

June 23, 2014

To: His Worship the Mayor
and Members of City Council

Re: Wastewater Treatment Plant Upgrade – Financial Model Update and Borrowing Bylaw

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- JUNE 11, 2014**

That the City Solicitor be instructed to prepare the necessary borrowing bylaw.

EXECUTIVE COMMITTEE – JUNE 11, 2014

Jim Holmes, representing himself, addressed the Committee.

The Committee adopted a resolution to concur in the recommendation contained in the report. Recommendation #2 does not require City Council approval.

Councillors: Sharron Bryce, Bryon Burnett, John Findura, Jerry Flegel, Shawn Fraser, Bob Hawkins, Terry Hincks, Wade Murray, Mike O’Donnell and Barbara Young were present during consideration of this report by the Executive Committee.

The Executive Committee, at its meeting held on June 11, 2014, considered the following report from the Administration:

RECOMMENDATION

1. That the City Solicitor be instructed to prepare the necessary borrowing bylaw.
2. That this report be forwarded to the June 23, 2014 City Council meeting.

CONCLUSION

The Administration is nearing the completion of the procurement for the Wastewater Treatment Plant Upgrade (the “Project”). EPCOR Saskatchewan Water Partners was identified as the preferred proponent (the “Preferred Proponent”) from the Request for Proposals stage of the Project on May 29, 2014. The next stage in the process is for the City to enter into a design-build-finance-operate-maintain agreement with the Preferred Proponent (the “Project Agreement”) and to achieve financial and commercial close of the transaction.

On February 25, 2013 (CR13-26) City Council approved the financial model for the Project. As contemplated by CR 13-26, certain elements of the Project cost will require City Council approval through the passage of a borrowing bylaw. This report details those elements of the cost of the Project that will require passage of a Borrowing Bylaw by City Council.

BACKGROUND

On February 25, 2013 (CR13-26) City Council approved the financial model for the Project. The original financial model for the Project contemplated the passage of a borrowing bylaw relating to the Preferred Proponent's financing of certain portions of the Project.

Legislation allows for cities to incur long-term debt without application to the Saskatchewan Municipal Board, providing the debt does not exceed the amount authorized by the Saskatchewan Municipal Board pursuant to Section 133(2). In 2013, the City requested and received approval from the Saskatchewan Municipal Board for a debt limit of \$450,000,000.

The long-term debt of the City is subject to the provisions of *The Cities Act* and the City's debt limit as authorized by the Saskatchewan Municipal Board. The following are the applicable sections of *The Cities Act*:

"101(1) No Council shall delegate:

- (f) its power to borrow money, lend money or guarantee the repayment of a loan pursuant to section 133 to 153;

133(1) The Saskatchewan Municipal Board may establish a debt limit for each city, taking into account the factors set out in subsection 23(2) of *The Municipal Board Act*.

(2) No city shall borrow money if the borrowing will cause the city to exceed its debt limit, unless the borrowing is approved by the Saskatchewan Municipal Board.

134(1) A city may only borrow moneys if the borrowing is authorized by a borrowing bylaw.

(2) A borrowing bylaw must contain details of:

- (a) the amount of money to be borrowed and, in general terms, the purpose for which the money is to be borrowed;
- (b) the rate or rates of interest, the term and the terms of repayment of the borrowing; and
- (c) the source or sources of money to be used to pay the principal and interest owing under the borrowing."

In accordance with the public sector accounting standards established by the Chartered Professional Accountants of Canada, only the costs relating to capital construction of the Project require analysis in relation to whether or not such costs are classified as debt. For the City's purposes, only those items that are classified as a debt require the passage of a borrowing bylaw.

DISCUSSION

Borrowing Bylaw

On February 25, 2013, City Council approved the funding and financial model for the Project in CR 13-26. The original financial model for the Project contemplated the passage of a borrowing bylaw relating to the Preferred Proponent's financing of certain portions of the Project. With the

Request for Proposal (RFP) process of the Project completed and the City proceeding towards executing the Project Agreement with the Preferred Proponent, the City now has the necessary capital construction cost details to support the passage of a borrowing bylaw.

The capital construction cost of the Project provided by the Preferred Proponent totals \$158,464,000 over the 30 year term of the Project and is calculated as follows:

- (1) a milestone payment of \$30,000,000 that will be made on or after January 1, 2016;
- (2) a substantial completion payment of \$49,739,000 that will be made on or before December 31, 2016; and
- (3) monthly payments relating to all remaining Capital Commitment Costs in the aggregate of \$78,725,000, which will be made over the 30 year term of the Project Agreement, plus effective financing and risk transfer cost at a rate of 6.462%.

In accordance with public sector accounting standards established by the Chartered Professional Accountants of Canada, the construction cost of the upgraded WWTP asset would be classified as debt. As a result, a borrowing bylaw to be approved by City Council in the total of \$158,464,000 will be brought forward to the June 23, 2014 meeting of City Council.

City of Regina Debt Limit

The City's current debt limit is \$450,000,000. Prior to the passage of the borrowing bylaw relating to the Project, the City has current outstanding and committed debt that totals \$167,128,674, which is summarized as follows:

| | |
|--|--------------------|
| Water and Sewer Utility Debt ⁽¹⁾ | \$ 11,469,880 |
| General Debt ⁽¹⁾ | 18,280,120 |
| Service Agreement Fee Credits - The Creeks ⁽²⁾ | 186,000 |
| Committed General Capital Borrowing (2010, 2011, & 2012 Budgets) | 15,000,000 |
| Committed Utility Borrowing (2012 Budget) | 23,000,000 |
| RRI Stadium \$100 million Debt | 99,192,674 |
| Current Committed Total | 167,128,674 |

Notes:

(1) Outstanding balance at June 4, 2014.

(2) The maximum debt that could be incurred by the City as per the borrowing bylaw agreements.

As opposed to typical City borrowing where debt is incurred in a single instance (ie. borrowing \$100,000,000 to pay for an asset purchase), the borrowing for the Project occurs over the course of the 30 year term of the Project, with certain payments being made concurrently with construction and certain portions of the debt not occurring until construction has been completed or certain milestones achieved. As a result, only certain portions of the total amount of the \$158,464,000 proposed debt for the Project will count against the City's debt limit at any given point in time.

In accordance with public sector accounting standards established by the Chartered Professional Accountants of Canada, the debt related to the Project will be recorded as the amount of the Project constructed to date less amounts paid to the Preferred Proponent. Based on the Project's planned construction progress and expected payments to be made by the City to the Preferred Proponent, the affect on the City's debt limit over the duration of the construction of the Project will be as follows:

| <u>Budget Year</u> | <u>WWTP Project Debt</u> <u>(\$ millions)</u> |
|--------------------|--|
| 2014 | 48 |
| 2015 | 127 |
| 2016 | 129 |
| 2017 | 78 |

Following the completion of construction in 2017, the remaining debt of \$78,725,000, will be repaid to the Preferred Proponent over the 30 year term of the Project Agreement, plus effective financing and risk transfer cost at a rate of 6.462%, with the outstanding principal amounts of such debt being included in the City's debt limit calculations on a yearly basis until 2044. Based upon these calculations, the City will remain under its \$450,000,000 debt limit at all times during the 30 year term of the Project Agreement.

RECOMMENDATION IMPLICATIONS

Financial Implications

The repayment of debt and the related interest costs are budgeted in the annual capital and operating budgets. The Project is funded via the financial model approved by City Council on February 25, 2013.

Environmental Implications

None related to this report.

Strategic Implications

None related to this report.

Other Implications

None related to this report.

Accessibility Implications

None related to this report.

COMMUNICATIONS

Public Notice has been given as required by Section 101 and 102 of *The Cities Act* and Bylaw 2003-8.

DELEGATED AUTHORITY

City Council approval is required to pass a borrowing bylaw.

Respectfully submitted,

EXECUTIVE COMMITTEE

A handwritten signature in black ink, appearing to read "Jim Nicol", written in a cursive style.

Jim Nicol, Secretary

mrt