# THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
September 13, 2006
Report of the
General Manager

## ENERGY MANAGEMENT STRATEGY
## THE GREEN LIGHT LOAN PROGRAM

## 1. RECOMMENDATIONS

It is recommended that:

1. The Corporation enter into loan agreements for Founders Place (540 Timothy Street in the Town of Newmarket) and Elmwood Gardens (325 Elm Street in the Town of Whitchurch-Stouffville) not to exceed $110,000 in total with CFI Trust pursuant to the Social Housing Services Corporation's (SHSC) Green Light Loan Program. Approval is to be conditional upon changes made to the Loan Agreement as outlined in this report, and that the Region provide a guarantee of the loan as described in this report, which limits the Region's exposure and further that there is no restriction upon the Corporation as to future encumbrances against the subject properties.

2. The General Manager and Treasurer be authorized to execute the loan agreements for Founders Place and Elmwood Gardens and ancillary documentation on the Corporation's behalf, subject to the prior review of Legal Services.

3. A request be made to Council to provide the necessary Regional Guarantee to support these loans and further that the Region be requested to provide loan guarantees not to exceed $1.0 million for energy efficiency work to be performed at other Housing York Inc. (HYI) projects over time.

4. The General Manager and Treasurer be authorized to enter into loan agreements for further HYI projects for energy management upgrades subject to the conditions of the loans remaining substantially the same as described in this report to a maximum of $1.0 million including the amounts guaranteed for the two properties which are the subject of this report.

## 2. PURPOSE

The purpose of this report is to seek approval to borrow funds from the SHSC's Green Light Loan Program to support building retrofit costs within HYI's Energy Management Strategy and to take advantage of interest rate relief opportunities.

## 3. BACKGROUND

At its September 14, 2005 meeting, the Board of Directors approved an Energy Management Strategy for HYI. As outlined in that report, energy related costs have significantly increased in the past several years and are expected to continue to do so.

The over-all strategy focused on a number of areas including tenant education, building retrofits, and consumption management initiatives. At that time, the Board authorized the use of $500,000 in Retained Earnings in order to staff a position for a period of up to two years to implement the Strategy and also to provide funding for energy pilot upgrades at Founders Place and Elmwood Gardens.

As was also discussed in that report, it was expected that new sources of funding and financing would be available within the next year to allow HYI to better leverage its own resources and expand the work that could be done in the area of energy efficiency.

## 4. ANALYSIS AND OPTIONS

SHSC has recently announced a comprehensive approach to energy management planning and funding for non-profit and co-operative housing corporations. SHSC has approached a number of energy manager stakeholders including the Ontario Power Authority (OPA), Natural Resources Canada (NRC), Enbridge Gas, and Hydro One and has bundled various energy efficiency initiatives and programs into a one-stop shopping facility. Generally, housing providers are able to submit energy management action plans to SHSC who will process applications through these various agencies to maximize initiative funding.

### 4.1 Loan Program Details

One of the packages of initiatives being offered through SHSC is the Green Light Loan Program. Details of the program are contained in the following table:

**Table 1**
Details of the Green Light Loan Program

| Program Detail | Comment |
|---|---|
| Loan initially based on floating interest rate | Rate appears to be about 75 basis points above the Corporations, internal investment rate. |
| Rate will be fixed at lenders discretion | Estimated to be 120 basis points above the Canada Bond rate |
| Loan contains clause allowing for no subsequent encumbrances | This provision is generally unacceptable. Restricts future possible flexibilities. SHSC has advised this clause will be eliminated where a Service Manager guarantees the loan |

It is recommended that prior to signing a Green Light Loan Agreement that a clause indicating the rate setting mechanism be included, as should a clause to redeem the loan if the take-out rate is deemed excessive. Staff have been informed verbally that the take-out rate would be set approximately at 120 basis points above the applicable Canada Bond rate. This understanding should be indicated in writing. The loans can have terms of the lesser of: ten years, the estimated life of equipment purchased, or the energy cost pay back period.

### 4.2 Assistance Related to Green Light Loans

The OPA has agreed to provide assistance in regard to Green Light Loans, including guarantees for "eligible" energy conservation measures; these measures can include expenditures related to electrical savings for eligible products and work such as lighting and appliance upgrades, and conversion of electrical domestic hot water systems from electricity to gas. These measures cannot include building envelop upgrades or renewable resource initiatives. As such, only a portion of most energy upgrade work will be covered off in the guarantee. SHSC indicates that the entire Green Light Loan amount will need to be guaranteed, which could mean that HYI would need to provide some level of guarantee.

The OPA will also cover interest costs of up to 7% on Green Light Loans for years 2-5 for the portion of the loan which is related to deemed "eligible" expenditures. The first year of interest will be covered by the NRC. Starting in March 2007, only the first four years of interest will be covered as the NRC program will terminate at that time. This interest rate relief does not apply only to Green Light Loans, but can also include funds borrowed by HYI from other sources to implement the eligible measures. A grant will be given in the amount of the net present value of the interest paid.

## 4.3 Options Related to Financing Energy Measures at Founders Place and Elmwood Gardens

There are several financing options available to HYI related to the energy work to be performed at Founders Place and Elmwood Gardens. As shown in Table 2, SHSC has advised of the eligible Green Light Loans for these two projects. The relatively larger amount of incentives for Elmwood Gardens reflects additional eligible energy upgrades including refrigerators and a solar wall being installed at this location.

**Table 2**
Preliminary Energy Costs and Incentives Available

| Project | Total Estimated Cost of Measures | Capital Incentives Available | Total Green Light Loan Available | Portion of Loan Available for Interest Assistance* |
|---|---|---|---|---|
| Founders Place | $118,336 | $29,682 | $88,654 | $57,327 |
| Elmwood Gardens | $163,099 | $63,726 | $99,373 | $44,781 |
| **Total** | **$281,435** | **$93,408** | **$188,027** | **$102,108** |

* The portion of the Green Light Loan available for interest assistance relates to only eligible work as described previously. Further, the portion of the loan not covered by OPA assistance (in the case of Founders Place—$88,654-$57,327=$31,327) will also require a guarantee from a party other than the OPA.

Other incentive funding is pending and could further offset the capital costs of these measures.

There are several options available for HYI for these two projects and for any other projects being contemplated for energy retrofits. It should be recognized that the current Green Light Loan Program is reaching capacity and that further projects may need to await further funding initiatives.

### 4.3.1 Alternatives

A full range of options is detailed in *Attachment 1* to this report. It is recommended that the Corporation fund eligible work from the Green Light Program with a Regional Guarantee, and continue to fund ineligible work from Retained Earnings. This will allow HYI to receive the maximum interest rate relief possible, leverage significant Retained Earnings, and without restricting the ability to future encumber assets, if deemed appropriate.

#### 4.3.2 Other

SHSC has now advised they are in discussions with the lender funding the Green Light Loan Program, CFI Trust, regarding the onerous nature of their loan clause not allowing subsequent encumbrances on properties. The Lender may consider encumbering only the specific assets related to the energy efficiency measures, such as boilers, refrigerators, hot water tanks and the like. Alternately, CFI Trust might allow for subsequent encumbrances to be placed with the recommendation of the Service Manager.

To the extent that CFI Trust may only attach security to particular assets, it would be recommended that HYI enter into a loan agreement whereby OPA guarantees its portion of the loan. This would limit the Region's potential exposure, while freeing up the Corporation's Retained Earnings to the extent possible.

### 4.4 Potential Assistance for Other HYI Projects

There may be further assistance available from the suite of programs described in this report for additional HYI energy upgrades projects. As noted in the initial report of September 14, 2005 on the Corporation's Energy Management Strategy it was estimated that total energy retrofit costs for the portfolio would approximate $2.2 million.

As it is expected that a portion of the cost of the energy upgrades will be covered off in incentives, it is recommended at this time that the Board request the Region to provide loan guarantees in the amount of $1.0 million.

It is recommended that the Corporation's General Manager and Treasurer be authorized to seek further funding at the appropriate time. If the suite of programs available changes significantly such that the benefits or risks to the Corporation or the Region are altered, staff will seek further authorization prior to proceeding. Staff will provide an annual report in regard to the Energy Management Strategy including any external funding applied for and received.

## 5. FINANCIAL IMPLICATIONS

The use of the Green Light Loan Program will allow HYI to use its $500,000 in funding to meet energy consumption reduction targets across a wider range of facilities by maximizing other sources of funding.

## 6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications for this report.

## 7. CONCLUSION

Implementation of a comprehensive Energy Management Strategy is a priority for HYI and resources have been set aside to launch that work. The plan has always contemplated taking advantage of funding and loan opportunities in order to stretch HYI's scarce resources and make the most impact on the management of energy consumption. The Green Light Loan Program from SHSC provides such an opportunity and is complimentary to HYI's objectives.

The Senior Management Group has reviewed this report.

| | |
|---|---|
| Prepared by: | Reviewed by: |
| Len Bulmer<br>Senior Housing Analyst | Sylvia Patterson<br>Assistant General Manager |
| Recommended by: | Approved for Submission: |
| Joann Simmons<br>General Manager | Michael R. Garrett<br>President |

September 6, 2006

Attachment - 1

LB/dm

Version 4-2003-5-30