SUMMARY

In March 2012, the Toronto Atmospheric Fund (TAF) submitted an application to the Federation of Canadian Municipalities (FCM) Green Municipal Fund (GMF application #12110) for financing energy and water efficiency measures in seven Toronto Community Housing Corporation buildings through its Energy Savings Performance Agreements Program (the “Project”). A letter dated August 1, 2013, from FCM confirmed that the application has been approved for a grant in the amount of $511,466 as well as a loan in the amount of $2,557,333.

While TAF can enter into a loan agreement with FCM on its own, the interest rate charged by FCM on the loan will be higher than if the loan agreement is directly with the City of Toronto. The interest rates offered through FCM are very attractive and are lower than what the City would borrow through traditional public debt markets. In addition, as per the TAF Relationship Framework with the City of Toronto, City Council authority is required for TAF to receive grants greater than $500,000, loans greater than $2 Million, and to enter into agreements that extend past the term of City Council.

This report seeks City Council approval to enter into an agreement with TAF whereby the City would borrow the funds from the FCM Green Municipal Fund and then lend to TAF the same funds borrowed by the City from FCM for the purposes of financing the eligible costs of the Project at a lower interest rate. The associated debt charges will be recovered by the City from TAF and paid to FCM. This report also seeks Council authority for TAF to receive a grant of $511,466 from FCM, and for TAF to enter into a $3,000,000 Energy Savings Performance Agreement with Toronto Community Housing Corporation to finance the Project.
RECOMMENDATIONS

The Deputy City Manager and Chief Financial officer recommends that City Council:

1. Authorize the Toronto Atmospheric Fund (TAF) to invest, by way of performance contract financing, up to $3,000,000 (net of incentives and rebates) in energy and water efficiency measures in seven Toronto Community Housing Corporation (TCHC) buildings through its Energy Savings Performance Agreements Program (the "Project").

2. Authorize TAF to accept a grant of $511,466 from the Federation of Canadian Municipalities ("FCM"), for the purpose of supporting the eligible costs of the Project, which funds shall not require repayment by TCHC under the Energy Savings Performance Agreement.

3. Authorize the Deputy City Manager and Chief Financial Officer to enter into a loan agreement and any ancillary or related documents with TAF, to lend $2,557,333.00 (the "Funds") to TAF, which Funds are to be borrowed by the City from FCM under its Green Municipal Fund Program, for the purpose of financing the eligible costs of the Project on essentially the same terms and conditions as the City is borrowing the Funds from FCM, and on such other terms as may be deemed appropriate by the Deputy City Manager and Chief Financial Officer in consultation with the City Solicitor, including that the City take the following security from TAF in the event of a default by TAF on its payments under the loan agreement:
   a. firstly, an assignment of all proceeds of the Project which includes all amounts payable by TCHC or a third party to TAF and all payments guaranteed by a third party; and
   b. secondly, a draw on the endowment funds held by the City in trust for TAF (the "TAF Funds").

4. Direct the TAF Board of Directors, in the event of default by TAF under the loan agreement, to withdraw any funds necessary from the TAF Funds to allow the City to realize on the security included in the loan agreement as recommended above, and that any such draw on the TAF Funds will not be replenished by the City, in accordance with the TAF legislation, as the draw will have been made for the purpose of satisfying TAF's indebtedness to the City.

5. In accordance with the City's relationship framework with TAF which requires Council approval of borrowing by the Toronto Atmospheric Fund in excess of $2 million, approve TAF's borrowing the Funds from the City and entering into a loan agreement with the City for a term beyond the current term of Council.
6. Deem the loan of the Funds to TAF recommended by this report to be in the interest of the City.

Financial Impact

The recommendations in this report allow the City to transfer $2,557,333 to TAF by way of a loan which amount the City will borrow from FCM. A better interest rate is available on the loan if the City, rather than TAF, borrows the Funds from FCM. The interest rate offered to the City would be in the range of 1.25% to 1.75%. FCM's range of interest rates for non-municipalities is 2.85% to 8.00% depending on the deemed risk level of the borrower and the project. The expected rate of interest that would be offered to TAF from FCM is approximately 3%. Thus, the estimated savings to TAF over the 10 year term of the loan are approximately $170,000 to $240,000. The City will enter into a loan agreement with FCM and then enter into separate loan agreement with TAF to transfer the Funds borrowed from FCM to TAF.

FCM has also approved a grant of $511,466 for the Project. FCM will provide the grant portion of the Project funding directly to TAF.

There is no direct cost to the City associated with this transaction unless TAF defaults on its obligations. The City will take the following security from TAF in the unlikely event of a default by TAF on its payments under the loan agreement:

a. firstly, an assignment of all proceeds of the Project which includes all amounts payable by TCHC or a third party to TAF and all payments guaranteed by a third party; and

b. secondly, a draw on the endowment funds held by the City in trust for TAF (the "TAF Funds").

DECISION HISTORY

In March 2012, TAF, in partnership with Toronto Community Housing Corporation (TCHC) and the Tower Renewal Office, submitted an application to the FCM for the Project. In a letter dated March 27, 2012, the City Manager supported the application on behalf of the City of Toronto.

A letter dated August 1, 2013, attached as Appendix A, from FCM confirmed that the application has been approved for a grant in the amount of $511,466 as well as a loan in the amount of $2,557,333.

TAF’s Board of Directors, at the recommendation of TAF’s Investment Committee, approved an investment of up to $3M for the retrofit of seven Toronto Community Housing Corporation buildings (TA11.8, December 2012). TAF’s Board of Directors subsequently authorized the borrowing of up to $2.557 million for the Project, from the
Federation of Canadian Municipalities via the City as an intermediary (TA15.10, September 2013).

While City Council has delegated authority to staff to apply for, as well as accept, funding from FCM, Council authority is required to lend the Funds to TAF and to enter into the associated loan agreement. Additionally, the Relationship Framework between TAF and the City of Toronto stipulates that Council approval is required for any loans in excess of $2 million, any grant in excess of $500,000 and any agreement extending beyond the current term of Council.

The TAF Relationship Framework can be seen here: [http://www1.toronto.ca/City%20Of%20Toronto/City%20Manager's%20Office/Strategic%20&%20Corporate%20Policy/Divisional%20Profile/fa-taf.pdf](http://www1.toronto.ca/City%20Of%20Toronto/City%20Manager's%20Office/Strategic%20&%20Corporate%20Policy/Divisional%20Profile/fa-taf.pdf)

**ISSUE BACKGROUND**

TAF provides funding for energy efficiency projects via grants, loans and other direct investments that provide TAF with a return on investment that is used to fund operating costs. In 2012, TAF developed a new financing approach for energy efficiency projects called Energy Savings Performance Agreements (ESPAs). Through an ESPA, TAF invests directly in energy efficiency capital upgrades in a facility and is repaid by a percentage of verified utility cost savings. Projected utility cost savings are guaranteed by the energy services provider which designs and executes the energy retrofit project, and are insured by a third party.

Beginning in 2012, TAF and Toronto Community Housing Corporation (TCHC) entered into negotiations to undertake energy efficiency retrofits in seven TCHC buildings, financed by TAF under an Energy Savings Performance Agreement. TAF’s project goals are to reduce greenhouse gas emissions and achieve a return on investment, while TCHC aims to reduce operating costs, improve indoor environmental quality, and reduce their capital repairs deficit. Both organizations also seek to establish a replicable model for designing, implementing, and maintaining energy efficiency retrofit projects that deliver and sustain triple bottom line benefits.

In order to leverage TAF’s financial resources and provide more favourable financing terms to TCHC, TAF applied for funding from FCM. The combination of FCM’s low interest loan as well as the grant will allow the Project to target deeper energy savings while allowing TCHC to retain a higher proportion of the utility cost savings than would otherwise be possible. TAF has also secured approximately $250,000 in grant funding from Natural Resources Canada and Enbridge Gas Distribution to support the Project. These funds will be used to support excellence in the engineering design process, to allow for detailed measurement and verification of energy savings, and to develop case studies documenting Project outcomes.

The Project will involve comprehensive energy efficiency retrofits of seven TCHC buildings, financed by TAF using the ESPA structure. Each building will receive a
package of energy efficient equipment that will reduce energy use, water use, and greenhouse gas emissions. Types of energy efficient equipment involved include condensing boilers, variable speed drives, energy recovery ventilation systems, and energy efficient lighting, among others. Each building will also receive state of the art energy monitoring equipment in order to ensure highly accurate measurement and verification of utility savings at both the building and individual equipment level. Detailed case studies documenting project outcomes will be published in order to share best practices and lessons learned.

The Special Housing Working Group report, "Putting People First: Transforming Toronto Community Housing" identified that improved energy efficiency can reduce operating costs and that one way to finance these energy efficiency improvements is in partnership with an external party. This party would finance the costs of the energy efficiency improvements and then share in the lowered annual operating cost savings generated by reduced energy costs (see http://www1.toronto.ca/city_of_toronto/affordable_housing_office/files/pdf/tch-report.pdf)

This Project responds to this direction. The majority of energy conservation measures being contemplated for the participating buildings involve replacement of existing equipment that is at or near end-of-life. Thus the Project will directly reduce the capital repairs deficit in these buildings while generating utility cost savings that can be directed to other building improvements. Quality of life for residents will also be enhanced by improving indoor air quality, improving the quality and consistency of common area and exterior lighting, and maintaining more consistent and comfortable temperatures within the suites. Building residents will be engaged in the design process to ensure that opportunities to improve resident quality of life are maximized.

This initiative is consistent with and supports achievement of the targets and objectives of City Council’s Climate Change Action Plan and the Power to Live Green: Toronto’s Sustainable Energy Strategy.

COMMENTS

Need for Council Authority

FCM provides loans to Canadian municipalities at a lower interest rate than to other entities which would be subjected to a risk-based interest rate that is 1.25% to 1.75% higher. The interest rates offered through FCM to municipalities are lower than what the City would borrow through traditional public debt markets. The City is entering into a loan agreement with FCM in order to secure a lower interest rate for the Funds which will be loaned to TAF. TAF will pay the associated interest and principal costs to the City, who will remit the amounts to the FCM.

Furthermore, the TAF Relationship Framework with the City of Toronto requires all loans in excess of $2 million and all grants exceeding $500,000 receive Council approval.
Council approval is also required for any grants and loans that extend past the term of the current Council under the TAF Act, 2005.

**Managing Risk to the City**

There is no direct cost to the City unless TAF defaults on its obligation. FCM will be providing the loan to the City of Toronto who will in turn direct the loan to TAF. In the case of payment default, the City will fulfill its payment obligations to FCM from the Project’s proceeds and a draw on TAF’s endowment funds held in trust by the City.

The relationship structure is illustrated below:

![Diagram illustrating the relationship between Federation of Canadian Municipalities, City of Toronto, Toronto Atmospheric Fund, Loan of $2,557,333, Grant of $511,466, and Repayment of principal and interest.]

**Disbursement Schedule from FCM**

The disbursement schedule of the loan from FCM includes the following:

<table>
<thead>
<tr>
<th>Date of Disbursement</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>On or prior to June 30th, 2015</td>
<td>$639,333</td>
</tr>
<tr>
<td>On or prior to December 31st, 2015</td>
<td>$1,662,266</td>
</tr>
<tr>
<td>On or prior to 3rd anniversary of execution of FCM loan agreement</td>
<td>$255,733</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,557,333</td>
</tr>
</tbody>
</table>

The interest rate for the first two disbursements will be the greater of 1.75% per annum or the Government of Canada 10 year benchmark bond yield 5 Business Days immediately preceding the loan disbursement date minus 1.50% per annum. Upon the final disbursement, the outstanding principal will be consolidated and the effective interest rate will be the dollar-weighted mean of the interest rates for the first and second disbursements and the interest rate that would have otherwise applied to the third disbursement based on application of the above-noted formula. Interest is paid semi-
annually starting 6 months after the disbursement dates, until principal and interest are paid in full. The loan term is 10 years.

**Expected Outcomes**
The Project will improve the energy efficiency of the TCHC buildings and decrease capital repair costs. The annual reduction in greenhouse gas emissions is expected to be approximately 1,200 tonnes. The annual savings in utility costs are estimated to be $400,000. The retrofit will improve air quality as well as the comfort and quality of life of the building residents. The Project also provides opportunities for job creation.

It is therefore recommended that City Council approve the loan agreement between the City of Toronto and TAF and the grant between TAF and FCM, and authorize that the term of the loan extend beyond the term of Council, as the associated risks are minimal and there is no direct cost to the City.

**CONTACT**

Martin Willschick, Manager, Capital Markets  
Phone: 416-392-8072; Fax: 416-397-4555; E-mail: mwillsch@toronto.ca

Mark Bekkering, Manager, Support & Implementation, Environment & Energy Division  
Phone: 416-392-8556; Fax: 416-392-4828; E-mail: mbekker@toronto.ca

**SIGNATURE**

_________________________________________  
Roberto Rossini  
Deputy City Manager and Chief Financial officer

**ATTACHMENTS**

Appendix A: Letter of Acceptance from the Federation of Canadian Municipalities
Appendix A

August 1, 2013

Mr. Bryan Purcell
Manager, Incubation and Social Innovation
Toronto Atmospheric Fund
75 Elizabeth Street
Toronto, ON
MSG 1P4

Project title: City of Toronto & Toronto Atmospheric Fund’s Green Energy Retrofit of Seven Social Housing Buildings
Application number: GMF 12110

Dear Mr. Purcell:

On behalf of the Green Municipal Fund (GMF) Council and FCM’s Executive Committee, I would like to congratulate the Toronto Atmospheric Fund on its successful funding application for the above-noted initiative.

It is my pleasure to confirm that the Toronto Atmospheric Fund has been approved for a loan in the amount of up to $2,557,333, combined with a grant in the amount of up to $611,466.

In the near future, Mr. Jim Wren, will contact the Toronto Atmospheric Fund to finalize the agreement for this funding. FCM’s obligation to fund the above-noted initiative will only become binding once the agreement is signed.

Public announcements regarding GMF-funded initiatives are overseen by FCM in partnership with the Government of Canada and can only be made after the funding agreement is signed. Once the agreement is signed, a GMF communications officer will contact the Toronto Atmospheric Fund to discuss the process for a public announcement. Until that time, before making any public statements related to the status of the application process for GMF funding, please contact us at 613-907-0208 or by email at gmf@fcm.ca.
Thank you for your interest in GMF. We look forward to working with you to improve the quality of life in your community, and to sharing the results of your initiative with communities across Canada.

Sincerely,

Raymond Louie
Chair, Green Municipal Fund Council
Second Vice-President, Federation of Canadian Municipalities

RLJW:m

c:  His Worship Mayor Rob Ford
Ms. Christina Hueniken, Solicitor, Municipal Law Group, City of Toronto
Mr. Morton Fine, Corporate Management & Policy Consultant, City of Toronto