

Consolidated Clause in Policy and Finance Committee Report 9, which was considered by City Council on November 30, December 1 and 2, 2004.

30

**Energy Retrofit Program - Energy Efficiency
Improvements at Exhibition Place**

City Council on November 30, December 1 and 2, 2004, adopted this Clause without amendment.

The Policy and Finance Committee recommends that City Council adopt the staff recommendations in the Recommendations Section of the report (November 15, 2004) from the Chief Financial Officer and Treasurer and the Commissioner of Corporate Services:

Purpose:

To seek approval for the financing of energy retrofit improvements in five buildings at Exhibition Place from the City's \$20.0 million Energy Retrofit Program (ERP).

Financial Implications and Impact Statement:

The estimated gross capital cost for retrofitting the five buildings at Exhibition Place listed in this report is \$1.4 million (including all taxes). After including projected incentives and rebates, the net capital costs requiring financing are estimated to be \$1.150 million. Cash flow funding of \$35,000 will be required in 2004, \$865,000 in 2005 and \$500,000 in 2006. The project is estimated to reduce energy and water consumption by 17.8 percent and will result in annual cost savings of up to \$148,700. A guarantee for 85 percent of the savings in the first year after implementation will be provided by Toronto Hydro Energy Services Inc.(THESI) at no additional cost.

The project is structured to take advantage of grants and incentives of \$250,000, and a low interest loan from the Federation of Canadian Municipalities (FCM) in the amount of \$287,500. This loan is to be repaid at a rate of 1.5 percent below the Government of Canada bond rate. This is part of a total FCM loan of \$8.750 million to the City of Toronto. The balance of the net project cost amounting to \$862,500 is to be financed from the \$20.0 million Energy Retrofit Program adopted by Council in April 2004. The total debt attributed to this retrofit project will be repaid by Exhibition Place from projected energy savings allocated within its operating budget.

Recommendations:

It is recommended that:

- (1) Council approve the Exhibition Place energy and water efficiency improvement project for five buildings outlined in this report as a sub-project of the Council approved \$20 million Energy Retrofit Program with a gross project cost of up to \$1.4 million, and a cash flow of \$35,000 in 2004, \$865,000 in 2005 and \$500,000 in 2006; to be financed by a loan of up to \$287,500 from the Federation of Canadian Municipalities, up to \$862,500 of City debt and \$250,000 in grants and incentives;
- (2) Exhibition Place report back on the final scope of the project and the appropriate costs, up to a maximum of \$1.4 million in gross capital costs inclusive of all taxes and charges;
- (3) the Commissioner of Corporate Services and the Chief Financial Officer and Treasurer in consultation with the City Solicitor, be authorized to enter into an agreement with the Board of Governors of Exhibition Place to monitor energy and water savings and to ensure that repayment of debt financing are budgeted and paid to the City and the FCM Green Municipal Infrastructure Fund;
- (4) the Board of Governors of Exhibition Place in consultation with the City Solicitor, the Chief Financial Officer and Treasurer and the Chief Administrative Officer, be authorized to enter into a loan agreement with the Federation of Canadian Municipalities for financing in order to facilitate a disbursement of \$287,500 from an approved low interest loan of \$8.750 million to the City, subject to finalizing an energy and water services agreement with Toronto Hydro Energy Services Inc.;
- (5) energy and water cost savings to be realized annually of up to \$148,700 be budgeted separately in the operating budget of Exhibition Place and be used to repay the full project financing costs for the project in accordance with the policy adopted by Council in the report, entitled "A Framework for Establishing an Energy Retrofit Program and Financing Strategy", and that any excess savings identified in the cash flow forecast be applied to the outstanding debt charges to accelerate repayment, and that the operating budget be reduced by that amount after project financing has been repaid in full; and
- (6) the appropriate City officials be authorized and directed to take any necessary action to give effect thereto, including the execution of any financing agreements in a form and substance satisfactory to the Commissioner of Corporate Services, the Chief Financial Officer and Treasurer, the City Solicitor, and the General Manager and CEO of Exhibition Place.

Background:

At its meeting of April 30, 2004, the Board of Governors of Exhibition Place considered and approved a report entitled "RFP-Energy Efficient Project" with the recommendations that the Board approve THESI as the Preferred Proponent and request that staff negotiate the terms and

conditions of an agreement with THESI and undertake the necessary actions to obtain the approval of City Council for City funding from the Energy Retrofit Program (ERP).

The Energy Retrofit Program was established as a 2004 debt financed capital project by Council at its meeting of April 19 2004, through Policy and Finance Committee Report 3 Clause 1, entitled "A Framework for Establishing an Energy Retrofit Program and Financing Strategy". The clause set the procedures for approving financing and recovering debt service charges from eligible projects.

Comments:

An RFP for energy management service was released on March 24, 2004. Based on the criteria Exhibition Place staff recommended THESI as the preferred proponent and the Board approved of this recommendation and authorized staff to commence exclusive negotiations with THESI on the terms and conditions of an agreement.

The substantial terms of the proposed agreement between the Board and THESI proposes that THESI will provide a turnkey energy management package, which includes feasibility studies, engineering and specifications, construction, project management, monitoring and verification of savings and training of Exhibition Place staff. THESI is providing at no additional cost a guarantee of savings in the first year of 85 percent of the projected energy savings of \$148,700. Prior to the implementation, THESI will conduct feasibility studies and provide a detailed concept report for each measure for approval of the Board of Governors of Exhibition Place prior to moving to the engineering and implementation stage. The Board of Governors of Exhibition Place will have full discretion, based upon the estimated costs and energy savings, to delete or modify the proposed measures in order to ensure that the total project cost remains within budget and the project achieves a 10-year payback for project costs, plus interest on financing.

Following approval of the Board and negotiations of the proposed agreement with THESI, Exhibition Place staff presented an application to the City Energy Retrofit Program for a loan of up to \$1.4 million. The Board and THESI will be applying for any potential incentives and grants which may reduce the amount of the loan required from the City's ERP program. Based on the proposed retrofit program, THESI has projected the receipt of rebates/incentives in the amount of up to \$250,000.

Below is a summary of the projected total capital cost and annual cash flow requirements for the project:

Exhibition Place Buildings Retrofit – Cash flow estimate for 2004 -2009
\$000s

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Capital Budget:</u>						
Expenditures	35.0	865.0	500.0			
Financing						
FCM Incentive Grant	0	250.00	0			
FCM Low-Interest Loan Charges Three percent)	8.75	153.75	125.0			
ERP Loan (five percent)	<u>26.25</u>	<u>461.25</u>	<u>375.0</u>			
Total Financing	35.00	865.00	500.0			
<u>Operating Budget:</u>						
FCM Loan Charges		1.0	19.0	33.7	33.7	33.7
Energy Retrofit Program Debt Charges		<u>3.5</u>	<u>65.0</u>	<u>115.0</u>	<u>115.0</u>	<u>115.0</u>
Total Debt Charges		4.5	84.0	148.7	148.7	148.7
Projected Energy/Operating Savings *		4.5	84.0	148.7	148.7	148.7

* Savings are assumed to equal debt service impact because contract will require that actual project expenditures will be limited to those that in aggregate are projected to generate savings sufficient to repay project financing over ten years.

On repayment of the ERP loan, the savings will allow for a reduction of \$148,700 in Exhibition Place's operating budget. Additional benefits flowing from this project include reduced operating costs, increased energy and water efficiency, facility improvements and reduced CO2 emissions.

2004 Cash Flow Request:

One of the energy efficiency measures proposed as part of the THESI proposal is to replace the heating system within the Queen Elizabeth Exhibit Hall, Theatre and Administrative Offices. The present heating system is over 50 years old and in 2004, Exhibition Place has experienced problems which cannot be resolved without major maintenance repair costs. A 2004 cash flow approval of \$35,000 for the feasibility study will allow Exhibition Place to tender this measure of the energy retrofit project as soon as Council approves this report and will allow the heating system to be replaced prior to the Fall of 2005 and avoid incurring substantial maintenance costs.

City Energy Retrofit Program Balance:

On approval of ERP funding for this project, the total gross allocation from the \$20.0 million 2004 ERP will be \$15.237 million, resulting in \$4.763 million of unallocated Program funds. Previous approvals consist of the Arenas energy retrofit project (\$10.213 million) and the Firehalls energy retrofit project (\$3.624 million).

Conclusions:

This report requests approval of funding for energy retrofit work to the five buildings in Exhibition Place from the Council approved \$20.0 million Energy Retrofit Program in an amount up to \$1.4 million, of which up to \$862,500 is to be financed with City debt and repaid with interest by Exhibition Place. In addition, this report is seeking a 2004 cash flow approval for the feasibility study component of the project in the amount of \$35,000.

Contacts:

Jim Kamstra, Manager
Energy and Waste Management
Facilities and Real Estate Division
Tel: (416) 392-8954
Fax: (416) 392-4828
E-mail: jkamstra@toronto.ca

Josie LaVita, Director,
Financial Planning Division
Finance Department
Tel: (416) 397-4229
Fax: (416) 397-4465
E-mail: jlavita@toronto.ca