TORONTO

REPORT FOR ACTION

Sustainable Energy Plan Financing Program Enhancement

Date: June 27, 2018
To: Parks and Environment Committee
From: Deputy City Manager, Internal Corporate Services
Wards: All

SUMMARY

This report requests an amendment to the Sustainable Energy Plan Financing (SEPF) program to expand eligibility to include academic, social, healthcare, industrial, and commercial sectors, including privately-owned buildings and condominium buildings located in the city of Toronto to better align the program with TransformTO directives to reduce greenhouse gas emissions in the City as a whole by 80% by 2050. Toronto's greenhouse gas reduction goal is community-wide, meaning only through action and investment by all segments of society will Toronto see significant reductions in carbon emissions.

RECOMMENDATIONS

The Deputy City Manager, Internal Corporate Services recommends that:

1. City Council approve expansion of the Sustainable Energy Plan Financing program eligibility to include building owners in the academic, social, healthcare, industrial, and commercial sectors, including privately-owned buildings and condominium buildings (not individual residential units) located within the City of Toronto in accordance with the amended program eligibility criteria set out in Attachment 2 to this report, financed through recoverable debt, consistent with the existing interest rate policy of an interest rate equivalent to the City's estimated cost of borrowing including related administrative costs, and for a maximum term of twenty years.

FINANCIAL IMPACT

Approval of expansion of program eligibility will have no immediate financial impact as the rate charged to all participants in the Sustainable Energy Plan Financing (SEPF) program is the City's cost of borrowing.

Annually, the Facilities, Real Estate, Environment & Energy Division's Operating Budget includes funding for the Sustainable Energy Plan Financing program. Expanding eligibility requirements is anticipated to increase applications by enabling more diverse participation from across the city. All applications will be subject to the City's amended eligibility criteria, outlined in Attachment 2, and evaluation process prior to approval, including a financial review by Corporate Finance to assess the risk and recommend appropriate security for the circumstances of each individual applicant.

In the event that loan demand exceeds funds available in a given year, projects will be ranked against criteria which include assessments of financial criteria, return on investment, energy conservation technology, project implementation capability and community benefits as referred to in Attachment 2. In the event there is not enough budget for an eligible applicant in a given year, the applicant can amend their application to request the funding in the following year.

City Council, at its meeting of January 15 and 16, 2013, adopted Report EX27.1aa entitled "Repurposing of the Sustainable Energy Funds and New Funding Model for City Energy Projects" which outlined the approval process which states that "funds can be borrowed up to an amount that would have corresponding debt charges covered by projected energy savings."

Since 2013, the total participation in the SEPF program stands at $53 Million, including projects with approved upcoming scheduled disbursements. $35.2 Million of the total participation consists of one loan to Toronto Community Housing Corporation (TCHC) to perform deep energy retrofits in nine of their buildings. In conjunction with a $28.4 Million dollar grant from the Province of Ontario, TCHC was able to undertake a $63.6 Million energy retrofit which reduced its state of good repair backlog by $41 Million. The remaining participation is comprised of a $7.2 Million loan to the YMCA and various projects for City agencies, corporations, divisions and community-based entities (including not-for-profits).

It is not expected that new qualified borrowers will significantly affect the risk profile of the Sustainable Energy Plan Financing program. Under the current SEPF program, arms-length applicants undergo a financial review through Corporate Finance to assess the risk of repayment. Under the amended program eligibility criteria, the financial review process will remain unchanged and Corporate Finance will perform the same risk assessment of new applicants.

In addition to a financial review, applications are also subject to a technical feasibility review and a business case analysis to determine if the proposed project can repay the principal loan and interest with the projected energy savings. As a result, the City has not had any issues with recoverability on any of the loans in the program to date. Further, in the course of fully implementing the Auditor General's recommendations for procedural improvements to the SEPF, the SEPF program developed a process for monitoring loan repayments which also defines the actions to take in the event a loan is in arrears.

Loans are fully debt-financed, and interest is charged at the City's estimated cost of borrowing. The City uses the loan payment to repay its debt. The annual program budget is subject to the scrutiny of the capital budgeting process. The program budget in 2018 is $7.2 Million, excluding scheduled disbursements to TCHC. Given this is a voluntary program, the Environment & Energy Division will gauge demand through 2018 and 2019 and request any budget adjustments as needed through the budget process.

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

DECISION HISTORY

At its meeting of June 14 and 15, 2011, City Council adopted Report AU2.3 entitled "Facilities Management Division Energy Efficiency Office - Management of Energy Loans and Grants Funded by the Ontario Power Authority" which addressed the energy loans and grants funded by the Ontario Power Authority managed by the Energy Efficiency Office, Facilities Management Division.
https://www.toronto.ca/legdocs/mmis/2011/au/bgrd/backgroundfile-37761.pdf

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" where Council repurposed the Sustainable Energy Funds and approved the use of recoverable debt to finance energy projects in City divisions, agencies and community-based entities (including not-for-profits).
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX27.1

Report EX27.1aa
http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-55048.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". At the request of Executive Committee, staff consulted with twenty-one current program stakeholders on the value of sustainable energy loans. All respondents felt sustainable energy loans were an extremely valuable instrument to assist with the implementation of energy conservation projects. A consensus of opinion from the respondents suggested that without the Sustainable Energy Funds, energy savings projects would not have commenced, the scope of work would have been reduced significantly or the energy savings projects would have been delayed for a number of years.
https://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-55049.pdf

At its meeting of July 8, 9, 10 and 11, 2014, City Council adopted Report AU16.10 entitled "Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions" which addressed the status of a recommendation respecting carbon credits. The recommendation was fully implemented.
https://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70627.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) to amend the interest rate charged for energy projects from the Bank of Canada's bond yield plus 2% to the City's cost of borrowing. http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-77439.pdf

At its meeting of December 13, 14 and 15, 2016, City Council adopted PE.15.1 entitled "TransformTO: Climate Action for a Healthy Equitable, and Prosperous Toronto" the following:

> 5. City Council authorize the City Manager or designate to negotiate and enter into all necessary agreements, including funding agreements, to support the implementation of the TransformTO Short-term Strategies, set out in Attachment A to the report (November 2, 2016) from the Chief Corporate Officer, as amended by Part 1 above, in forms satisfactory to the City Solicitor. http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.PE15.1

In Attachment A: TransformTO Short-term Strategies to this report, the following recommendation was adopted as part of PE15.1 to expand the SEPF program to the private sector as part of TransformTO Short-term Strategies:

> 1.2 Innovative financing mechanisms: The City has unique financing options to attract building owners to make energy efficiency and clean energy investments, including competitive Sustainable Energy Plan Financing loans and the Home Energy Loan Program, local improvement charge rebates and Toronto Atmospheric Fund’s Energy Savings Performance Agreements. The City will endeavour to scale-up these programs and explore new partnership opportunities to mobilize private capital for energy projects. https://www.toronto.ca/legdocs/mmis/2016/pe/bgrd/backgroundfile-98040.pdf

In Attachment A: TransformTO Short-Term Strategies Business Cases the following recommendation was adopted as part of PE15.1 to Enhance the Better Buildings Partnership (BBP) with the SEPF identified as one source of Capital Funding:

> Business Case 1.1: Enhance the Better Buildings Partnership (BBP) Enhancement of existing program to retrofit up to 50 Million square feet of commercial and institutional buildings by 2020, by increasing technical resources, financial assistance, and coordination of incentives and financing for property owners. This business case called for the Energy and Environment Division to use additional resources in 2018 to ramp-up program delivery, increasing incentive program participation and accelerating coordination of incentives for property owners' participation in programs across multiple sectors. https://www.toronto.ca/legdocs/mmis/2016/cc/bgrd/backgroundfile-99127.pdf

At its meeting of July 4, 5, 6 & 7, 2017, City Council adopted PE19.4 entitled "TransformTO: Climate Action for a Healthy, Equitable and Prosperous Toronto - Report 2 - The Pathway to a Low Carbon Future" which includes Recommendations 1a and 1c:

1a. 65 percent reduction in community-wide greenhouse gas emissions by 2030 from 1990 levels as an interim target;

1c. 100 percent of existing buildings are retrofitted to the highest emission reduction technically feasible, on average achieving a 40 percent energy performance improvement over 2017 levels, while limiting affordability impacts to residents, by 2050.

5. City Council direct that the TransformTO low-carbon, long-term goals and implementation plans be integrated: b) into all relevant City of Toronto strategies, policies and programs.

8. City Council direct the Chief Corporate Officer to prepare and provide to City Council in the second quarter of each new term of Council, a report that identifies:

a) Updates on TransformTO key performance indicators including:
iv) Amount of financial and other resources mobilized in support of low carbon action in Toronto.

12. City Council authorize the City Manager or designate to negotiate and enter into all necessary agreements, including funding agreements, to support the implementation of the TransformTO recommendations and strategies, in forms satisfactory to the City Solicitor.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.PE19.4

At its meeting on October 2, 2017, City Council adopted EX27.13 Confirmation of Sustainable Energy Plan Financing Interest Rate Policy. This report requested confirmation of the SEPF interest rate policy noted in the 2015 Capital Budget Notes and continuation of the SEPF approval process with existing program criteria.
https://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-106542.pdf

COMMENTS

One of the key reasons for expanding the SEPF program is to better align the program with TransformTO and City directives to reduce greenhouse gas emissions in the City as a whole by 80% by 2050 by expanding access to financing beyond City divisions, agencies, corporations and community based entities (including not-for-profits) to improve the performance of a more diverse group of buildings in Toronto. Expanding eligibility requirements will allow building owners and managers to implement energy conservation, renewable energy and greenhouse gas reduction projects creating significant direct, indirect and induced employment, contributing to the City's TransformTO targets, reducing operating costs and creating revenue streams. Expanding eligibility requirements beginning in 2018 is critical to the City achieving its first greenhouse gas reduction target of 30% by 2020.

City Council, at its meeting of January 15 and 16, 2013, adopted Report EX27.1aa entitled "Repurposing of the Sustainable Energy Funds and New Funding Model for City Energy Projects" which states that agencies, corporations, divisions and community based entities (including not-for-profits) that demonstrate energy savings and/or revenue generation and that meet the program's eligibility criteria could be financed through the SEPF Program. Expanding eligibility requirements will incentivise building owners and operators to engage in retrofits that will contribute to TransformTO's greenhouse gas emission reduction goals in the City as a whole by 80% by 2050.

Attachment 1 titled "Sustainable Energy Funds Stakeholder Consultation" provides an overview of a 2013 consultation with respondents from a variety of key sectors on the value of sustainable energy loans. All respondents were consistent in expressing the opinion that the Sustainable Energy Funds have been an extremely valuable instrument to assist with the implementation of energy conservation projects.

Applicants will be equally eligible to apply for financing for energy conservation and renewable energy projects which are forecasted to provide significant community benefits in greenhouse gas emissions reductions, improvements in resiliency and increased local economic activity.

The city has been engaged in providing financial support for energy projects for over 20 years going through an evolution of three generations of program design from the original BBP in the 1990s to the SEF and now the SEPF. Over the past 20 years, over 50,300,000 ft2 of floor area has been renovated, approximately 8,400 person years of jobs have been created, and 400,000 tonnes of cumulative CO_2 emissions have been reduced.

The SEPF Program has proven to be a valuable instrument to assist with the implementation of energy conservation, renewable energy, and greenhouse gas reduction 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. Agencies, corporations, divisions and community based entities (including not-for-profits) that have participated in the program have collectively achieved almost 115,000 eMWh of electricity and natural gas savings, over 19,000 tonnes of CO_2 savings, and an estimated $12.5 Million in annual utility savings.

The SEPF program is a much needed alternative source of support that is being used to leverage additional project financing for energy conservation, renewable energy, and greenhouse gas reduction projects and the expansion of the program is expected to have a significant impact on the implementation of TransformTO directives to reduce greenhouse gas emissions in the City as a whole by 80% by 2050.

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SIGNATURE

Josie Scioli
Deputy City Manager, Internal Corporate Services

ATTACHMENTS

Attachment 1: Sustainable Energy Funds Stakeholder Consultation
Attachment 2: Recommended Enhanced Eligibility Criteria for Sustainable Energy Plan Financing Applications

Attachment 1: Sustainable Energy Funds Stakeholder Consultation

In 2013, staff undertook a consultation process with 21 stakeholders on the value of sustainable energy loans. The 21 respondents included representation from the key sectors which the Sustainable Energy Funds serve (Municipal, Academic, Social and Health Care Services, Not-for-Profit and Private Sectors).

All respondents were consistent in expressing the opinion that the loans have been an extremely valuable instrument to assist with the implementation of energy conservation projects. Additionally, a consensus of opinion from the respondents suggested that without the Sustainable Energy Funds, energy savings projects would not have commenced, the scope of work would have been reduced significantly or the energy savings projects would have been delayed for a number of years.

List of Respondents:

1. The Board of Governors of Exhibition Place
2. Toronto Artscape Inc.
3. Facilities Management Division – Energy & Waste Management Office
4. Parkdale United Church Foundation
5. Sunnybrook Health Sciences Centre
6. Toronto District School Board
7. Brookbanks Non-Profit Homes Inc.
8. West Park Healthcare Centre
9. Harbourfront Centre
10. Toronto Community Housing Corporation
11. Toronto Hydro-Electric System Limited
12. Toronto Catholic District School Board
13. Toronto French Catholic School Board
14. Victoria University in the University of Toronto
15. Energy Services Association
16. Bio Char Foundation
17. Greening Sacred Spaces
18. Evergreen Brickworks
19. The University of Trinity College in the University of Toronto
20. Tower Renewal Office
21. Parks, Forestry & Recreation Division

Attachment 2:
Amended Eligibility Criteria for Sustainable Energy Plan Financing Applications

Eligibility Criteria for Sustainable Energy Plan Financing applications

<table>
<tr><th>CRITERIA</th><th>DETAILED REQUIREMENTS</th></tr>
<tr><td>SECTOR</td><td>City of Toronto agencies, corporations and division or community based entities including not-for-profits.
Academic, social, healthcare, industrial and commercial sectors including privately-owned buildings and condominium buildings (not individual residential units).</td></tr>
<tr><td>LOCATION</td><td>Projects must be located within the City of Toronto.</td></tr>
<tr><td>FINANCIAL CRITERIA</td><td>Projects applying for funds must be projected to generate energy savings sufficient to offset a debt service schedule over the performance life of the asset but no more than twenty years, inclusive of all financing costs at City of Toronto borrowing cost at the time of approval.
Projects must be evaluated based on the Net Present Value.
The total project cost including capital maintenance, monitoring and reporting should be equal to or less than the total present value of the net cost savings over the useful life of the project, discounted at the City's cost of borrowing.
Applicants must submit complete financial details for the project.
Applicants must demonstrate a good credit history and ability to repay the debt, to the satisfaction of the CFO.
For city divisions, projects financed from net operating cost savings will not impact the annual debt target for each program.
For city divisions, if operating cost savings are not sufficient to finance a project, the project may be considered for funding as part of the program’s regular capital works and will be included in the debt target for the program.
Applicants (except Divisions) must be able to enter into, and provide security for, a funding agreement with the City of Toronto to the satisfaction of the City Solicitor. On a project specific basis, the loan agreement with the City may be fully secured, partially secured or unsecured as determined byand to the satisfaction of the CFO. Fully or partially secured loan agreements may require the following:
Letter of Credit (LOC): Credit drawn from financial institution as collateral and periodically reduced to match declining loan balance.
Irrevocable Direction Respecting Authorized Investments: Canadian dollar interest bearing deposits, Guaranteed Investment Certificates and other like instruments offered as collateral.
General Security Agreement: Energy Retrofit Equipment and/or proceeds secured as collateral under the Personal Property Security Act (PPSA).
0Hypothecation of Bonds: Essentially, the City will hold the organization's bonds until such time(s) as the loan is reduced and eventually repaid, or until the</td></tr>
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	organization requests that the bonds be redeemed (at maturity) and replaced (if necessary). o 2nd and 3rd Mortgage: As collateral. o Other as required.
TECHNICAL CRITERIA	• Applicants must submit a detailed Feasibility Study for the project or other equivalent documentation satisfactory to the Environment & Energy Division (EED). • Projects must maximize energy savings by using shorter-payback measures to subsidize longer-payback measures. • Applicants must demonstrate an overall reduction in GHG emissions resulting from the proposed project.
ELIGIBLE EXPENSES	• Capital and related items such as engineering studies, equipment, installation, labour, commissioning, meter rental or purchase and metering services.
PROJECT TEAM	• Project teams (management, design, construction, implementation, operation, maintenance) must have a successful record of working on similar projects. • Applications must outline the qualifications of team members.
QUANTIFICATION OF RESULTS	• Estimates of energy savings or generation resulting from the project must be provided from a qualified professional, as part of the application. • Project-related energy data must be provided to the EED throughout the term of the loan. • In the event that loan demand exceeds funds available in a given year, eligibility priority will be determined by ranking projects against criteria which include assessments of financial criteria, return on investment, energy conservation technology, project implementation capability and community benefits.
OTHER CRITERIA	• Projects must be consistent with City policies; all City permits and approvals must be obtained. • All relevant federal and provincial legislation/regulations must be adhered to. • The project's potential to demonstrate its environmental, social and economic benefits will be considered. • Eligible privately owned multi-family residential buildings must have at least 6 units and over 600 m2 in Gloss Floor Area. • Applicants are not eligible to include funding requests in an application for aspects of a project that have already received funding from other city funded programs.
TIMING	• Applicants must submit estimated project timelines. • Projects must commence within six (6) months of approval of application. • The total amount of financing available is limited.