

Buffalo Pound Plant Renewal Financing

Date	February 17, 2021
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	EX21-14

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Authorize Buffalo Pound Water Treatment Corporation to initiate the process to negotiate financing, to a maximum of \$60 million, to address the financing requirements of the Plant Renewal Project.
2. Authorize the Executive Director, Financial Strategy and Sustainability or designate to negotiate any guarantee that the City needs to provide related to the financing and assist Buffalo Pound Water Treatment Corporation with arranging the financing as needed.
3. Instruct Administration to bring forward a future report to City Council that provides the details of the financing and applicable borrowing bylaw and/or guarantee bylaw for approval once the financing has been negotiated.
4. Approve these recommendations at its February 24, 2021 meeting.

ISSUE

Buffalo Pound Water Treatment Corporation (Buffalo Pound) has been working on a plant renewal project and will require debt financing for the portion of the project that is not being funded by the Investing in Canada Infrastructure Program (ICIP). Buffalo Pound estimates \$60 million will be required in debt financing. To proceed with the procurement process for

the debt financing, Buffalo Pound requires City Council authorization to negotiate with lenders. Buffalo Pound's formal request to borrow and related background information supporting its request is attached in Appendix A.

Officials from the City of Regina, City of Moose Jaw, and Buffalo Pound have worked together to develop the proposed funding approach to Buffalo Pound's capital requirements for the Buffalo Pound Plant Renewal. The City of Moose Jaw is taking a similar report to their Executive Committee on February 16, 2021 and City Council meeting on March 8, 2021.

IMPACTS

If Council authorizes Buffalo Pound to borrow up to \$60 million, a portion of the amount will be applied against the City's debt limit of \$450 million. The City's 74 per cent proportionate share of the debt, which is \$44.4 million, will increase the amount of the City's debt utilized to \$362.4 million.

If Council does not authorize the borrowing, Buffalo Pound would not be eligible for funding for the plant renewal under the ICIP program. The \$60M Buffalo Pound is proposing to borrow represents the municipal/local contribution required under the ICIP in order to leverage \$163.4 million in provincial and federal funding for the project.

Engineering assessments dealing with the age and reliability of the Buffalo Pound Water Treatment Plant (BPWTP) have identified the need to renew or replace the existing plant to ensure the ongoing provision of safe and reliable treated water to the cities of Regina and Moose Jaw and other regional customers. Without plant renewal, the plant will continue to experience supply issues that can impact its ability to meet the needs of the City. Further, the plant will not meet environmental regulatory requirements until a plant renewal is completed. Failure to meet environmental regulatory requirements can result in a Ministerial Order from the Water Security Agency forcing the plant into compliance and potential fines. Without renewing the plant, operating and maintenance costs will continue to rise and major events, such as loss of water supply may occur. The project would address the growing risks associated with sustaining the ongoing operation of the plant, as well as ensuring the plant can meet future capacity requirements when needed.

It is also important to note that Buffalo Pound indicates that moving forward with the recommendations in this report will not cause an increase to the water rates that the City pays to Buffalo Pound, other than rate increases previously approved.

OTHER OPTIONS

The *Unanimous Membership Agreement (UMA)*, requires the two Cities agree on the method by which any additional funding required by Buffalo Pound will be provided. If the two Cities cannot agree on the method, the default position is that each respective City's share of the funding required will be provided through a membership loan.

1. Reserve Funding

The City provide the necessary funding to Buffalo Pound by transferring reserve funds from the City's Utility Reserve. The current balance of the Utility Reserve is approximately \$80 million, however, within the next five years the reserve is expected to decrease significantly as projects in the five year utility capital plan are completed. The City's General Utility Reserve is funded to cover the capital investment required for the effective operation of the Utility. The current 5-year Utility capital plan includes over \$321 million of capital expenditures. Any reduction to the reserve would result in the need for increased utility rates, deferral of capital projects, or incurring debt to finance the projects in the five year Utility capital plan.

Buffalo Pound is jointly owned by the City of Regina and City of Moose Jaw. As such, if the City of Regina funds capital requirements for the Buffalo Pound plant renewal from reserves through a loan to Buffalo Pound, Moose Jaw would need to fund its portion from its reserves or borrow, and lend their respective share of the required funding to Buffalo Pound. This creates the need for two different loan documents and loan servicing for Buffalo Pound. In the event that Moose Jaw's borrowing is at a higher rate than Buffalo Pound can borrow for, it could also increase the overall cost of interest to Buffalo Pound resulting in higher rates.

2. City Borrowing

The City borrow the required funding directly and lend the funds to Buffalo Pound through a membership loan. Administration has determined that Buffalo Pound's borrowing rates are approximately equal to the City's, as such there is no benefit to the City borrowing directly through a bank loan or debenture.

If the City borrows directly, the City of Moose Jaw would need to borrow directly and then both cities would need to provide membership loans to Buffalo Pound. The process would add additional complexity in settlement with two lenders instead of one and would result in different interest rates applied to the total amount borrowed.

COMMUNICATIONS

Pursuant to sections 101 and 102 of *The Cities Act* and *The Public Notice Bylaw*, Bylaw 2020-28, public notice was issued on February 6, 2021 of the intent to authorize Buffalo Pound to enter negotiations with lenders for the purpose of funding the Buffalo Pound Plant Renewal Project.

DISCUSSION

The Plant Renewal Project (PRP) is designed to ensure the long-term viability of Buffalo Pound and to ensure the plant will be able to meet its mandate into the future.

It has been nearly 30 years since the last rehabilitation or upgrade to the main facility. Major components in the facility are at, or near, end of life. The existing facility is not meeting environmental regulatory requirements with respect to process waste discharge, chlorine storage and hatch covers. Buffalo Pound is working with the Water Security Agency on their plan to address these requirements through the Plant Renewal Project. In the event progress is not made on these regulatory issues, the Water Security Agency can issue a Ministerial Order, forcing the plant into compliance and potentially levying fines. Further, the facility is limited in its flexibility to meet potential future regulatory requirements, such as corrosion control or pH adjustment. Due to the inconsistent nature of our water supply, the facility is having more difficulties with treating the growing range of raw water conditions that are occurring in the lake.

The project agreement was executed in June 2020 with Graham-AECON Joint Venture team for the design portion of the project.

The total project cost estimate is \$252.8 million including contingency and PST and includes \$6.6 million for advisory services, \$23.4 million for design and \$222.8 million in construction.

Buffalo Pound has sufficient resources for design and advisory costs. Council approved Buffalo Pound's application to the Investing in Canada Infrastructure Program (ICIP) in CR19-23. ICIP funding of approximately \$163.4 million has been recommended by the Province to the federal government for approval. The remaining approximately \$60 million in required funding, represents the municipal/local portion of funding required under ICIP. Funding is estimated to be required by June 30, 2021.

Buffalo Pound is a municipal corporation with the City of Regina and City of Moose Jaw as its sole voting members. Under the *Unanimous Membership Agreement* (UMA), the City of Regina owns 74 per cent of the voting shares of Buffalo Pound. As such, the City of Regina would be required to guarantee \$44.4 million of the borrowing. This debt amount would appear on the City's consolidated financial statements and would be applied to the City's debt limit. The City's approved debt limit, as set by the Saskatchewan Municipal Board, is \$450 million. If Council approves this borrowing, the City will have utilized \$381 million of its \$450 million debt limit, or 85 per cent.

Buffalo Pound is required by the UMA, to obtain the approval of both cities (Moose Jaw and Regina) for the borrowing of funds to proceed with the Plant Renewal Project. Clauses 5.2 (f) and section 5.3 of the UMA state:

5.2 Matters for City Approval. The Corporation shall not take any of the following actions without the prior approval of each of the Cities:

- (f) the borrowing of money or the issuing any debt obligation or amending, varying or altering the terms of any existing debt obligation.

- 5.3 **Decisions of City.** Where approval of the Cities is required pursuant to section 5.2 of this Agreement, the chairperson of the Board of Directors shall make a written request to each of the Regina Council and Moose Jaw Council which includes all information necessary for the Cities to make an informed decision. All requests pursuant to this section 5.3 shall include all supporting information and shall be provided to the City Manager, or delegate of each of the Cities, who shall bring the matter forward to Regina Council and Moose Jaw Council, respectively, for consideration.

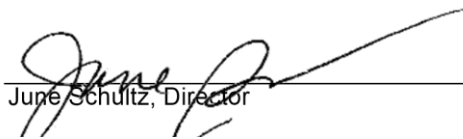
In accordance with sections 5.2 and 5.3 of the UMA, the Buffalo Pound Board of Directors have submitted the attached request in Appendix A which requests approval to begin negotiations for the financing necessary to proceed with the plant renewal project. Under the UMA, a further report will be provided to both cities later for approval of the borrowing once the details of the financing are known.

DECISION HISTORY

Council approved the inclusion of the Plant Renewal Project on the City's application Investing in Canada Infrastructure on March 25, 2019 through CR19-23.

Respectfully Submitted,

Respectfully Submitted,


June Schultz, Director

2/9/2021


Barry Lacey, Exec. Director, Financial Strategy & Sustainability

2/12/2021

Prepared by: Jonathan Barks, Financial Business Partner

ATTACHMENTS

Appendix A - Plant Renewal Financing Request