



## REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

### Capital Grant and Loan from the Federation of Canadian Municipalities to the Toronto Atmospheric Fund

**Date:** June 4, 2018  
**To:** Executive Committee  
**From:** Interim Chief Financial Officer  
**Wards:** All

#### REASON FOR CONFIDENTIAL INFORMATION

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This report involves the security of property belonging to the City or one of its agencies or corporations.

#### SUMMARY

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The Federation of Canadian Municipalities (FCM) has approved Toronto Atmospheric Fund's (TAF) application for a loan of up to \$5 million and a complementary grant of up to \$750,000 for the next phase of TAF's TowerWise program (the Project). The proceeds from the loan will be used for the multi-measure retrofits of four multi-residential buildings. The project aligns with TransformTO's goal of achieving an 80% greenhouse gas reduction target by 2050 which requires average greenhouse gas reduction of 40% across all existing Toronto homes and buildings.

This report recommends that Council give its approval for TAF to enter into the loan agreement with FCM, and for TAF to pledge up to \$4 million of the TAF Fund to FCM as security for the loan. TAF has also sought and received the Province's consent to pledge up to \$1.9 million of the Provincial Endowment as security for the loan.

In addition this report updates previously provided authority to pledge assets as security.

All recommendations were developed in consultation with and are fully supported by staff at the Toronto Atmospheric Fund.

## RECOMMENDATIONS

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The Interim Chief Financial Officer recommends that:

1. City Council authorize the Toronto Atmospheric Fund to borrow up to \$5 million from the Federation of Canadian Municipalities for the purpose of financing eligible capital costs associated with the construction of the next phase of the Tower-wise project building retrofits identified in Confidential Attachment 1 and for a term that extends beyond the current Term of Council.
2. City Council authorize the Toronto Atmospheric Fund to enter into a secured loan agreement with the Federation of Canadian Municipalities by way of the pledge of a portion of the City and Provincial endowments of the Toronto Atmospheric Fund, subject to the following conditions:
  - (a) Toronto Atmospheric Fund be permitted to pledge a portion of the City endowment, not to exceed \$4 million, as security for the loan from the Federation of Canadian Municipalities Green Municipal Fund and for no other purpose;
  - (b) Toronto Atmospheric Fund be permitted to pledge a portion of the Provincial endowment, not to exceed \$1.9 million, as security for the loan from the Federation of Canadian Municipalities Green Municipal Fund and for no other purpose;
  - (c) The terms and conditions of the City pledge consent not to be inconsistent with the existing Provincial pledge consent dated May 8, 2018 (Attachment 2) and be on such other terms as deemed appropriate by the Interim Chief Financial Officer in consultation with the City Solicitor;
  - (d) The default provisions of the secured loan agreement between Toronto Atmospheric Fund (TAF) and the Federation of Canadian Municipalities provide that in the event of default by the TAF, any resort to the City pledge and the Provincial pledge be equitable and allocated on a pro rata basis based on the proportionality ratio of the Funds in effect at the time of the loan disbursement;
  - (e) The provisions of the secured loan agreement between Toronto Atmospheric Fund (TAF) and the Federation of Canadian Municipalities not permit any recourse to the City in the event of a default by the TAF;
  - (f) The Toronto Atmospheric Fund not allow any other third party pledges against its marketable securities for the purpose of the Project without the approval of City Council;
  - (g) The current TD Canada Trust fixed assets pledge (City Endowment) be reduced to an amount not to exceed \$3.1 million for the existing \$2.4 million Line of Credit to be negotiated by the Toronto Atmospheric Fund on terms that are satisfactory to the Interim Chief Financial Officer; and

(h) The current TD Canada Trust fixed assets pledge (Provincial Endowment) be reduced to an amount not to exceed \$2.1 million for the existing \$1.6 million Line of Credit to be negotiated by the Toronto Atmospheric Fund.

3. City Council authorize the Toronto Atmospheric Fund to accept a grant of up to \$750,000 from the Federation of Canadian Municipalities (FCM) for eligible project costs as determined in the agreement with FCM.

4. City Council direct the Toronto Atmospheric Fund to provide the status of the loan annually to City's Chief Financial Officer to include, but not be limited, to updates on the drawdown and repayment of the loan.

5. City Council authorize the public release of the agreement between Toronto Atmospheric Fund (TAF) and Federation of Canadian Municipalities (FCM) (Confidential Attachment 1) once the loan agreement is signed between TAF and FCM and financing agreements are signed with the participating building owners.

## **FINANCIAL IMPACT**

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The details on the project as well as the loan and grant are included in Confidential Attachment 1.

An interest rate has been negotiated between TAF and the FCM for a loan of up to \$5 million. TAF plans to repay the annual interest and principal amounts to FCM from the anticipated energy savings received from participating building owners, under separate loan arrangements or Energy Savings Performance Agreements. As a complement to the loan, TAF will also receive a grant of up to \$750,000 from the FCM. The effective interest rate for the combined loan and grant offered by FCM is the lowest cost of borrowing for TAF.

TAF is only going to drawdown on the loan if anticipated revenue from the performance agreements with the building owners is confirmed to be sufficient to cover the interest and principal payments to the FCM loan. Over the past decade, only one loan (\$0.3 million) defaulted out of the sixty-seven loans and direct investments (\$14 million) that TAF advanced, which represents a low default rate of 1% in terms of volume and 2% in terms of dollar value.

There is no direct cost to the City associated with this loan. In the case of default by TAF, FCM can draw on the TAF endowment funds that are pledged as security to the loan on a pro rata basis as between the City and Provincial Endowments. If authorized by Council, TAF is limited to pledging no more than \$4 million of City's endowment (valued at \$31.5 million at year-end 2017) and no more than \$1.9 million of the Provincial endowment (valued at \$17.2 million at year end 2017) for the FCM loan. There is no recourse to the City as a result of any TAF default.

Since 2005 TAF has had a \$2.4 million line of credit secured against the TAF Fund in favour of TD Canada Trust. It is recommended that the amount of pledged security associated with this arrangement now be reduced to reflect current circumstances.

In 2015, the City entered into a \$2.6 million loan with FCM on behalf of TAF for energy and water efficiency retrofits in certain Toronto Community Housing buildings. No specific assets were pledged to FCM since this loan was entered into by the City.

The FCM loan recommended in this report was not processed through the City due to changes in the FCM application process.

## **DECISION HISTORY**

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Council adopted the report EX44.25 "Capital Grant and Loan from the Federation of Canadian Municipalities to the Toronto Atmospheric Fund" on August 25, 2014. Council granted authority for the City to enter into a loan agreement with FCM to borrow the funds and another loan agreement with TAF to lend TAF the funds from the FCM loan.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX44.25>

Debenture Committee adopted the report DB10.2 "Authority to Issue a Debenture to the Federation of Canadian Municipalities to Secure Financing for the Toronto Atmospheric Fund" on August 29, 2017. The purpose of the debenture is for the drawdown of the FCM loan approved in 2014 (report EX 44.25).  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.DB10.2>

On October 5, 2016, Council authorized the Toronto Atmospheric Fund to obtain a Line of Credit of up to \$2 million secured by the provincial endowment once the funds were received, subject to provincial approval.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX17.6>

On April 30, 2018, the Board of Directors of the Toronto Atmospheric Fund authorized borrowing from the Federation of Canadian Municipalities and pledging Toronto Atmospheric Fund assets as security in compliance with Toronto Atmospheric Fund's By-Law Number 1, Section 12. The Board requested, via the City Manager's Office, City Council approval to receive a loan of up to \$5.0 million and grant of up to \$750,000 from the Federation of Canadian Municipalities, and to pledge Toronto Atmospheric Fund assets (City Endowment) as security for the loan. Provincial approval to pledge Provincial Endowment funds (managed by TAF) was also requested.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TA20.4>

### **Governing Authority:**

The Relationship Framework between TAF and the City of Toronto stipulates that Council approval is required for loans in excess of \$2 million and grants in excess of \$500,000 as well as any agreement extending beyond the current term of Council (section 6.3).  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX31.6>

At its October 5, 6 and 7, 2016 meeting, City Council authorized the City to enter into a Transfer Payment Agreement with the Province of Ontario and TAF to administer a new \$17 million provincial endowment in TAF. Council also requested the Government of Ontario to amend subsections 11(8) and (9) of the Toronto Atmospheric Fund Act, 2005

(TAF Act) to authorize the Toronto Atmospheric Fund to undertake financial commitments, liabilities or contractual obligations that extend beyond the term of any City Council. City Council also authorized TAF to undertake financial commitments, liabilities and contractual obligations for up to six months beyond the 2014 to 2018 term of City Council, which transactions are to be calculated as part of the City's debt and financial obligation limit under Subsection 11(8) of the TAF Act.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX17.6>

## COMMENTS

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### Issue Background:

TAF provides funding for energy efficiency projects in the form of grants, loans and other direct investments. TowerWise is one of TAF's major programs. The objective of the TowerWise project is to work with public and private sector partners to accelerate carbon reductions in the high-rise residential sector.

In 2017, the Province of Ontario invested \$17 million in TAF to build partnerships and make investments in greenhouse gas reduction education and projects in Toronto and the broader Greater Toronto and Hamilton Area (GTHA). Four proposed demonstration sites, comprising 791 households, have been selected for this phase (Accelerating Deep Energy Retrofits) of TowerWise project. Three of the four sites are in Toronto and one is located in Hamilton.

In February 2018, FCM approved TAF's application for a loan up to \$5 million and a grant up to \$750,000 for the next phase of TAF's TowerWise project which targets a minimum of 40% reductions in greenhouse gases using high-efficiency heat pump systems in addition to other measures.

As of the end of 2017, the proportional split of the TAF endowment fund was 65% City to 35% Province. All of the Hamilton share of the loan (up to 26% of the total loan) will be secured by the Province's endowment. The rest of the Province's approved pledge (up to a total of \$1.9 million) can be used towards securing the balance of the FCM loan. More details are illustrated in the Funding Arrangement section of this report.

On April 30, 2018, the Board of Directors of TAF authorized borrowing from FCM and pledging TAF and Provincial assets as security. The Board requested City Council approval of TAF obtaining a loan of up to \$5.0 million secured by the TAF and Provincial Endowment and receiving a grant of up to \$750,000 from the FCM.

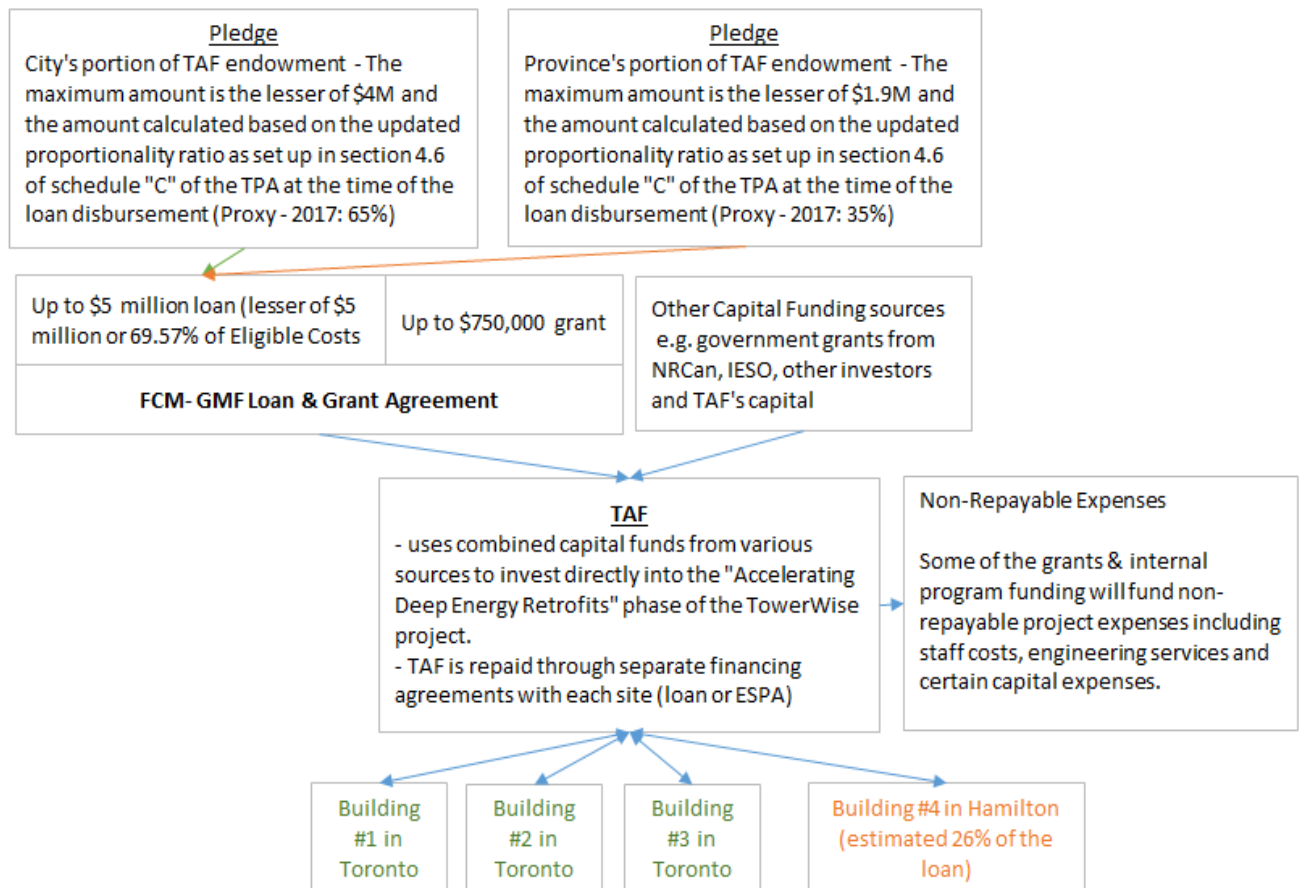
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TA20.4>

## Funding Arrangement:

The FCM loan and grant is one of the funding sources for the capital cost of this project. Other funding sources are capital from TAF and other government funding programs. TAF may also seek additional third party investor funding to carry out this Project.

TAF will enter into separate financing agreements with each of the participating building owners subject to approval from TAF's Investment Committee and Board. The FCM loan and grant can only be drawn after substantial completion of the project according to the loan agreement with FCM. TAF will structure the financing agreements with the building owners to ensure revenue from those agreements will be more than sufficient to cover the interest and principal payments to the FCM loan.

The funding arrangement is illustrated in the simplified diagram below.



## **Cost of Borrowing:**

The summary of terms and conditions under negotiation between FCM and TAF is included in Confidential Attachment 1.

FCM offers a loan of up to \$5 million secured by an estimated \$5.9 million pledge of the TAF endowment, which is complemented with a grant of up to \$750,000. The offer of the grant is conditional to the drawdown on the loan based upon substantial completion of the Project. FCM's offer is valid until February 23, 2020. The loan is an amortizing loan with semi-annual payments of combined principal and interest. The effective interest rate for the loan and grant offered by FCM is the lowest borrowing cost for TAF.

TAF indicates that it is not financially feasible for the project to proceed solely with its capital. TAF's capital represents higher opportunity cost of borrowing than the FCM loan and grant since TAF's expects a higher rate of return on its investment portfolio (13.8% in 2017). The FCM loan and grant reduce the overall cost of capital for the project.

TAF forecasts that its total long term debt (including the FCM loan) to be \$7.2 million in 2020 when loan disbursement is expected. Using TAF's reported net asset value of \$48.7 million as of December 31, 2017 as a proxy for 2020, TAF's leverage as measured by the ratio of estimated long-term debt to net asset value ratio (15%) remains conservative.

TAF will drawdown the loan to the extent that proforma revenue from the performance agreements with the building owners is confirmed to be sufficient to cover the interest and principal payments to the FCM loan. Over the past decade, only one loan (\$0.3 million) defaulted out of the sixty-seven loans and direct investments (\$14 million) that TAF advanced, which represents a low default rate of 1% in terms of volume and 2% in terms of dollar value.

## **Pledge of the City Endowment as Security:**

The FCM loan of up to \$5 million also requires TAF to pledge up to \$5.9 million of the TAF's cash and marketable securities (City's and Province's endowment) as security (Confidential Attachment 1). In the case of default by TAF, FCM can draw on the TAF endowment funds that are pledged as security to the loan on a pro rata basis as between the City and Provincial Endowments. The Province of Ontario has given TAF consent to pledge up to \$1.9 million of the provincial endowment as security for the FCM loan subject to the certain conditions and requirement. The letter of consent from the Province has been reviewed by the City and is set out in Attachment 2.

In addition this FCM loan, TAF has maintained a Line of Credit of \$2.4 million secured by the City endowment since 2005. It is currently secured against the TAF's fixed income portfolio valued at \$8.7 million although the bank can only recover amounts actually owed. TAF is currently in active negotiation and expects to reduce the required pledge to below \$3.1 million. Staff recommend that the City's authority for the pledge be reduced commensurately. TAF also maintains a Line of Credit of \$1.6 million secured by the provincial endowment since 2016.

Staff recommends City Council approve TAF to pledge up to \$4 million of the City endowment fund as security for the FCM loan subject to the following conditions and requirements, as set out in the recommendations:

- The maximum amount that can be pledged as security for the FCM loan is the lesser of \$4 million and the amount calculated based on the updated proportionality ratio as set out in section 4.6 of schedule "C" of the Transfer Payment Agreement at the time of the loan disbursement;
- The maximum amount that can be pledged as security under the Provincial consent is \$1.9, as set out in Attachment 2;
- The recommendations require TAF to ensure that there is a cap on the amount of the TAF pledge using the City endowment and the TAF pledge using the Province endowment, which will be in excess of the actual amount of the FCM loan. The terms and conditions of the City and Province pledge documentation cannot be inconsistent and any other terms should be satisfactory to the Interim Chief Financial Officer, in consultation with the City Solicitor;
- The pledge for the current \$2.4 million line of credit (City Endowment) should be reduced to a maximum of \$3.1 million; and, likewise, the pledge for the current \$1.6 million line of credit (Provincial Endowment) should be reduced to a maximum \$2.1 million. These lines of credit are currently under negotiation and the City line should be reduced satisfactory to the Interim Chief Financial Officer;
- In the event of default by TAF, the default provisions of the secured loan agreement between TAF and FCM should provide that any resort to the City pledge and the Provincial pledge be equitable and allocated on a pro rata basis;
- In the event of default by TAF, the provisions of the secured loan agreement between TAF and FCM should not permit any recourse to the City;
- There may be third party investors sought and obtained to assist in the implementation of this Project. TAF is directed to ensure that no other third party pledges are given against the Fund in relation to the Project without the approval of City Council.



## **Expected Outcomes:**

The project is expected to benefit 791 households within the four buildings. TAF estimates that direct environmental, economic, and social benefits include: (1) 9.3 equivalent gigawatt hours annual energy savings; (2) \$1M annual utility cost savings; (3) 1,460 tonnes CO<sub>2</sub>eq annual GHG reductions; (4) substantial improvements in indoor air quality and thermal comfort; (5) creating 78 person years of employment (direct, indirect and induced) through retrofitting the buildings, and sustaining 16 person years of employment per year through the life of the capital improvements by recycling utility cost savings into other sectors of the economy.

## **CONTACT**

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## **SIGNATURE**

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Joe Farag  
Interim Chief Financial Officer

## **ATTACHMENTS**

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Confidential Attachment 1 - Project Summary and Summary of Loan Terms and Conditions  
Attachment 2 - Letter of Consent (May 8, 2018) from the Province