

**BUFFALO
POUND
WATER**
BOARD OF
DIRECTORS

THE PLANT:
306.694.1377
ADDRESS: 2476 VICTORIA AVE
PO BOX 1790, REGINA, SK S4P 3C8

▼
June 1, 2017

✓ Mr. Ian Rea
Chief Financial Officer
CITY OF REGINA
PO Box 1790
Regina, SK
S4P 3C8

Mr. Matt Noble
City Manager
CITY OF MOOSE JAW
228 Main Street N.
Moose Jaw, SK
S6H 3J8

Dear Sir:

Re: Request for Funding – Electrical Upgrade Capital Project

On May 31, 2017, the Buffalo Pound Water Treatment Corporation Board of Directors adopted a motion, in part, as follows:

“The Buffalo Pound Water Board of Directors request approval from the Cities of Moose Jaw and Regina, pursuant to Article 5.2 (f) and (z) of the Unanimous Membership Agreement, to negotiate financing (borrow) up to \$45 million in funding by the middle of Q3 2017 and provide the necessary guarantee based on their voting membership of the Corporation for the acceleration of the Electrical Upgrade Capital Project.”

The aging electrical infrastructure is reaching the end of life phase and has been well documented. Most recently, the three electrical failures in 2011 and another three in 2015 have raised the issues and potential impacts of the Cities dependency on the Plant. The Plant being off line for an extended period of time can result in the Cities running out of water.

The Board wants the risk mitigated as soon as possible in order to meet its mandate and reduce the likelihood and consequence of electrical failures in the future. The electrical work is a high priority for the Board and would have already been addressed but had been delayed due to changes to the corporate and governance structure as well as the lack of funds as the Corporation has not had the opportunity to increase its reserves to the required levels since its incorporation in 2016.

Scope of Work

The scope of work for the accelerated Electrical Upgrade Capital Project (the "Project") contains the following components placed in three tender packages:

- Tender Package #1 is ready to be issued as soon as approvals have been provided
 - Main Plant Redundant Power Supply (Generators, Civil Works, Electrical Work)
- Tender Package #2 will be ready to tender in Fall 2017
 - Lake Pump Station Transmission Line Replacement
- Tender Package #3 will be ready to tender in Late Summer 2017
 - Lake Pump Station Power Supply (Generators, Civil Works, Electrical Work & Substation)
 - Lake Pump Station Pumping Upgrades

The details of the scope of work are attached as information. In general, all work that has been included in the Project, once completed, will mitigate all of the known electrical risks, provide for necessary redundancy and upgrade the electrical infrastructure for at least the next 25 years.

Schedule

The majority of the Project contained in the 2017-2026 Capital Plan is to commence construction in 2019. However, it will be accelerated in order to proceed in 2017 with the approval of funding.

The Cities will have to approve the acceleration of the Project pursuant to Article 5.2 (z) of the Unanimous Membership Agreement as this is a change from the 2017 Capital Budget.

Funding Shortfall

In order to accelerate the Project, a significant injection of funds is required.

The Corporation requires an injection of up to \$45 million in order to accelerate the Project by the middle of Q3 in 2017 to cover the tender costs and principle and interest payments over the construction time period.

The predesign/pre-tender estimates for the work are approximately \$40.5 million. Once all the tender packages have closed, the exact amount will be known.

The Cities will have to authorize the Corporation to negotiate financing as per Article 5.2 (f) of the Unanimous Membership Agreement.

The Cities will also be required to provide the necessary guarantee based on their voting membership of the Corporation as the Corporation currently does not own any assets.

Financial Impact to the Cities

A review was done to determine if it would be possible for the Corporation to proceed on an accelerated basis without additional costs to the Cities from what was originally proposed in the 2014 ProForma, and it is possible. There is actually a slight decrease in the overall costs to the Cities due to lower interest rates and a reduction in the water sales forecast but the Capital Water Rates that were contemplated in 2014 will be maintained.

In order to reduce the impact to the Cities and minimize the funds required, the Corporation will utilize approximately \$1.7 million from its reserves early in the project. The Capital Water Rates, which are in line with the 2014 ProForma, will ensure there is funding available to make the principle and interest payments once debt has been incurred and construction has been completed.

The Project will not have a significant impact on the current business case being developed for the strategic long term future of the Plant, or its recommendations, as most of the work would be required in either a major rehabilitation or replacement scenario. The estimated amount of work that could be abortive is less than \$100,000.

Next Steps

- Assuming both Cities have approved the request, the City of Regina will assist the Corporation to negotiate financing with financial institutions starting in late June. The Corporation will pay for the City of Regina's services as the Corporation does not have the capacity nor the experience with respect to negotiating large loans.
- The Board will do its due diligence and approve the contract, in principle, by the end of July. It will then be sent to the Cities for approval.
- The Cities will have the necessary details required to develop and approve their respective Borrowing Bylaws by the end of August.

In view of the foregoing, the Board respectfully requests that the City Administrations for the Cities of Regina and Moose Jaw present the request for funding to their respective City Councils at the earliest Council meeting possible.

The Board looks forward to your favorable response at your earliest convenience. In the interim, please do not hesitate to contact the undersigned or Mr. Johnson if you have any questions or concerns respecting this matter.

Yours truly,

A handwritten signature in black ink that reads "Chuck McDonald". The signature is fluid and cursive, with the first name "Chuck" and last name "McDonald" clearly legible.

Chuck McDonald

Chairman

Buffalo Pound Water Board of Directors

RJ/lw

Encl.

c. Mr. Ryan Johnson, General Manager, Buffalo Pound Water