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LOAN FROM THE INNOVATION RESERVE FUND FOR HOUSING YORK INC. ENERGY RETROFITS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, January 15, 2008, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The Innovation Reserve Fund be used to provide an interest-free revolving loan to Housing York Inc. in the principal amount of up to $3,524,000, to cover the costs of energy retrofits, which would be repaid from energy savings achieved by Housing York Inc.

2. The current 5-year repayment limit on draws from the Innovation Reserve be waived and a repayment period of up to 14 years be authorized for this loan.

3. The Regional Chair and Regional Clerk be authorized to execute such legal agreements as required on the Region's behalf to effect the foregoing, subject to prior review by Legal Services.

4. An amount up to $1,000,000 be transferred from the Region's General Capital Reserve to the Innovation Reserve Fund.

2. PURPOSE

This report seeks approval to provide financing from the Innovation Reserve Fund to Housing York Inc. for energy retrofits on its housing portfolio. The report also seeks approval to replenish the Innovation Reserve Fund, if required.

3. BACKGROUND

3.1 The Innovation Reserve Fund was created to advance funding for projects that will enhance operating efficiency

In December 2002, Council authorized the establishment of an Innovation Reserve Fund. The purpose of this fund was to provide interest-free, interim funding for projects that would result in more efficient operations and operating cost savings. It was anticipated that repayments of this funding would be allocated from the applicable department's annual budget, until the advance was repaid.

To date, the fund has been used to help finance costs relating to the LED Traffic Signal Displays Retrofit and Replacement Program that set out to replace traffic signals with more efficient LED devices, resulting in significant operating cost savings.

3.2 Housing York Inc. has requested financing assistance for proposed energy management retrofits

In September 2005, Housing York Inc. approved a plan for energy management within its facilities. The plan included the use of new technologies, improved consumption management, tenant education, and comprehensive building retrofits. To date, the plan has resulted in:

- $46,000 est. annual energy savings from retrofits of two buildings
- $15,000 est. annual energy savings from laundry equipment upgrades
- $354,000 acquired from energy incentive programs
- Use of innovative renewable energy supply – solar wall
- Increased tenant knowledge and awareness of energy conservation benefits through ongoing targeted communications

In addition, the energy management initiative included energy audits which have been completed on 28 Housing York Inc. properties. As a result of these audits, 25 buildings have been identified for a number of energy retrofits such as installation of: energy efficient lighting, low flow toilets, programmable thermostats, high efficiency gas boilers, and air make up units. The cost of these works is estimated at $3,524,000.

Housing York Inc. has requested, through a report approved by its Board of Directors on December 5, 2007, that Council provide financing assistance to complete the retrofit projects.

4. ANALYSIS AND OPTIONS

4.1 Retrofits on 25 Housing York Inc. buildings are proposed over a 5 year period

The Housing York Inc. plan proposes that, starting in 2008, five buildings will be retrofitted each year, over a five year period, at an estimated total cost of $3,524,000. The cost of these works could be reduced by taking advantage of any financial incentive programs that may be offered by various organizations.

As identified by Housing York Inc., completing the retrofits would provide the following significant benefits:

- An estimated 20% annual operating cost savings
- Reduced utility demand and environmental impact
- Energy savings realized after payback period could be used for other initiatives
- Part of York Region's Sustainability Strategy – retrofits identified in the Strategy's theme of maintaining a Corporate Culture of Sustainability
- Housing York Inc. seen as a leader in the "green" building management
- Assists in housing affordability (e.g. townhouse units where tenant pays utilities) and increase their rental marketability
- Best practice/benchmark for other buildings – program/projects could be a model for others such as non-profit housing providers

4.2 Terms of the Loan Repayment

Once complete, the retrofits are expected to result in annual savings of approximately $480,000, of which $311,000 would directly benefit Housing York Inc's operations. These savings will provide a source of repayment for the loan as summarized in Table 1 in the Financial Implications section below.

In light of the phased implementation of the energy retrofits, projections indicate a payback period of 10 – 15 years, and in order to preserve cash flow, financing will be provided by way of a long-term revolving loan. To this end, authorization is requested to set out the terms and conditions of the loan as follows:

a) Advances from the Innovation Reserve Fund will be made in five separate tranches matching the projected annual expenses detailed in Table 1 below.
b) Repayment of each tranche will begin in the year following the initial advance of funds and will match the annual expected savings of the retrofits.
c) Principal will be repaid in annual instalments on the anniversary date representing the aggregate of principal payments due for each tranche.
d) Annual payments and amounts outstanding for each tranche will be tracked via promissory grid notes.
e) The loan will be fully repaid within 14 years of the initial advance.
f) Housing York Inc. will have the right to prepay the loan in full without penalties.

Housing York Inc. advises that it has indications from the energy sector that incentive funding of up to 25% of the project costs could be obtained in the coming years. Any incentive funding received will go toward any debt service shortfalls. Should the incentive funding not materialize, it will be the sole responsibility of Housing York Inc. to ensure that any shortfalls are included in their annual budget and covered in full.

4.3 Interest Free Financing

Interest-free financing is being provided to Housing York Inc. given that it is a wholly-owned subsidiary of the Region. Therefore, benefits of the Energy Management Retrofit Program will accrue to the Region as Regional assets are improved and subsidies are reduced. The loan agreement with Housing York Inc. should however provide for the loan to be immediately repaid in the event of a change in the ownership of Housing York Inc. or its assets.

4.4 Transfers from the General Capital Reserve are required to replenish the Innovation Reserve Fund

The balance in the Innovation Reserve as of November 30, 2007 is approximately $2,600,000 and as such, additional funds may be required to support the financing provided to Housing York Inc. A transfer of up to $1,000,000 will be made from the General Capital Reserve to cover the shortfall and replenish the reserve. The balance in the General Capital Reserve as of November 30, 2007 is approximately $172,500,000.

The amount transferred will be repaid to the Capital Reserve once contributions by way of Housing York Inc. principal payments have sufficiently replenished the Innovation Reserve balance.

5. FINANCIAL IMPLICATIONS

Table 1 summarizes the estimated costs and phase in period of the retrofits. The table also estimates the potential annual savings directly benefiting Housing York Inc. which will be used to repay the loan as illustrated.

Table 1
Project Implementation, Expected Cash Flows, and Loan Repayment

Year	Expected Project Costs/Savings		Loan Repayment	
	Cost of Works/ Loan Advances.	**Potential Annual Savings**	**Principal Pmts**	**Ending Loan Balance**
2008	$721,000	$0	$0	$721,000
2009	$593,000	$83,000	$83,000	$1,231,000
2010	$737,000	$131,000	$131,000	$1,837,000
2011	$724,000	$182,000	$182,000	$2,379,000
2012	$749,000	$249,000	$249,000	$2,879,000
2013	$0	$311,000	$311,000	$2,568,000
2014	$0	$311,000	$311,000	$2,257,000
2015	$0	$311,000	$311,000	$1,946,000
2016	$0	$311,000	$311,000	$1,635,000
2017	$0	$311,000	$311,000	$1,324,000
2018	$0	$311,000	$311,000	$1,013,000
2019	$0	$311,000	$311,000	$702,000
2020	$0	$311,000	$311,000	$391,000
2021	$0	$311,000	$311,000	$80,000
2022	$0	$311,000	$80,000	$0
Total	**$3,524,000**	**$3,755,000**	**$3,524,000**	

Provision of funds by way of a loan from the Innovation Reserve Fund will help finance the cash requirements of Housing York Inc. while avoiding external borrowing costs. The financial implications for the Region will be the lost interest revenue anticipated to total approximately $1,088,170 over the term of the project/repayment period. In addition, the funds advanced will be unavailable for other innovation projects for a period of more than 5 years. However, the benefits of the retrofit program, as mentioned earlier, help offset the loss in interest.

6. CONCLUSION

By approving the terms and conditions of the loan from the Innovation Reserve Fund, Council will provide cash resources to Housing York Inc. that will allow it to continue to pursue its energy management program designed to provide significant operational savings, and further establish itself as a leader in “green” management.

The Senior Management Group has reviewed this report.