



Buffalo Pound Plant Renewal Financing Update

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| Date | December 1, 2021 |
| To | Executive Committee |
| From | Financial Strategy & Sustainability |
| Service Area | Financial Services |
| Item No. | E21-50 |

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Pursuant to clause 5.2(g) of the Unanimous Membership Agreement between Buffalo Pound Water Treatment Corporation (BPWTC) and the cities of Regina and Moose Jaw, approve BPWTC applying for additional grant funding under the Investing in Canada Infrastructure Program (ICIP) or any other federal or provincial grant funding programs that may be available to BPWTC for the Plant Renewal Project on the condition that any funding received will not impact the availability of grant funding or other allocations that may be available to the City of Regina for Regina's other infrastructure projects.
2. Authorize BPWTC to enter into any agreements or amendments to agreements required to give effect to recommendation 1.
3. Delegate authority to the Executive Director, Financial Strategy and Sustainability, to negotiate and approve any funding agreements or any amendments to agreements and any ancillary agreements or documents required of the City of Regina to facilitate additional grant funding to be used by BPWTC for the Plant Renewal Project.
4. Authorize the City Clerk to execute any agreements that the City of Regina is required to enter into subject to review and approval by the City Solicitor.

5. Authorize the Executive Director, Financial Strategy and Sustainability, as the City of Regina's proxy, to exercise the City's voting rights in BPWTC to approve any organizational resolutions or documents that may be required of BPWTC in relation to applying for and entering into agreements for grant funding for the Plant Renewal Project.

ISSUE

Buffalo Pound Water Treatment Corporation (BPWTC) has been working on a Plant Renewal Project to ensure the cities of Regina and Moose Jaw continue to have access to high-quality potable water. BPWTC has received a Class 1 estimate that is to form the basis of a guaranteed maximum price design-build contract with Graham-AECOM. The maximum price contract is higher than original estimates due to inflationary pressures on commodities that are key to the Plant Renewal Project.

BPWTC has identified the opportunity to access further ICIP funding to offset the increase in cost. Pursuant to section 5.2(g) of the *Unanimous Membership Agreement* between the BPWTC, City of Regina and City of Moose Jaw, BPWTC has formally requested approval from the two Cities to seek additional grant funding for the project from the federal and/or provincial governments.

IMPACTS

There would be no financial impact to the City as BPWTC will only seek this funding on the condition that any funding received will not impact the availability of grant funding or other allocations that may be available to the City of Regina for the City's other infrastructure projects.

OTHER OPTIONS

City Council could deny the request to seek additional grant funding from the other levels of government.

This option is not recommended. If Council does not authorize pursuing further funding, the scope of the plant renewal would need to be rationalized. The project team has indicated that to stay within the original estimate, significant scope reductions would be required. These scope reductions could limit or eliminate equipment redundancy at the plant, risking downtime in the future. Scope modifications could also limit the output of the plant, limiting capacity for population and economic growth.

While BPWTC could also issue a new procurement process for the construction of the plant, this is also not recommended, at this time, as further analysis is required by BPWTC. Further issuing a new procurement process may not result in improved pricing as the same pricing pressures would likely impact a new procurement process as well.

COMMUNICATIONS

The BPWTC and the City of Moose Jaw will be advised of City Council's decision.

DISCUSSION

The project agreement for the Plant Renewal Project was executed in June 2020 with Graham-AECON Joint Venture team for the design portion of the project. The project has been delivered using a progressive design-build process with work progressing toward a Class 1 estimate to be used as the basis of a Guaranteed Maximum Price (GMP) contract.

Administration presented the project and an associated financing request to Council in EX21-14, seeking approval to enter into negotiations to seek debt financing of \$60 million for BPWTC's contribution to the project under then Investing in Canada Infrastructure Program (ICIP). Initial estimates for the project cost were \$252.8 million including contingency and PST and included \$6.6 million for advisory services, \$23.4 million for design and \$222.8 million in construction.

BPWTC has sufficient resources for design and advisory costs. Council approved BPWTC's application for ICIP funding in CR19-23. ICIP funding of approximately \$163.4 million has been approved by the Province and the Federal government.

The Class 1 estimate submitted by the project team, intended to form the basis of a GMP contract is higher than the estimates through the preceding stages of the procurement. The cost increase is due to market conditions that are in part, due to the COVID-19 pandemic. The project team has informed BPWTC that pricing received from suppliers has been unpredictable and deviates from historical norms. Consulting engineers have informed BPWTC that other in-progress projects through North America have experienced similar cost impacts. Key factors behind the increase have been:

- 1) Interruptions and supply chain delays.
- 2) Increases in commodity prices for copper, iron and oil.
- 3) Material shortages.
- 4) Labour shortages and competing projects.
- 5) Changes in risk tolerance in the construction industry due to market volatility.
- 6) Increasing rate of inflation.
- 7) Decreases in labor productivity resulting from COVID-19.

BPWTC and their consultants are reviewing options to reduce project cost. As the project has completed a Value-Engineering process that resulted in savings of approximately 10 per cent of the

previous estimate, the project has little ability to change scope further without risking impact to the requirements of the existing ICIP funding and the objectives of the project, including equipment redundancy to ensure consistent supply and increased capacity to allow for population and commercial growth.

The project team has identified the potential to access further funding through the ICIP grant program. The funding provided by BPWTC is equivalent to the required municipal contribution requirement under the ICIP agreements and will not result in additional funding from the cities of Regina or Moose Jaw.

Pursuant to clause 5.2(g) of the Unanimous Membership Agreement between BPWTC and the cities of Regina and Moose Jaw, BPWTC requires the approval of both Cities before applying for outside funding.

BPWTC will only seek this funding on the condition that any funding received will not impact the availability of grant funding or other allocations that may be available to the City of Regina for the City's other infrastructure projects. It is understood that the City of Moose Jaw will also be considering this request on the same condition that it not affect their allocations.

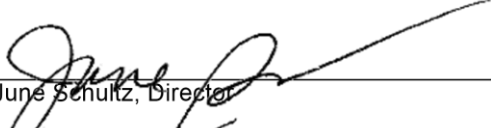
DECISION HISTORY

Financing for the Plant Renewal Project was authorized (CR21-106).

BPWTC's Plant Renewal Project was approved to apply to ICIP for the initial ICIP request (CR19-23).

Respectfully submitted,

Respectfully submitted,


June Schultz, Director

11/24/2021


Barry Lacey, Exec. Director, Financial Strategy & Sustainability

11/26/2021

Prepared by: Jonathan Barks, Financial Business Partner