



REPORT FOR INFORMATION

Source of TAF financing an ESPA transaction

Date: January 22, 2021
To: Board of Directors of the Toronto Atmospheric Fund
From: Director of Finance

SUMMARY

The Investment Committee received advice from staff that it would be appropriate to use funds from the Canada endowment to finance a retrofit which has already been initiated with funds from the Toronto and Ontario endowments. Although the Canada endowment was received subsequent to these allocations, and the direction is not to use new funds for completed direct investments, the financing for this project has not been fully advanced. The purpose of this report is to advise the Board regarding the use of funds in this specific case.

FINANCIAL IMPACT

None to the City

DECISION HISTORY

At its meeting of January 20, 2021, the Investment Committee agreed that it would be appropriate to use the Canada endowment as a source of funds for a previously-approved retrofit investment.

At its meeting December 12, 2019, TAF's Investment Committee approved an allocation of Warehouse Financing for Efficiency Capital Inc. (EC) for an ESPA-financed retrofit.

At its meeting July 16, 2014, the TAF Board of Directors approved two financing lines for Efficiency Capital, namely a \$7 million Warehouse Line and up to \$2 million of Subordinated Debt, both for retrofits that meet TAF's criteria.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.TA19.6>

COMMENTS

Upon receiving the Ontario endowment, the Investment Committee determined that new funds were only to be used to fund new Direct Investments, and the same for the Canada fund. Although approval of the investment for this retrofit via the EC Warehouse

Line financing was made before the Canada fund was received, the Toronto and Ontario funds have not been fully advanced as they are only advanced as elements of the retrofit project reach completion. Therefore, the Investment Committee has determined that allocation from the Canada fund is appropriate.

As the long-run objective is have all three funds proportionately invested in Direct Investments, and to date most Direct Investments are Toronto-only, the allocation from the Toronto, Ontario and Canada funds will be 5%/20%/75% for this project (as opposed to proportional to the NAVs of 38%/20%/42%).

In 2012, TAF began offering financing structured using our proprietary Energy Savings Performance Agreement (ESPA), which provides up to 100 percent of the capital for the goods and services to retrofit buildings, with repayment being a share of the savings achieved. TAF investment may be complemented by capital from the building owner, as well as applicable grants and incentives from utilities and government agencies.

Efficiency Capital (EC) was incubated by TAF and is the exclusive licensee of TAF's ESPA. TAF has approved two financing lines to support EC's growth in the retrofit market which the Investment Committee allocates based on specific detailed requests. The first is a \$7 million Warehouse Facility whereby TAF finances the retrofit with the ESPA owned by TAF and EC managing the customer relationship, and within two years EC has the option to purchase the ESPA from TAF at carrying value. A total of \$622K has been committed for two ESPA projects, of which \$372K is specific to the project under discussion. The second financing line is a Subordinated Debt facility whereby TAF provides EC a loan to finance an ESPA project that meets TAF's criteria and has title to the ESPA asset with TAF as subordinated creditor, and EC has the direct customer relationship; none of this line has been advanced to date but a future project has \$318K committed.

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SIGNATURE

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