

Direct Investment Request Update: 2020.A

Date: November 6, 2024
To: Board of Directors of the Toronto Atmospheric Fund
From: Vice President, Impact Investing

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report contains financial information, supplied in confidence to The Atmospheric Fund, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

SUMMARY

This report recommends confirming approval of an investment originally approved by the Board in 2020 with updated and adjusted terms and conditions given the limited risk of the investment; alignment with TAF's mandate; and financial strength and governance accountability of the Project Recipient.

RECOMMENDATIONS

The Vice President, Impact Investing recommends that the Board of Directors of the Toronto Atmospheric Fund:

1. Confirm approval of an investment of up to \$2,841,800 subject to the revised investment terms and conditions stated in Confidential Attachment 1 and outlined by the Direct Investment Committee at its meeting of 29 October 2024.
2. Direct the Vice President, Impact Investing implement the investment to the satisfaction of TAF's Solicitor.
3. Direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it contains financial information, supplied in confidence to The Atmospheric Fund, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

FINANCIAL IMPACT

There is no financial impact to the City of Toronto resulting from the adoption of the recommendations in this report.

DECISION HISTORY

TAF's Direct Investment Committee, at its meeting on 31 March 2022 reviewed the transaction and confirmed approval of an investment of up to net \$2,841,800 and gross of up to \$3,363,600 subject to revised conditions outlined in the confidential investment memo dated 23 March 2022.

At its meeting on 5 February 2021 meeting, the TAF Board approved an investment of up to net \$2,841,800 and of up to gross \$3,363,800 subject to the terms and conditions outlined by TAF's Investment Committee at its meeting of 10 December 2020 (<https://secure.toronto.ca/council/agenda-item.do?item=2021.TA10.8>).

At its meeting on 27 July 2020 meeting, the TAF Board approved an investment of up to net \$2,500,000 and gross \$3,120,000 subject to the terms and conditions outlined by TAF's Investment Committee at its meeting of 18 June 2020 (<https://secure.toronto.ca/council/agenda-item.do?item=2020.TA8.5>).

At its meeting on 30 April 2018 meeting, the TAF Board approved a loan, with an associated grant component, from the Federation of Canadian Municipalities (FCM) for the purpose of advancing TAF's Towerwise: Accelerating Deep Energy Retrofit (ADER) program. The approval is subject to a review of each associated project (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.TA20.4>).

COMMENTS

Overview

This transaction is associated with an energy retrofit project being managed by TAF's Retrofit Accelerator team. Construction and installation of the energy efficiency measures are already well underway. The project represents a deep energy retrofit, with a potential to directly reduce the equivalent of 340 tonnes of carbon emissions annually.

This transaction is an Energy Savings Term Loan (ESTL). The total project cost is \$6,544,264. The project is substantially funded by the Project Recipient's own contribution. The remainder of the project costs are to be covered utilizing funds borrowed by TAF from FCM. The key advantages of borrowing from FCM are the favourable interest rate and associated grant that supplements the available project capital.

During early implementation of the project, TAF has used the Project Recipient's capital held in a TAF controlled bank account to make payments. The Project Recipient's

contribution is now close to being fully spent. The funds expected to be borrowed from FCM, along with the associated grant, will cover the remainder of the project costs. However, there is a risk construction will be stalled because the FCM funds are not yet available due to delays executing the full suite of legal documentation, which is also addressed in Items TA8.1 and TA8.3 of this agenda.

Background

In 2018, TAF's Board approved entering into a loan agreement of up to \$5 million with the Federation of Canadian Municipalities (FCM) to fund TAF's Accelerating Deep Energy Retrofit program. Grant funding of up to \$750,000 is associated with the FCM loan.

This transaction was initially approved by the Board in July 2020. The expectation was for the Project Recipient to borrow from TAF and TAF to borrow the equivalent value from FCM, using the \$5 million FCM loan. This flow-through structure provides access to FCM grant funding for the project. The intention was to match the terms of the loan between TAF and the Project Recipient with the terms of the loan between FCM and TAF, ensuring positive cash flow.

Since July 2020, the approval has been revised twice. First to increase the value of TAF's commitment and the value of the available FCM grant funding and second to amend the conditions precedent, specifically transitioning to an unsecured loan with the Project Recipient. Despite the amendments, TAF's separate negotiations with the Project Recipient and FCM have resulted in a divergence between the current structure of the transaction and the Board/Committee approved conditions precedent. Details of the differences are included in Confidential Attachment 1.

Rationale

The updated transaction is being presented because TAF's negotiations of two loan agreements -- one with the Federation of Canadian Municipalities (FCM) and one with the Project Recipient -- have resulted in loan terms that no longer align with the investment conditions approved by the Board. The lending agreement between the Project Recipient and TAF signed on 9 February 2023 binds TAF to advance funds to the Project Recipient. TAF intended to draw the FCM funding once the Project Recipient's contribution, conditioned to be the first source of funding, is exhausted. As noted above, this funding is almost fully drawn.

The current Board approved conditions necessitate all legal documentation be executed prior to advancing TAF capital. Removal of this condition and an approval to advance the necessary capital under the loan agreement with the Project Recipient, prior to securing funds from the FCM loan, is recommended, as set out in Confidential Attachment 1.

In the highly unlikely event the FCM loan is not completed, the associated FCM grant will be lost. Approval for TAF to become the primary lender to the Project Recipient in this scenario is recommended. TAF would also maintain the opportunity to increase the

loan value for the Project Recipient up to a total of \$5 million to cover all necessary project expenses for additional work associated with a significant project variance.

Staff believe it is of great value and importance to continue supporting this transaction, so the Project Recipient does continues advancing towards its targeted reductions in energy consumption and carbon emissions and the substantial health, financial and social benefits associated with a deep energy retrofit. TAF also has a strategic relationship with the Project Recipient that will be permanently damaged if this project is significantly stalled or not fully completed, particularly considering TAF's legal obligation to advance the approved capital.

Staff are confident there is limited risk to TAF from adjusting the investment conditions as recommended by the Direct Investment Committee given the strong likelihood finalization of the FCM loan will occur and the financial strength and governance accountability of the Project Recipient to make loan payments.

All legal documentation has previously been reviewed by TAF's solicitor and the borrowing and execution of the adjusted investment terms will be subject to legal review and our Solicitor's satisfaction.

CONTACT

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SIGNATURE

Kristian Knibutat
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ATTACHMENTS

Confidential Attachment 1 – Direct Investment Request Update: 2020.A