

Municipal Greenhouse Gas Challenge Fund – Capital Project Authorities

Date: June 8, 2018

To: Executive Committee

From: Deputy City Manager Internal Corporate Services
Interim Chief Financial Officer

Wards: All

SUMMARY

The purpose of this report is to provide the outcome of applications made by City Divisions to Ontario's Municipal Greenhouse Gas (GHG) Challenge Fund, authorize the necessary amendments to the 2018-2027 Capital Budget and Plan for impacted City Divisions and Agencies to account for this funding, and establish the necessary capital project authorities.

Ontario's Ministry of Environment and Climate Change (MOECC) has awarded the City with \$52 million for 10 major greenhouse gas (GHG) emission reduction projects. These innovative, next-generation projects will expand high-performance buildings, build low-carbon thermal energy networks, deploy electric vehicles and utilize biogas as energy from waste. Undertaking these projects will advance the Council-approved GHG emissions reduction targets established by TransformTO, Toronto's climate action strategy.

This report also seeks authorization to establish a reserve fund account to act as a repository for Municipal GHG Challenge Fund proceeds as well as future funding and investment anticipated to be secured by the City in association with its climate change mitigation and adaptation initiatives.

RECOMMENDATIONS

The Deputy City Manager Internal Corporate Services and Interim Chief Financial Officer recommend that:

1. City Council authorize receipt of Municipal GHG Challenge funds totalling \$51.805 million for 10 major greenhouse gas emission reduction projects.
2. City Council approve the establishment of an obligatory reserve fund account named 'TransformTO Initiatives Reserve Account' in Schedule 15 of the City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds ("Chapter 227"), the

purpose of which is to administer funding and investment, such as the Municipal GHG Challenge funds, to be used for the greenhouse gas emission reduction initiatives to be undertaken by City Divisions, Agencies and Corporations pursuant to the TransformTO Climate Action Strategy.

3. City Council amend 2018 - 2027 Council Approved Capital Budget and Plan for Facilities, Real Estate, Environment & Energy for the following Municipal GHG Challenge-funded projects:

i. Funding sources for St. Lawrence Market North Building project with total project cost of \$89.142 million be adjusted by reducing Recoverable Debt by \$0.713 million in 2018 and \$0.079 million in 2021 offset by an increase of \$0.713 in 2018 and \$0.079 million in 2021 to be fully funded from the TransformTO Initiatives Reserve Account.

ii. Funding sources for the EMS Headquarters project with total project cost of \$41.394 million be adjusted by reducing Recoverable Debt by \$0.142 million in 2018, \$0.643 million in 2019 and \$0.087 million in 2021 offset by an increase of \$0.142 million in 2018, \$0.643 million in 2019 and \$0.087 million in 2021 to be fully funded from the TransformTO Initiatives Reserve Account.

4. City Council amend the 2018 - 2027 Council Approved Capital Budget and Plan for Children's Services to reflect an increase in the Mt. Dennis Net Zero Early Learning and Child Care total project cost by \$0.500 million from \$9.005 million to \$9.505 million, with incremental cash flow funding of \$0.500 million in 2019 and to be fully funded from the TransformTO Initiatives Reserve Account.

5. City Council increase the 2018 - 2027 Council Approved Capital Budget and Plan for Fleet Services to include the creation of the following new Municipal GHG funded projects:

i. Green Fleet Acceleration Project for the retrofit of Paramedics services vehicles with total project cost of \$0.733 million, cash flow funding of \$0.501 million in 2018 and \$0.231 million in 2019, and to be fully funded from the TransformTO Initiatives Reserve Account.

ii. Green Fleet Acceleration Project for the retrofit of Fire Services vehicles with total project cost of \$1.804 million and cash flow funding of \$0.004 million in 2018, \$0.900 million in 2019, and \$0.900 million in 2020 to be funded \$1.267 million from TransformTO Initiatives Reserve Account and \$0.537 million from the Vehicle Reserve Fund - Fire (XQ1017).

iii. Green Fleet Acceleration Project for the electric vehicles/electric charging station with total project cost of \$3.841 million, cash flow funding of \$0.166 million in 2019, \$0.557 million in 2020, \$0.545 million in 2021, \$0.545 million in 2022, \$0.570 million in 2023, \$0.729 million in 2024, and \$0.729 million in 2025, and to be fully funded from the TransformTO Initiatives Reserve Account.

FINANCIAL IMPACT

Capital funding impact:

Provincial funding will result in funding source adjustments, projects being expanded in scope and new projects being added to the 2018 – 2027 Capital Budget and Plan, as well as, consideration of new projects as part of the 2019 Capital Budget and Plan Process.

With the receipt of the Municipal GHG Challenge funds, estimated gross impact to the City's 10-Year Capital Budget and Plan is \$131.518 million, offset by \$51.805 million approved Municipal GHG Funding and other potential funding sources that are to be finalized through the 2019 Budget Process or reported back to Council, as outlined in the below table and in Appendix 1.

Table 1 – Incremental Impact to the City's 10-Year Capital Plan (in millions)

Program/Agency	Total GHG Funding	Incremental Impact		
		Gross	Revenue	Net
Recommendation in this Report				
Facilities, Real Estate, Environment & Energy	\$1.664	\$ -	\$ -	\$ -
Children's Services	0.500	0.500	0.500	-
Fleet Services	5.841	6.378	6.378	-
Total Recommended	8.005	6.878	6.878	-
Other/Future Report				
Facilities, Real Estate, Environment & Energy	\$23.800	\$ 58.323	\$ 58.323	\$ -
Solid Waste Management Services	10.000	16.317	16.317	-
Toronto Transit Commission	10.000	50.000	50.000	-
Estimated Total Impact	\$51.805	\$131.518	\$131.518	\$ -

Facilities, Real Estate, Environment & Energy will be including as part of the 2019 Budget Process the Low-Carbon Thermal Energy Network (LCTEN) projects, with total project costs, other funding sources and cash flows finalized through the Budget Process. The creation of the four LCTEN projects have an aggregate \$23.8 million of approved Municipal GHG Challenge funding, with other potential funding from Enwave Energy Corporation:

- i. Low-Carbon Thermal Energy Network - Scarborough Village
- ii. Low-Carbon Thermal Energy Network - Yonge & Eglinton
- iii. Low-Carbon Thermal Energy Network - Liberty Village
- iv. Low-Carbon Thermal Energy Network – Etobicoke Civic Precinct

Similarly, the Toronto Transit Commission (TTC) has been approved \$10 million in Municipal GHG Challenge funding for the TTC Fleet Conversion project. The TTC will be reporting this Provincial funding to its Board of Directors on June 12, 2018. Upon approval from TTC's Board of Directors, a report detailing budgetary implications to TTC's 10-Year Capital Plan will be subsequently submitted to Council for approval.

The Municipal GHG Challenge funding also includes \$10 million in funding for Solid Waste Management Services (SWMS) for the Biogas Utilization project at the Dufferin Solid Waste Management. The financial implications are included in SWMS' staff report titled "Dufferin Renewable Natural Gas Facility Grant Funding and Related Lease Agreement with Enbridge at 35 Vanley Crescent" for the June 19th, 2018 Executive Committee meeting.

Operating Impact:

While it is expected that these projects may result in long-term operating cost savings such as lower energy, fuel or diesel costs achieved through efficiencies, the Provincial funding was awarded based on environmental benefits (i.e. GHG emissions reduction). Furthermore, in the case of funding adjustments, there are no net new operating impacts as these initiatives were already included in the capital plan. For the new or change in scope projects, savings will be jointly monitored by the impacted Division/Agency and Financial Planning and captured through the annual budget process.

Creation of TransformTO Capital Projects Reserve Account

Approval of this report will result in an establishment of an obligatory reserve fund account named 'TransformTO Initiatives Reserve Account' in Schedule 15 of the City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds ("Chapter 227"), the purpose of which is to deposit funds for greenhouse gas emission reduction initiatives to be undertaken by City Divisions, Agencies and Corporations pursuant to the TransformTO Climate Action Strategy. To date, the City has received \$7.632 million in Municipal GHG Challenge funding and will be administered through the TransformTO Initiatives Reserve Account once created.

DECISION HISTORY

In 2016, City Council adopted TransformTO: Climate Action for a Healthy, Equitable and Prosperous Toronto - Report #1 (PE 15.1/2016) which included a package of short-term strategies designed to accelerate actions to reduce greenhouse gas emission by 2020. Pursuant to this authority, the City Manager was also directed to negotiate and enter into all necessary agreements, including funding agreements, to support the implementation of the TransformTO short-term strategies.

Link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.PE15.1>

City Council adopted a report authorizing the City to enter into a Joint Development Agreement with Enwave for the development of low carbon thermal energy networks (EX32.8/2018).

Link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX32.8>

At its meeting of May 3, 2018, the Parks and Environment Committee received for information an update report on funding applications made by City Divisions to the Municipal GHG Challenge Fund (PE 27.3/2018). The report provided a description of the successful projects, funding amounts awarded and expected GHG reductions. Link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.PE27.3>

COMMENTS

i. Municipal GHG Challenge Fund Overview

In 2017, Ontario's Ministry of Environment and Climate Change (MOECC) launched the Municipal GHG Challenge Fund (MCF). The MCF is a competitive, application-based program that funds up to 100% of the eligible costs for GHG emissions reduction projects proposed by municipalities. Up to \$10 million in potential funding is available per project. The MCF's inaugural tranche was \$100 million and is made possible by the proceeds of Ontario's carbon markets.

The Environment and Energy Division coordinated the submission of twenty-nine applications developed by various City divisions and agencies. Applications were evaluated by the MOECC based on the following criteria: ability to demonstrate significant, cost-effective GHG emissions reductions, alignment with municipal climate change targets and ability to deliver co-benefits. Higher scores are also given to projects that leverage funds from third-party sources. The City of Toronto was awarded approximately \$52 million in funding to support the implementation of 10 GHG emissions reduction projects.

ii. Strategic Development of Low Carbon Thermal Energy Networks (LCTEN)

Development of low-carbon thermal energy networks is a TransformTO strategy, which is fundamental to meeting climate change targets adopted by City Council.

A partnership to develop these LCTEN provides the necessary scale and long-range planning and the potential to secure investment. Enwave was selected to partner with the City through an open and competitive 3-stage process, as directed by the Executive Committee on October 26, 2016. Enwave demonstrated customer relationships and the capability to develop, design, and construct new LCTEN, as well as proven capacity to make the necessary financial investments.

The key objectives that were identified for the partnership with Enwave are:

- Reduce greenhouse gas emissions, and improve energy resilience;
- Achieve speed to market, scalability, and ability to fund projects identified for development; including attracting grants from external parties;
- Foster economic development, City building, and new revenue opportunities;
- Mitigate risks associated with project development and operation; and
- Create balance between long term project development and the capability to initiate projects that are ready for development now.

Four of the ten projects awarded with GHG Municipal Challenge Funding are for strategic development of LCTEN. The Etobicoke Civic Precinct LCTEN is being developed at one of the priority locations, the Six Points Intersection (Westwood Theatre Lands), a CreateTO/Build Toronto project, which is the location of the new Etobicoke Civic Centre. The GHG Municipal Challenge Funding awarded will help achieve the goal of integrating heating and cooling pipes at the three street crossings of the project site.

The delivery approach and capital budget impacts for these projects will be determined in the coming months in coordination between the Environment and Energy Division, Financial Planning, CreateTO and Enwave Energy Corporation. As such, there are no known capital budget impacts at this time, with the exception of the \$1.017 million advance in 2018 for energy distribution piping installation at the Etobicoke Civic Centre Precinct.

iii. Transfer Payment Agreements

Ten transfer payment agreements were negotiated and entered into between the City and Province to secure the MCF funds. Unlike other government funding programs, such as the Public Transit Infrastructure Fund, MCF funding is provided to undertake specific greenhouse gas reduction projects for which agreements have been entered. Each project has its own multi-year term, milestones and reporting schedule to the Province. Progress payments will be made to the City based on an agreed upon payment plan., including payments to be provided upon execution of agreements and based on interim and final progress reports submitted by the City. The payments will be pre-dominantly made on a cost-reimbursement basis. There is no eligibility deadline that could put the grants at risk. Rather, to address project risk and uncertainty, contractual provisions exist that permits the City to request amendments to the agreements as the project progresses over time and new information becomes available. Furthermore, there is no eligibility time-based deadline that would put recovering this funding at-risk due to delays in project progress or execution.

iv. Oversight of Transfer Payment Agreements

The Environment and Energy Division will provide oversight and support to the various City Divisions responsible for implementing the projects. This involves, amongst other things:

- a) monitoring financial and accountability reporting requirements,
- b) tracking results and reporting on project progress as required by the funding agreements, c) monitoring other compliance obligations (e.g. notices), and
- c) tracking payments made to the City. Additionally, impact reporting (i.e. greenhouse gas emissions reduction) to City Council will be captured as part of the bi-annual TransformTO progress reports, in addition to Provincial progress reporting.

v. Establishment of a TransformTO Initiatives Reserve Account

A Reserve Account is required to hold the funds awarded through the GHG Municipal Challenge, as well as any future funding that might be awarded by third parties, since funding may, as in this case, be awarded prior to project implementation. As such a TransformTO Initiatives Reserve account is being established.

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SIGNATURE

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ATTACHMENTS

Appendix 1 – Municipal Greenhouse Gas Challenge Fund – Capital Project Authorities
Appendix A - TransformTO Initiatives Reserve Account