

# **Sustainable Energy Plan Financing Program (SEPF) Update**

**Date:** June 22, 2022

**To:** Infrastructure and Environment Committee

**From:** Josie Scioli, Deputy City Manager, Corporate Services

**Wards:** All

## **SUMMARY**

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In December 2021 City Council adopted TransformTO - Critical Steps for Net Zero by 2040, an ambitious climate change strategy targeting net zero greenhouse gas emissions (GHG) by 2040. Existing buildings are Toronto's largest source of GHG emissions accounting for about 57% of total community-wide emissions (2019). In July 2021 City Council approved the Net Zero Existing Buildings Strategy which identified nine key actions for reducing emissions, including the need to provide integrated retrofit support (Action 4) and to expand and enhance retrofit financing (Action 5).

The Sustainable Energy Plan Financing (SEPF) program provides financing at the City's cost of borrowing to invest in energy efficiency, renewable energy, and emission reduction projects in support of TransformTO. It is a key tool to help reduce building emissions.

This report requests an amendment to the SEPF program to extend the maximum debt service period for financing from 20 years to 30 years. The 30 year term is the maximum financing term for capital projects under the City's Capital Works Financing Policy. Building decarbonisation requires a shift in the way we build and retrofit buildings, focusing on holistic deep energy retrofits which will need to include envelope updates, fuel switching, renewables, and other measures. Many of these investments will last much longer than conventional investments, such as low carbon building envelope retrofits with asset lives of up to 50 years or geo-exchange bore holes which are expected to last up to 100 years. This amendment is a step towards aligning the SEPF program with TransformTO - Critical Steps for Net Zero by 2040 and Net Zero Existing Buildings Strategy.

## **RECOMMENDATIONS**

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The Deputy City Manager, Corporate Services recommends:

1. City Council direct the Deputy City Manager, Corporate Services to ensure that projects applying to the Sustainable Energy Plan Financing (SEPF) program for funds must/ be projected to generate savings or revenues sufficient to offset a debt service schedule over the performance life of the asset, limited to a maximum of 30 years, inclusive of all financing costs at the City of

Toronto's cost of borrowing at the time of approval, or demonstrate sufficient financial ability to service the debt as determined by a financial review by the Chief Financial Officer and Treasurer.

2. City Council authorize the Deputy City Manager, Corporate Services, or their designate, to negotiate and enter into any agreements necessary for the Sustainable Energy Plan Financing program, including agreements to disburse or receive funding, on terms and conditions acceptable to the Deputy City Manager, Corporate Services, or their designate and in a form satisfactory to the City Solicitor.

## **FINANCIAL IMPACT**

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There is no immediate financial impact resulting from the approval of this report.

Should the recommendations be adopted by City Council, future Sustainable Energy Plan Financing (SEPF) projects could potentially have a debt service schedule for up to 30 years.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

## **EQUITY STATEMENT**

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As the necessity to decarbonize buildings grows it will be vitally important to ensure programs and policy to increase decarbonisation and energy efficiency retrofitting do not negatively impact populations made already vulnerable by historic inequities including equity deserving groups living in lower quality housing, specifically women and children, Indigenous people, people with disabilities and racialized groups.

Steps will be taken to ensure that City financing provided through the SEPF would not contribute to an Above Guideline Rent Increase to protect tenants and especially vulnerable populations living in at market or affordable rental units.

## **DECISION HISTORY**

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On December 15, 2021, City Council adopted TransformTO - Critical Steps for Net Zero by 2040, endorsing accelerated community-wide greenhouse gas reduction targets including net zero greenhouse gas emissions by 2040 and recommending mechanisms to further encourage deep retrofits of existing buildings and reduce the use of natural gas in buildings.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IE26.16>

At its July 14, 15 and 16, 2021 meeting, City Council adopted the Net Zero Existing Buildings Strategy recommending nine key policy actions that the City can implement to enable and accelerate the uptake of retrofits by building owners, while maximizing potential co-benefits and minimizing potential harms to owners and tenants. Action 4 includes expansion and enhancement of financing for deep emissions retrofits.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IE23.1>

In October 2019 City Council declared a climate emergency for the purpose of deepening a commitment to climate action and endorsed a net zero greenhouse gas emission target in line with keeping temperature rise below 1.5 degrees Celsius with a commitment to identify opportunities to invest in and accelerate emission reductions areas identified in Transform TO, such as building retrofits.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.MM10.3>

At its meeting on July 23, 24, 25, 26, 27 and 30, 2018 City Council adopted PE29.03.01 Sustainable Energy Plan Financing Program Enhancement report to expand eligibility to 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 directive.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.PE29.3>

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>

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>

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 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>

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 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>

## COMMENTS

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In December 2021 City Council adopted TransformTO - Critical Steps for Net Zero by 2040, an ambitious climate change strategy targeting net zero greenhouse gas emissions (GHG) by 2040. This accelerated target requires rapid action to scale up existing programs, additional authorities for the City to implement effectively, and significant levels of investment.

Existing buildings are Toronto's largest source of GHG emissions accounting for about 57% of total community-wide emissions (2019). Of the total building emissions natural gas represents 91% of all emissions from Toronto's buildings, and almost 97% of emissions from residential buildings in particular, making the reduction of natural gas and electrification of buildings a critical focus of emissions reduction efforts.

The purpose of this amendment is to provide financing instruments that can enable the investments required to meet the accelerated TransformTO Net Zero target that have payback periods longer than 20 years to be financed by the SEPF program.

Analysis conducted for the City in the Net Zero Existing Buildings Strategy has identified that packages of retrofit measures that include building envelope and fuel switching have the potential to significantly reduce emissions.

A relevant excerpt from the Net Zero Existing Building Strategy key action 4 – *Provide & Support Financing and Funding* includes recommended action 4.1, among a number of other critical components, reads:

*Continue or modify City programs for no- or low-interest financing for retrofits, exploring the potential for larger loans and/or greater terms based on the achievement of deeper emissions reductions. If a Green Bank is established, it might operate at least some of these programs.*

- *Expand on existing HELP, Hi-RIS, and ERL programs to finance deeper measures with longer payback horizons (e.g. 30+ years) at lowest possible rates*

Currently, the SEPF maximum 20 year debt service period can be prohibitive for financing deep energy retrofits or low carbon technologies that make a major impact on emissions reductions. Extending the maximum debt service period to 30 years can enable the financing of building decarbonisation projects such as envelope investment, geoexchange bore holes, solar photovoltaic (PV)/thermal, solar PV carports, building integrated PV, and energy storage.

Financing for capital projects are allowed up to a maximum of 30 years under the Capital Works Financing Policy adopted by City Council. The City regularly issues debentures in the 30 year term for a number of capital projects. The policy change for SEPF would align with this previously approved policy.

The Chief Financial Officer and Treasurer will continue to support SEPF with the financial assessment of the applicants and their ability to re-pay these loans. Although projected energy savings comprise a large part of these reviews, other sources of income and reserves (savings) are also considered. These assessments, currently performed by the Capital Markets Division, are an important step in reducing/eliminating risk and potential loss. Given this, SEPF has not had a default in the history of this program. Environment & Energy is working with City Agencies, Divisions, and Corporations on new net-zero buildings to lead by example in the implantation of TransformTO. In particular, the SEPF will continue to be very useful in funding the necessary zero emissions components and renewable energy systems, such as geo-thermal borehole/well fields that have a long service life of over 30 years.

Through discussions and with guidance and support provided by the City, a growing number of building owners are hoping to align their planned retrofits with the low carbon pathways outlined in the City's Net Zero Existing Buildings Strategy.

There is growing interest from building owners in exploring building decarbonisation opportunities, across a range of building typologies spanning not-for-profits, City Agencies, Corporations and Divisions, institutional buildings and residential condominiums.

This report also seeks authority for the Deputy City Manager, Corporate Services or their designate, to negotiate and enter into any agreements necessary for the Sustainable Energy Plan Financing program, including agreements to disburse or receive funding, on terms and conditions acceptable to the Deputy City Manager, Corporate Services, or their designate and in a form satisfactory to the City Solicitor. As the scope of SEPF projects increase, the number of applications for more than \$2 million will increase requiring an update to the Deputy City Manager's authority.

The need for a longer amortization period has been identified through program operations and discussions with City Agencies, Corporations and Divisions and the community. Toronto needs local examples to demonstrate the achievability and co-benefits of deep energy retrofits, to help all buildings owners understand their steps on the pathway to net zero and to promote community wide knowledge of deep retrofits. Extending the maximum debt servicing period for the SEPF program will provide an effective tool to enable these decarbonization projects.

## **CONTACT**

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**SIGNATURE**

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