receipt of the updated cost estimates of the Bay and Grey Street Linear Works with a difference of \$10 million, should have resulted in a fulsome report to Council.

How was the decision made about when to bring the \$19M escalation to Council, and who was involved?

Following the elevation of the Class A estimates of the Mill Street SPS to the appropriate staff in November 2025, a total project variance of \$19 million became apparent and lead to the escalation to Council, these costs were evaluated and thoroughly reviewed prior to bringing forward to Council.

Will the report identify the specific reporting and oversight gaps that allowed the escalation to grow, and how those gaps will be eliminated in the future?

As previously noted in OPS.25.049, several controls have already been implemented. These include discontinuing the practice of grouping project budgets to reduce complexity in financial tracking and eliminate any ambiguity with respect to checkpoints with Council. Further, additional sign-offs will be required for expenses in excess of \$500,000 prior to the award of a tender. This additional step will strengthen the Town’s ability to respond more effectively to cost-escalations in major capital projects. Other measures to be pursued include an emphasis of risk management strategies to be documented in the tendering process and in reporting to Council. A requirement to be explored further is engraining as a standard practice or policy, value engineering exercises for major capital projects.

Will the report explain how this escalation was handled during the 2026 budget process, including how it was reflected in budget discussions at the time?

The severity of the budgetary overage was only fully understood in November 2025 but even so, staff are still evaluating fiscal measures to address the overage. Further, the value engineering exercise may reduce project costs that impact prospective debt burden and projections tied to reserves.

Will the report explain why the escalation was not reflected in the “Forecasted Total Reserves and Reserve Funds” table (p.167, 2026 Budget Book)?

Further to the above response, reflecting the costs within the budget book would have been premature in the absence of having complete confidence in overall project costs given the impact of the exceedances in the overall project budget.

It is also important to note that this work now needs to be updated and will form part of the broader capital plan update referenced earlier. As the project costs, funding approach, and financing strategy are confirmed, the Forecasted Total Reserves and Reserve Funds table will be revised accordingly to reflect the updated capital program, cash flow requirements, reserve impacts, and debt projections in a complete and accurate manner.

Will the report include all funding sources for both the \$19M overrun and the overall project budget?

The funding approach will be addressed as part of an updated capital plan and long-term financial plan.

This will require a broader reassessment of the Town’s capital funding strategy, including updates to cash flow projections, reserve balances, user fee studies and debt capacity. As this work is completed, it may result in the need to pause, defer, or reprioritize other capital projects to ensure the Town remains within sustainable financial limits.

Further, it is being requested that the Town’s Development Charges (DC) consultants review and confirm DC eligibility for the applicable portions of the project. This will ensure that all eligible costs are appropriately recovered through DCs where permitted under legislation, and that the funding strategy reflects the most accurate and defensible allocation of project costs.

Will the report explain how the \$19M will be funded or recouped?

In the absence of additional external funding or meaningful savings identified through the value engineering exercise, the \$19 million will likely require external debt financing. This will be addressed as part of the update to the Town’s capital plan and long-term financial plan, including revised capital cash flow projections, reserve strategies, and debt capacity analysis.

Final funding recommendations will be brought forward once this work is completed, ensuring that any financing approach is aligned with the Town’s overall financial sustainability and broader capital program priorities.

Will the report clarify why the contingency in the \$19M is so large (34%)?

The contingency reflects the current level of uncertainty associated with the remaining scope of work, market conditions, tender pricing volatility, and the risks associated with delivering a complex project that is already under construction. The contingency is not discretionary; it is a prudent financial planning tool to manage exposure where design and construction risks remain.

What is the approval process for expenditures at each stage of a project of this magnitude?

Capital projects are initially approved through the Town's budget process, which establishes the overall funding envelope and scope. Tenders are then authorized for release and proceed through a competitive procurement process. Once bids are received, they are evaluated by staff and a recommended award is brought forward through a bid award form that requires multiple internal approvals, including confirmation that sufficient budget exists to proceed.

In this instance, the process breakdown did not occur at the point of tendering, but at the point of escalation and budget confirmation. During the negotiated bid award process, it was identified that there was not sufficient available budget capacity to advance the third project within the bundled group. At that stage, the expectation is that this information is formally escalated to Council and that further approvals or direction are sought before proceeding which did not immediately occur. As a result, the opportunity to address the financial implications earlier and more transparently was missed.

What was the rationale for undertaking the \$150,000 value engineering exercise at this stage of the project, rather than earlier?

The value engineering exercise is intending on achieving two objectives. Firstly, to identify potential savings that may still be possible in relation to the Mill Street SPS reconstruction. Secondly, to take a systems-level approach to reviewing the entirety of the scope of the bundled HEWS projects as a change management exercise and explore process improvements to capital project management.

Will the report identify the key process and oversight gaps, clarify how information was escalated to Council, and outline corrective actions and accountability measures?

Among the keys challenges in the delivery of the projects subject to HEWS funding has been the treatment of them as a bundle opposed to distinct, standalone projects with separate budgets. In doing so, the awarding of contracts occurred based on the availability of the total budget. If the cost variances were relatively minor between the projects this would not necessarily require escalation, given other projects may come in underbudget or close to initial estimates. However, based on the tender pricing that was received for the Craigleith SPS and Bay-Grey St. Linear Works, warrants were met for further escalation.

How will staff and Council rebuild credibility and regain public trust going forward?

In reviewing the process that unfolded for the projects subject to HEWS funding, a combination of internal and external controls have been instituted to ensure there is public confidence in the management of major infrastructure projects at the Town. Internally, these have been previously noted as discontinuing the bundling of projects and additional sign-offs on project scopes that exceed \$500,000. Additionally, new reporting templates particularly in the awarding of bids that requires multiple signatures, includes a fulsome risk portrait to trigger either broader internal review or discussion with Council.

E. Strategic Priorities

1. Communication and Engagement

We will enhance communications and engagement between Town Staff, Town residents and stakeholders

2. Organizational Excellence

We will continually seek out ways to improve the internal organization of Town Staff and the management of Town assets.

3. Community

We will protect and enhance the community feel and the character of the Town, while ensuring the responsible use of resources and restoration of nature.

4. Quality of Life

We will foster a high quality of life for full-time and part-time residents of all ages and stages, while welcoming visitors.

F. Environmental Impacts

N/A

G. Financial Impacts

N/A

H. In Consultation With

Alan Pacheco, Director of Operations

Monica Quinlan, Director of Corporate and Financial Services

I. Public Engagement

The topic of this Staff Report has not been the subject of a Public Meeting and/or a Public Information Centre as neither a Public Meeting nor a Public Information Centre are required. However, any comments regarding this report should be submitted to Adam Smith, Chief Administrative Officer cao@thebluemountains.ca.

J. Attached

N/A

Respectfully submitted,

Adam Smith
Chief Administrative Officer

For more information, please contact:
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Report Approval Details

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Attachments:	
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This report and all of its attachments were approved and signed as outlined below:

Adam Smith - Jan 29, 2026 - 4:16 PM