



City of Moose Jaw

COMMUNICATION # CC-2022-0114

TITLE: Buffalo Pound Plant Renewal Financing

TO: City Council

FROM: City Manager

DATE: May 10, 2022

PUBLIC: PUBLIC DOCUMENT

RECOMMENDATION

1. THAT representatives of the Buffalo Pound Water Treatment Corporation be allowed to address members of City Council regarding the Buffalo Pound Plant Renewal Financing.
2. THAT City Council authorize Buffalo Pound Water Treatment Corporation to initiate the process to negotiate financing, to a maximum of \$55 million with the City of Regina (\$14.3 million is the City of Moose Jaw's share), to address the additional financing requirements of the Plant Renewal Project.
3. THAT City Council authorize the Director of Financial Services 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.
4. THAT City Council 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.

EXECUTIVE SUMMARY

Buffalo Pound Water Treatment Corporation (BPWTC) has developed a plant renewal project to ensure the plant continues to meet its mandate and provide the owners with safe and reliable drinking water. The project team is completing a design-build process and has reached the Guaranteed Maximum Price (GMP) from the Graham-AECON joint venture team that was selected to lead the project. Due to increases in pricing in project inputs, the GMP is now \$55 million higher than the amount of funding available, as BPWTC is financing the advisory and design services from reserves. The project team also provided a "lump-sum" proposal that would reduce the additional funds required to \$55 million, which was accepted by the BPWTC.

To finalize the contract for the project, additional funds of up to \$55 million are required. These funds must be authorized by the Council of both the City of Moose Jaw and City of Regina to allow the project to proceed as scheduled.

BACKGROUND

Buffalo Pound's formal request to borrow and related background information supporting its request is attached. Buffalo Pound indicates that while this funding is required to finalize the procurement, the cash flows will not be required until early 2024.

The City of Moose Jaw's 26 per cent proportionate share of the debt, which is \$14.3 million, will increase the amount of the City's debt utilized to approximately \$87.0 million.

If Council does not authorize the borrowing, or alternative funding source, Buffalo Pound would not be eligible for funding for the plant renewal under the ICIP program and would risk losing access to \$163.4 million in ICIP funding.

Engineering assessments related to the age and reliability of the Buffalo Pound Water Treatment Plant have identified the need to renew or replace the existing plant to ensure the ongoing provision of safe and reliable treated water to the owners 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 cities. Further, the plant will not meet environmental regulatory requirement 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.

DISCUSSION

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

The project agreement was executed in June 2020 with Graham-AECON Joint Venture team for the design portion of the project. The initial 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). ICIP funding of approximately \$163.4 million has been recommended by the Province to the federal government for approval.

The Graham-AECON Joint Venture team submitted the lump sum proposal on March 25, 2022. The lump sum submitted was \$295 million for construction services including necessary allowances, insurance, contingency, corrosion control and solar power work, \$55 million over the total available funding. The change in cost is due to increased prices and price volatility for oil, iron, copper, and skilled labour market that began during the pandemic but have been further impacted by continued supply chain disruption. In

addition, impacts to energy and commodity prices from global events continue to impact projects. In North America, cost impacts are in the 20-40% range.

The plant renewal project is currently at the final contracting phase for the final design and construction phase of the project. The contract must be executed by May 27, 2022. The BPWTC Board will be signing the project agreement prior to the borrowing/guarantee bylaw coming forward and needs to have a funding source in place at the time of signing the agreement.

The table below outlines the initial cost breakdown of the project and the final estimated cost of the project.

PRP Project Expense Budget			
Project Phase	Cost as of Jan. 2021	Lump-Sum Cost Final	Difference
Advisory and Design Services	\$30 million	\$30.6 million	\$0.6 million
Construction Costs			
Initial Lump Sum	\$222.8 million	\$273.3 million	\$50.5 million
- Construction (\$267.8)			
- Required Allowance (\$5.5M)			
Owner Control Insurance Program ¹	n/a	\$3.2 million	\$3.2 million
Scope Change – Orthophosphate system & solar power panels	n/a	\$8.5 million	\$8.5 million
Contingency	n/a	\$10.0 million	\$10.0 million
Total	\$252.8 million	\$325.6 million	\$72.8 million

¹ To achieve overall construction cost savings, BPWTC in consultation with the two city's Administrations decided to manage the insurance program related to the project instead of the joint venture.

² Subsequent to the initial scoping of the project, City Council approved the installation of an orthophosphate system with the new plant to reduce lead pipe risks, and BPWTC has added additional scope with respect to renewable energy generation.

³ As BPWTC is drawing upon all of its available reserves, a contingency has been built into the final cost estimate.

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 Moose Jaw owns 26 per cent of the voting shares of Buffalo Pound and would be required to guarantee \$14.3 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 \$95 million, and this borrowing will bring the City's total debt to approximately \$87.0 million. While the debt must be approved now, the by time the funds are required in 2024, \$8.75 million of the current principal will have been repaid.

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 letter dated April 22, 2022 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.

The City of Regina and the City of Moose Jaw Administrations are in agreement to the recommendations and this issue is coming to their Public Meeting scheduled for May 18, 2022.

FINANCIAL IMPLICATION

The impact of the additional financing on the City of Moose Jaw will be an additional capital charge of \$100 per megalitre of water consumed. This translates into an increased cost of \$0.10 per cubic meter of water.

This additional cost will need to be passed on to the City's water users and amounts to an increase in the volume charge to our customers of 6.82%. This increase will be above and beyond annual increases to the Water rates which had been forecast to be approximately 3% annually.

OPTIONS TO RECOMMENDATION

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. The City would then need to determine what the source of funding would be to provide for the membership loan. Alternative options are detailed below.

1. Reserve Funding

The City of Moose Jaw funded reserves are designated for a varied number of

purposes. None having a balance of the required \$14.3 million. Further, the reserves are invested in an institutional investment fund that generates interest revenue more than five percentage points as compared to the cost of borrowing. In addition, direct cash injections are at 26% of the project costs while borrowing by BPWTC is repaid based upon water usage which equates to about 15% for the City of Moose Jaw.

2. City Borrowing

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.

3. Defer Project

Council can decline this request which would require Buffalo Pound to pause the project or go back to market for proposals. This option is not recommended as the current ICIP funds authorized must be spent by 2028. Any delay from the current project plan could put these funds at risk.

STRATEGIC PLAN

Guaranteed potable water supply is integral to the growth of the City and fits within the economic development objective.

PUBLIC NOTICE

Pursuant to sections 101 and 102 of *The Cities Act* and the Public Notice Policy [Bylaw No. 5175, City Administration Bylaw], public notice was issued on May 4, 2022 to consider authorizing the Buffalo Pound Water Treatment Corporation to assume debt for the purposes of funding renewal of the Buffalo Pound Water Treatment Plant.

PRESENTATION

Mr. Jim Puffalt, City Manager, will provide a brief overview of this report. Mr. Brian Acker, Director of Finance will be available to assist in answering questions.

ATTACHMENTS

- A. Letter dated April 22, 2022 from Mr. Dale Schoffer, Chair of the Buffalo Pound Water Board of Directors, re: Plant Renewal Project Award – Request for Funding.

REPORT APPROVAL

Written by: Jim Puffalt, MBA, CMMA, RMA, City Manager
Reviewed by: Tracy Wittke, City Clerk
Approved by: Jim Puffalt, MBA, CMMA, RMA, City Manager
Approved by: Clive Tolley, Mayor

To be completed by the Clerk's Department only.

Presented to Regular Council or Executive Committee on _____.

Resolution No. _____

Report Approval Details

Document Title:	Buffalo Pound Plant Renewal Financing - CC-2022-0114.docx
Attachments:	- Attachment A - Letter dated April 22, 2022 BP Plant Renewal Project Award - Request for Funding.pdf
Final Approval Date:	May 16, 2022

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



Tracy Wittke



Jim Puffalt



Clive Tolley