TORONTO Atmospheric Fund

June 18, 2002

TO: Policy and Finance Committee

FROM: Board of Directors, Toronto Atmospheric Fund

RE: Financing the Toronto Community Housing Corporation "Appliance Renewal Project—Phase 1"

Purpose:

To authorize financing of "Toronto Community Housing Corporation's (TCHC) Appliance Renewal Project—Phase 1" (the "Project") in an amount up to $5 million and a term up to 10 years.

Financial Implications:

Appliance renewal is largely self-financing, due to the energy cost savings achieved by newer appliances over time. The retrofit of new refrigerators, clothes washers and dryers in TCHC's units will reduce annual energy costs associated with those units by 30 – 50 percent and pay back in 6 - 8 years from savings. New stoves save less energy, so their inclusion increases the payback period. TAF will earn in the range of 7 percent annually, which is consistent with TAF's "Statement of Investment Objectives, Policies and Procedures" dated November 23, 1999 and approved by City Council.

Recommendations:

It is recommended that Council authorize TAF to:

1) Finance up to $5 million for the Toronto Community Housing Corporation's "Appliance Renewal Project—Phase 1" over a term up to 10 years from TAF's assets;

2) Assign eventually up to 80 percent of TAF's financing to the Federation of Canadian Municipalities and to other sources, subject to further consultation with TCHC and approval by the City's Chief Financial Officer, with the aim of further reducing TCHC's financing costs, establishing financing partnerships, and freeing up TAF funds to finance additional projects;

3) Execute agreements with Royal Trust, TAF's asset custodian, to establish appropriate accounts:

    a) To accommodate day-to-day transactions and cash flows associated with the Project;

b) To create a letter of credit or other suitable instrument to enable TAF to provide bridge financing up to a term of a year for the Project without disturbing the portfolios of TAF's external managers.

Background:

City Council on December 14, 15, and 16, 1999 adopted Report No. 11, Clause 7 recommended by the Policy and Finance Committee approving the Toronto Atmospheric Fund's (TAF) "Statement of Investment Objectives, Policies and Procedures" dated November 23, 1999. TAF's Investment Objectives are as follows:

1) Invest in a prudent manner to optimize long term total returns at a moderate level of risk that permits TAF to make grants at an annual level compatible with private foundations and allow TAF's real asset value to grow over time;

2) Make mandate-related investments that leverage a portion of TAF's assets with private capital so as to increase the amount of "turnkey" financing available to the City and community to reduce greenhouse gas emissions locally; and

3) Achieve total rate of returns that matches or exceeds benchmarks set by the TAF Board in consultation with its Investment Committee.

At its meeting on February 16, 2001, the TAF Board decided to commit a third of its assets, $8 million, to mandate-related investments in energy efficiency projects, per Investment Objective No. 2 above. With TAF's $15 million debenture with the City that has supported the Street and Lane Lighting Retrofit since 1995 winding up in 2002, the TAF Board wishes to continue financing similar initiatives, albeit at lower level.

Philips, Hager & North and YMG Management Inc. will manage the remaining two-thirds of TAF's assets, per Council's adoption of Clause #1, Report No. 4 of the Policy and Finance Committee at its Special Meeting March 4, 5, 6, 7, and 8, 2002.

In order to begin implementation of Investment Objective No. 2 above, the TAF Board approved at its meeting June 14, 2002 financing up to $5 million of an initiative proposed by the Toronto Community Housing Corporation (TCHC): the "Appliance Renewal Project—Phase 1" (the "Project"). The TCHC Board also approved TAF's financing in principle on May 29, 2002. TCHC and TAF staff are currently negotiating final details of the financing, which are subject to final approval by the TAF Board's Executive Committee.

Toronto Community Housing Corporation is in the process of implementing a Utility Management Plan that will install a suite of energy efficiency measures across TCHC's portfolio. The Plan is based on a systems approach to energy, water, organizational, technological, and behavioral interactions that seek to generate $5.9 million in energy cost savings per year, resulting in significant reductions in waste water, water consumption, and greenhouse gas emissions. Additional benefits include building asset renewal; improved living conditions for tenants; and improved working conditions for staff.

A portion of the savings from the Plan will be achieved by upgrading existing common area laundry appliances (washers and dryers) and in-suite refrigerators and stoves. The proposed Project will include: replacing 4,500 in-suite refrigerators and stoves with more efficient appliances; replacing 223 washing machines with horizontal-axis units; and replacing existing 223 electric clothes dryers with either natural gas dryers or higher efficiency electric models.

The proposed annual savings for the Project are as follows:

- Total energy reduction: 40,990 gigajoules to 17,660 gigajoules or 43 percent; and

- Total greenhouse gas emission reduction: 10,120 tonnes of CO_2 equivalent to 4,560 tonnes CO_2 equivalent or 45 percent.

TAF and TCHC, in consultation with the CAO, have submitted an application to FCM's Green Municipal Investment Fund (GMIF) for $1.29 million in financing of the Project. If FCM approves the financing—it is awaiting Council's decision regarding TAF's own financing—TCHC will be able to access GMIF's financing rate of 2 percent basis points below Canada's Prime.

TAF is seeking Council's approval to finance the entire cost of Phase 1 of the Project, in the amount of $5 million, since FCM and other funding are not yet committed and are uncertain at this time. The TAF Board is willing to finance the full cost of the Project, if financing from partners such as FCM does not eventually materialize.

<u>Comment</u>:

TCHC has a need for about $14 million in appliance renewal. This need may increase to $25 - $30 million once the amalgamation with the former Metro Toronto Housing Authority is complete. The Project represents a pilot that will test several important innovative features:

1) The financing will incorporate on-bill utility financing that will enable TCHC to amortize the financing as operational costs over the term of the project.

2) Since the Project is entirely self-financing, there will be no additional pressure either on the City's tax base or on TCHC's capital expenditures.

3) TCHC will incorporate rigorous environmental standards into the procurement process, including Energy Star labeling where feasible and destroying or recycling the CFC depleting substances in the old refrigerators that will be removed.

4) The financing will be structured to allow other public and private partners, such as FCM, to share the costs of the financing with TAF, thereby enabling TAF to stretch its financing over many new additional projects.

5) If the pilot is successful, TCHC and TAF should be able to scale up the initiative and significantly accelerate TCHC's appliance renewal initiative so that aging infrastructure can

replaced in a timely fashion. In addition, the pilot could serve as a financing model for other TAF and City projects that have the potential to be self-financing from energy cost savings.

In order to ensure that TAF facilitates suitable partnerships to share in the cost of financing of the Project, TAF will consult closely with TCHC staff, the CFO, and the CAO. The first stage of this assignment process began November 12, 2001, when TAF and TCHC submitted in collaboration with the CAO an application to FCM's GMIF requesting 25 percent of project costs, or $1.29 million.

The proposal has received a favorable internal review by FCM staff and consultants, but final consideration by FCM's Council won't occur until after City Council's consideration of the initiative. FCM has committed to share TAF's legal costs associated with the Project. In addition, FCM had indicated an interest in a grant application for an advanced technology component: the retrofit of a housing residence with European refrigerators that employ isobutane refrigerants, rather than hydrochlorofluorocarbons (HCHCs) and hydrofluorocarbons (HCFs), which are currently used in North America and are potent greenhouse gases.

<u>Conclusion</u>:

Council approval of TAF financing of the TCHC's "Appliance Renewal Project—Phase 1" will enable an innovative pilot initiative to go forward that will develop a promising model for infrastructure renewal involving partnership with other public and private financing partners such as FCM. Since the Project is entirely self-financing and structured in a way to permit costs to be amortized over the Project term, there will be no additional pressures on the tax base or TCHC's own capital expenditures budget. Finally, TAF will be able to stretch its financing dollar further than ever before.

<u>Contact</u>:

Philip Jessup
Executive Director, TAF
(416) 392-0253
pjessup@tafund.org