

Canada Infrastructure Bank Credit Facility to Finance Zero Emissions Buses

Date: June 27, 2022

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

The purpose of this report is to take the necessary steps to establish a credit facility with the Canada Infrastructure Bank (CIB) for the purpose of financing the Toronto Transit Commission (TTC) procurement of Zero Emission Buses (ZEBs).

As part of the overall process, the CIB requires the City and the TTC to enter into a non-binding Memorandum of Understanding (MOU) before a final agreement for a multi-year credit facility is completed. It is necessary for the TTC to be a party to this agreement as the repayment of the loan is based on the calculated operating savings between a diesel bus and a ZEB. The TTC will be required to confirm this information before the credit facility is established and provide updates throughout the term of the loan.

The CIB credit facility will only finance the difference between the capital cost of a diesel bus and a ZEB, however will provide an overall lower cost of financing than if the City were to issue debt for the full amount of a ZEB on its own. Currently, the rate of interest on funds drawn from the CIB credit facility is one percent (1%).

Currently, the TTC Green Bus Program includes the procurement of ZEBs. As of November 2021, TTC had a total fleet of 2,086 buses, including 60 ZEBs. As part of this program, \$376 million is captured in the 2022-2025 Capital Budget and Plan, comprised of \$299 million to purchase 240 ZEBs plus another \$77 million for charging infrastructure. Of this total program amount of \$376 million, the approved Capital Plan allows for \$207 million of recoverable debt which is split between the ZEBs (\$131 million) and charging infrastructure (\$76 million). The number of ZEBs may increase over the 240 planned units depending on grant monies that may follow from other orders of government.

Related to this, CIB has been working collaboratively with Infrastructure Canada through its Zero Emission Transit Fund (ZETF), which does provide grants for the replacement of diesel public transit vehicles, with zero emission vehicles. Although not a condition of the ZETF program to have a CIB credit facility, priority for ZETF grants is

being given to ZEB projects that are also being considered for CIB financing. The TTC has applied to the ZETF program and is awaiting a response to their application.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council authorize the Chief Financial Officer and Treasurer to enter into a non-binding Memorandum of Understanding (MOU) with the Canada Infrastructure Bank (CIB) for the purposes of negotiating terms of a credit facility relating to the purchase of Zero Emission Buses (ZEBs) of up to \$207 million depending and related charging infrastructure for the Toronto Transit Commission (TTC) acceptable to the Chief Financial Officer and Treasurer and in a form acceptable to the City Solicitor; and
2. City Council request the Toronto Transit Commission Board to direct the Chief Executive Officer of the Toronto Transit Commission (TTC) to provide the necessary information to the Canada Infrastructure Bank (CIB) to facilitate the negotiation of terms and to calculate the repayment of any funds drawn under this credit facility; and
3. City Council amend Chapter 30, of the City of Toronto Municipal Code, Debentures and other Borrowing, to add the entering into conditional loan agreements with the Canada Infrastructure Bank to the authority delegated to the Mayor (or the Mayor's Alternate) and the Chief Financial Officer and Treasurer to enter into agreements pursuant to that Chapter to commit the City to long term borrowing for capital works in the year 2022.

FINANCIAL IMPACT

There is no financial impact to the City's operating or capital budgets as a result of this report.

The 2022-2025 Council Approved Capital Budget for Toronto Transit Commission includes the total project cost of \$376 million for Green Bus Program of which up to \$207 million is funded by recoverable debt, and the balance dependent on other funding sources.

While there are currently no financial commitments required in 2022, the total amount of the CIB credit facility will be applied against the City's overall debt authority limit in the year the final agreement is signed.

DECISION HISTORY

At its meeting held on February 17, 2022, City Council approved the 2022 Operating Budget and Capital Plan.

COMMENTS

Canada Infrastructure Bank (CIB)

The Canada Infrastructure Bank (CIB) is a federal Crown Corporation, with a mandate to invest a total of \$35 billion across Canada, in areas that include public transit (\$5 billion), green infrastructure (\$5 billion), clean power (\$5 billion), trade and transportation (\$5 billion), and broadband infrastructure (\$3 billion). Their mandate includes working with federal, provincial, territorial, municipal and Indigenous sponsors and private sector investors to explore innovative approaches to financing and delivering infrastructure projects in Canada that are in the public interest.

The CIB has developed a Zero Emission Buses (ZEBs) financing program that targets a \$1.5 billion investment to assist in accelerating the adoption of approximately 5,000 ZEBs across Canada to reduce greenhouse gas emissions. It is expected that repayment of any loans under the CIB initiative will be sourced solely from actual savings generated by the municipality's lower cost of operating ZEBs compared to the higher cost of operating diesel buses. The savings is expected to mirror the normal amortization period of debt and the life of the asset.

In December 2021, the Province of Ontario amended Ontario Regulation 610/06, made under the City of Toronto Act, 2006 (COTA), to allow the City to borrow for long term financing of capital works from the CIB under a conditional loan arrangement. This arrangement must allow for the City to repay all or part of the principal and all or a part of the interest of the debt.

CIB would satisfy this requirement by setting loan repayments as the lesser of forecast versus actual fuel savings. As a fixed loan repayment schedule is generally required for City long-term borrowing, it may be possible to satisfy both requirements by setting a fixed loan repayment schedule based on forecast fuel savings, but allowing for a return of funds to the borrower if the resultant actual fuel savings are less than forecast. City and CIB staff are currently in discussions as to how this might be implemented.

Proposed CIB Memorandum of Understanding (MOU)

The purpose of the CIB MOU is to establish a framework for a potential low-interest rate CIB financing of a portion of the project capital costs. The MOU is non-binding, in that the parties are not required to pursue a financing arrangement. However, if the parties do proceed with a financing, the general terms appended to the MOU would apply and the parties shall act cooperatively and in good faith to facilitate the development of the financing agreement.

ZEBs generally require a larger capital outlay than traditional diesel buses. CIB offers to finance the incremental capital cost of ZEBs as compared to diesel-fueled buses. The current cost of a ZEB is approximately twice the cost of a diesel-fueled bus. In other words, CIB is willing to finance approximately 50 percent of the cost of a ZEB.

CIB offers low interest rate financing (currently at one percent). Preliminary estimates of the financing term would be equal to the asset life of the ZEB which is estimated at 13 years.

ZEBs generate operational (fuel) cost savings, in comparison to diesel buses. A potential CIB financing arrangement would use the forecasted fuel cost savings to structure a CIB loan repayment schedule. CIB will be using a Lender's Technical Advisor (LTA) to calculate the estimated operating costs and savings during the MOU process. It is necessary for the TTC, as the operator, to be a party to this agreement as the repayment of the loan is based on the calculated savings between a diesel bus and a ZEB. These schedules must be agreed to by both the CIB and TTC before proceeding to the final agreement.

Assuming such a CIB credit facility would be made available to the City for the TTC program of ZEBs, it is anticipated that the credit would be drawn upon in tranches over an "availability period" (i.e. 4 years), allowing for draws to match the delivery of TTC buses and vendor payment schedule.

Key terms and conditions of the MOU are provided in Attachment 1 to this report

Toronto Transit Commission (TTC) - Zero Emissions Buses (ZEBs)

The TTC Green Bus Program includes the procurement of ZEBs. As of November 2021, TTC had a total fleet of 2,086 buses, including 60 ZEBs. Of this program, \$299 million is captured in the 2022-2025 Capital Budget and Plan, representing 240 ZEBs, plus another \$77 million for charging infrastructure. Of this total amount, up to \$180 million could be funded by recoverable debt, dependent on the other various funding sources available.

The TTC will be required to work with the CIB and their LTA to confirm the forecasted cost savings before the credit facility is set up. As amounts are drawn to pay for the ZEBs, it will be necessary for the TTC to provide actual cost savings to CIB which will be compared to the forecasted cost savings. The TTC, as operator and administrator of the ZEBs will be required to provide this information.

Infrastructure Canada and the Zero Emission Transit Fund (ZETF)

CIB does not provide grants, but does offer to invest in eligible projects through the provision of low cost financing. However, CIB has been working collaboratively with Infrastructure Canada through its Zero Emission Transit Fund (ZETF), which does provide grants for the replacement of diesel public transit vehicles, with zero emission vehicles (i.e. electric). Priority for ZETF grants is being given to ZEB projects that are also being considered for CIB financing.

In March/April 2022, the TTC submitted an application to Infrastructure Canada's ZETF program with the expectation the TTC Green Bus Program could be further enhanced and accelerated. At this point, Infrastructure Canada has not provided a response to the TTC application.

City Debt Authorities

Council authority has been delegated to the Mayor and the CFO and Treasurer, in accordance with Chapter 30, Debentures and other Borrowing, of the City of Toronto Municipal Code, to issue an annual amount not to exceed \$2.0 billion in new debt for 2022. Public debenture issues are on track to reach \$1.2 billion in 2022, and along with other loan agreements it will leave ample room for a \$180 million credit facility agreement with CIB. This report recommends amending the existing authority in Chapter 30 to add authority to enter into conditional loan agreements with the CIB as now permitted under COTA.

Although the process for drawing on the CIB credit facility has yet to be finalized, it is anticipated these transactions will be sent to the Debenture Committee to be completed.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1 - Memorandum of Understanding with CIB: Key Terms and Conditions

Attachment 1

Memorandum of Understanding with CIB Proposed Key Terms and Conditions

1. Purpose of MOU:

- To provide a basic framework for City/TTC participation in a CIB financing program for ZEBs
- No commitment by any of the Parties to deliver or participate in the CIB Financing Program

While the MOU is non-binding, should the parties agree to enter into a CIB financing arrangement, the following key terms and conditions would apply.

2. Eligible Assets and Costs:

- ZEBs and related charging infrastructure to be acquired by TTC would be eligible for CIB Financing
- The credit facility would apply to the cost differential between the total acquisition cost of the ZEBs and an equivalent program of Green House Gas emitting buses, plus the cost of the charging infrastructure

3. Financing Term/Period:

- The "availability period", during which the City/TTC would be able to draw upon the credit facility would be 4 years.
- Financing term to maturity would match the expected useful life of the underlying assets. The useful life of the Zero Emission Buses (ZEBs) is approximately 13 years.

4. Repayment Details

- Repayment schedule would be established to reflect anticipated operating cost savings. Operating cost savings would be derived based a forecast of fuel savings relating to ZEBs vs diesel buses, with the forecast developed by both CIB and TTC (along with technical advisors).

It is intended that if actual operating cost savings are less than forecast, repayment requirements would be adjusted to the lesser amount.

If at the end of the useful ZEB asset life (coincides with loan maturity), the CIB loan balance remains outstanding,

- a) should the TTC continue to operate the underlying ZEBs, CIB would have the option of extending the loan maturity date to achieve a greater repayment
 - b) If TTC is no longer operating the underlying ZEBs, then CIB would forgive the remaining loan balance.
- Mandatory repayments would also include any insurance proceeds that are not used to replace the related infrastructure within a six month period

4. Lifecycle Reserve

- A Lifecycle reserve is required to be established to cover the major maintenance of the program of ZEBs and charging infrastructure, to ensure that they remain in operation until maturity

5. Reporting and Administration

- Annual reporting includes
 - i) audited financial statements of the borrower
 - ii) operating and maintenance budget and updated financial forecast
- Quarterly reporting includes
 - i) calculation and reporting of operating cost (fuel) savings,
 - ii) deferred payment amounts, net borrower savings and amounts required to be deposited into and withdrawn from the Lifecycle Reserve Account.
 - iii) project progress and status
 - iv) operational data and Key Performance Indicators
- A remedial plan would also be required to be developed by the borrower in the event that there is a shortfall in actual savings as compared to forecast on three consecutive loan payment dates, five loan payment dates in total, or if it is expected that there is no longer a reasonable expectation of full loan repayment by maturity.

6. Communications

In the event the Parties agree that a public communication regarding the MOU is appropriate, the Parties shall collaborate and agree on the form and content of that communication prior to any release, in addition to the timing of such release.

7. Events of Default include:

- Payment defaults
- Covenant defaults
- Inaccuracy of representations and warranties.
- Material default under Project Documents or termination of a Project Document.
- Project Documents or Credit Facility Documents become void, unenforceable or illegal
- Judgments against the Borrower in excess of a threshold amount
- Seizure of assets of the Borrower in excess of a threshold
- Cancellation or termination of the implementation or operationalization of the Project
- The failure to provide a Remedial Plan reasonably acceptable to the Lender
- Failure to obtain the required budget approvals to fund project costs