

**REPORT FOR ACTION****Sustainable Energy Plan Financing Program
Supporting TCHC, TransformTO and Resiliency**

Date: August 22, 2019
To: Budget Committee and Executive Committee
From: Deputy City Manager, Corporate Services
Wards: All Wards

SUMMARY

Toronto Community Housing Corporation (TCHC) is undertaking a comprehensive \$63.9 million installation of Combined Heat and Power (CHP) generators in thirty-nine (39) TCHC buildings throughout the City of Toronto. It will create a resilient network of sustainable buildings that will act as a safe haven to shelter residents in place as well as offer shelter to the local community when power is not accessible from the electricity system with most major systems within the buildings remaining operational during a power outage.

Through the City's Sustainable Energy Plan Financing (SEPF) program, TCHC has requested a low-interest repayable loan of \$38.0 million to fund 59% of the project. The remaining \$25.9 million will be funded by an \$8.9 million incentive from the Independent Electricity System Operator and \$17.0 million from TCHC's capital budget.

The purpose of this report is to seek Council approval to increase the 2019-2028 Council Approved Capital Budget and Plan for Facilities, Real Estate, Environment & Energy (FREEE) by \$28.0 million for a new capital project with 2020 cash flow funded from debt repayable by the TCHC, utilizing energy savings generated from the proposed energy retrofit project for loan repayment. The remaining \$10.0 million will be disbursed to TCHC in 2019 utilizing available 2019 Council Approved TransformTO recoverable debt capital budget. The project requires approval in advance of the 2020 budget process in order for TCHC to proceed with the project in 2019.

This initiative aligns with a number of the City of Toronto's Resiliency Strategy Goals including Home Resilience, Vertical Resilience, and Leading a Resilient City, all goals that support protecting the most vulnerable residents from the impacts of climate change. It also supports TransformTO directives to reduce greenhouse gas emissions in the City as a whole by 80% by 2050.

RECOMMENDATIONS

The Deputy City Manager, Corporate Services recommends that:

1. City Council amend the 2019-2028 Council Approved Capital Budget and Plan for Facilities, Real Estate, Environment & Energy (FREEE) program to add a new project with total project cost and cash flow in 2020 of \$28.0 million funded from recoverable debt for the purpose of providing a 2.6% interest bearing loan to TCHC to be repaid to the City over a term of 20 years.
2. City Council authorize the Deputy City Manager, Corporate Services to enter into an agreement with TCHC for a \$38.0 million SEPF loan on terms and conditions satisfactory to the Deputy City Manager, Corporate Services and in a form satisfactory to the City Solicitor.
3. City Council authorize the Deputy City Manager, Corporate Services to release funds to TCHC in multiple installments, each contingent on the completion of significant pre-established milestones.

FINANCIAL IMPACT

A total of \$63.9 million is required for the installation of Combined Heat and Power (CHP) generators in thirty-nine (39) TCHC buildings throughout the City of Toronto. Through the City's Sustainable Energy Plan Financing program, TCHC has requested a low-interest repayable loan of \$38.0 million to support 59% of the total expenditures. The remaining portion of the project will be funded by an \$8.9 million incentive from the IESO and \$17.0 million from TCHC's capital budget.

Council approval is required to amend the 2019-2028 Approved Capital Plan for Facilities, Real Estate, Environment & Energy (FREEE) by adding a new capital project in the amount of \$28.0 million with cash flows in 2020 to be disbursed in multiple installments. The remaining \$10.0 million will be disbursed to TCHC in 2019, using recoverable debt funding available in FREEE's 2019 Approved Capital Budget for TransformTO and Community Initiatives recoverable debt. The total investment of \$38.0 million will be recovered from the issuance of a 2.6% interest bearing SEPF loan to TCHC payable to the City over a 20 year term. The first full year of savings will be realized in 2021.

The 20-year debt will require average annual payments of \$2.6 million by TCHC. Annual savings arising from this project are estimated at \$1.67 million over the maximum repayment term of 20 years with annual growth expected based on an electricity price increase of 5.0% annually. Given the savings/recoverable debt portion of the project make up only 64% of the payment in the first year after completion, TCHC

would be initially required to provide an extra \$930,000 in addition to the cost savings to meet the required annual payment to the City for loan repayment.

The benefits anticipated to be realized through this investment include 40,000 MWh of energy savings; 5,000 kW in demand reduction; and 4,600 tonnes of CO2 emissions reduction.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of January 15 and 16, 2013, City Council adopted Report EX27.1aa entitled "Repurposing of the Sustainable Energy Funds and New Funding Model for City Energy Projects"

<http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-54907.pdf>

At its meeting of October 2, 3 and 4, 2017, City Council adopted Report EX27.13 entitled "Confirmation of Sustainable Energy Plan Financing Interest Rate Policy"

<http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-106542.pdf>

At its meeting of July 23, 24, 25, 26, 27 and 30, 2018, City Council adopted Report PE29.3 entitled "Sustainable Energy Plan Financing Program Enhancement"

<http://www.toronto.ca/legdocs/mmis/2018/pe/bgrd/backgroundfile-117766.pdf>

COMMENTS

TCHC has applied to the City for a SEPF repayable interest bearing loan in the amount of \$38.0 million at the City's cost of borrowing (recoverable debt). The loan will be used to install CHP generators in thirty-nine (39) TCHC buildings throughout the City.

The project will create a resilient network of sustainable buildings that will act as a safe haven for residents to shelter in place as well as offer shelter to the local community when power is not accessible from the electricity system. Most major systems within the buildings will remain operational during a power outage including elevators, heating, water, common area lighting, security systems, community or logistics rooms for coordination efforts, and if possible the whole building depending on demand.

Staff of the Environment and Energy Division (EED) have reviewed the application and approved the submission from a technical perspective. Corporate Finance Division, Capital Markets, has reviewed the application and approved the submission from a financial perspective. Based on the submission from TCHC, the term of the interest-bearing loan will be 20 years.

TCHC will repay the funds to the City in accordance with the repayment terms of the Loan Agreement, regardless of the energy cost savings realized. The project is expected to yield the following results: Estimated annual savings of approximately \$1.67 million; 40,000 MWh of energy savings; 5,000 kW in demand reduction; 4,600 tonnes of CO2 emissions reduction per year. A third party consultant will be contracted by TCHC to develop and implement a Measurement and Verification Plan to monitor utility consumption and savings. All reports will be made available to the City.

The City of Toronto will continue to support energy conservation and greenhouse gas reduction projects to ensure the benefits are shared across all neighbourhoods.

Access to low-interest financing will assist to address financing barriers that disproportionately impact neighbourhoods from taking climate change action. More specifically, this initiative aligns with a number of the City of Toronto's Resiliency Strategy Goals including Home Resilience: Support homeowners and renters to prepare their homes for shocks, Vertical Resilience: Enable wide-scale change in apartment towers to improve resilience through the improvement or retrofit of apartment towers and units and Leading a Resilient City through the City taking a leadership role in prioritizing the most vulnerable people. It also supports TransformTO directives to reduce greenhouse gas emissions in the City as a whole by 80% by 2050.

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SIGNATURE

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