

Confirmation of Sustainable Energy Plan Financing Interest Rate Policy

Date: August 31, 2017

To: Executive Committee

From: Deputy City Manager & Chief Financial Officer
Chief Corporate Officer

Wards: All Wards

SUMMARY

This report requests confirmation of the Sustainable Energy Plan Financing (SEPF) interest rate policy noted in the 2015 Capital Budget Notes and continuation of the SEPF approval process with existing program criteria.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer and the Chief Corporate Officer recommends that:

1. City Council approve that all Sustainable Energy Plan financing for City divisions, agencies, corporations and community based (including not-for-profit) green energy projects will continue to be financed through recoverable debt, consistent with the existing interest rate policy, which bears an interest rate equivalent to the City's cost of borrowing, to a maximum term of twenty years.

FINANCIAL IMPACT

Approval of the recommendation of this report will have no financial impact as the rate charged to participants in the Sustainable Energy Plan since 2015 has been the City's cost of borrowing. The rate charged was reduced from the approved Bank of Canada's bond yield plus 2% to encourage participation per the rationale provided in the 2015 Capital Budget Notes for the Sustainable Energy Plan. All Sustainable Energy Plan financing is considered recoverable debt which does not contribute to the City's debt.

The Deputy City Manager & Chief Financial Officer 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 January 15 and 16, 2013, City Council adopted Report EX27.1aa entitled "Supplementary Report - Repurposing of the Sustainable Energy Program and New Funding Model for City Energy Projects"

<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-51519.pdf>

At its meeting of March 10 and 11, 2015, City Council adopted EX3.4 entitled "Capital and Operating Budget" containing the 2015 Staff Recommended Capital Budget - Sustainable Energy Plan (Analyst Notes)

<http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-77439.pdf>

COMMENTS

One of the primary reasons for establishing the SEPF Program was to improve the target market's access to financing and allow building owners and managers to proceed with more comprehensive project components which would not be implemented without access to financing. Energy conservation and renewable energy projects create significant direct, indirect and induced employment, contributes to the City's TransformTO greenhouse gas reduction targets, reduces operating costs and creates revenue streams.

The 2015 Capital Budget Notes for the Sustainable Energy Plan (SEP) included the following rationale to change the cost of capital to participants:

"Since the City shifted to a Recoverable Debt Model for SEP Programs, a rate of interest charged for repayment was set at the Bank of Canada's bond yield plus 2%, which is factored into the repayment schedule. The premium placed on the cost of borrowing has discouraged participating as some claim they could borrow at a lower rate elsewhere in the market. As a result, the rate charged to participants has been reduced to the City's cost of borrowing for projects beginning in 2015."

The SEPF "Approval Process" noted in the Staff Report "Repurposing of the Sustainable Energy Funds and New Funding Model for City Energy Projects" states that "funds can be borrowed up to an amount that would have corresponding debt charges covered by projected energy savings."

Consistent with our existing energy program criteria, funds are typically disbursed in advance of project commencement to enable the implementation of project design, procurement, installation, operation and optimization for targeted results.

While the elapsed time for this sequence of events is variable and project specific a reasonable average period is typically one year. During this time, projected energy savings are consequently not operationally realized in the interim period. As such, funds are typically disbursed with a one-year delay until initiation of repayment where projected energy savings are deemed to commence and hence corresponding debt charges are applied.

Sustainable energy financing through the Sustainable Energy Funds and SEPF have proven to be valuable instruments to assist with the implementation of energy conservation projects. Without this assistance, energy projects would not have commenced, the scope of work would have been reduced significantly or the projects would have been delayed for a number of years. Participants have achieved almost 115,000 eMWh of electricity and natural gas savings and over 19,000 tonnes of GHG savings.

Total participation in the SEPF program to date stands at \$50 Million, including projects with approved upcoming scheduled disbursements.

The SEPF Program is a much needed alternative source of support that is being used to leverage additional project financing for energy conservation and renewable energy projects.

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SIGNATURE

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