



CITY OF VANCOUVER

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ADMINISTRATIVE REPORT

Report Date: February 26, 2008
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RTS No.: 7247
VanRIMS No.: 05-2000-30
Meeting Date: March 11, 2008

TO: Vancouver City Council

FROM: General Manager of Corporate Services / Director of Finance
In consultation with the City Engineer

SUBJECT: Borrowing Authority for Neighbourhood Energy Utility

RECOMMENDATION

THAT Council approve borrowing authority of \$5.0 million for the Neighbourhood Energy Utility and authorize the Director of Finance to conclude an agreement with the Federation of Canadian Municipalities (Green Municipal Fund) for a loan of the same value on terms as generally outlined in Appendix A.

GENERAL MANAGER'S COMMENTS

The General Manager of Corporate Services recommends approval of the recommendations in this report.

COUNCIL POLICY

Council establishes borrowing authority to finance capital expenditures in the Neighbourhood Energy Utility.

PURPOSE

The purpose of this report is to seek Council approval for borrowing authority of \$5 million for the Southeast False Creek Neighbourhood Energy Utility and to seek authority for the Director of Finance to enter into a loan agreement of the same value with the Federation of Canadian Municipalities (Green Municipal Fund).

BACKGROUND

On March 2, 2006, Council approved in principle the creation of a False Creek Neighbourhood Energy Utility (NEU) to provide for space heating and domestic hot water to multi-family residential, commercial, institutional and industrial buildings within the SEFC ODP area. Council also approved interim development financing to a maximum of \$14.0 million from the Capital Financing Fund (CFF). Staff are to report back with the final financing plan once the project is nearing start-up, however, it has been anticipated that this would include debenture funding.

During the spring 2007 session, the provincial legislature approved amendments to the *Vancouver Charter* to enable the City to create, finance and operate the NEU. Among the provisions approved was authority for Council to approve borrowing authority for the utility without reference to the electorate. These are similar authorities as those available for sewer and water borrowing.

The Federation of Canadian Municipality (FCM) Green Municipal Fund (GMF) provides loans and grants, builds capacity, and shares knowledge to support municipal governments that are more environmentally, socially and economically sustainable. The Government of Canada has endowed the FCM with \$550 million to establish the GMF to provide a long-term, sustainable source of financing for municipal governments and their partners.

To ensure the greatest possible impact, FCM uses the GMF to invest in plans, studies and projects that provide the best examples of municipal leadership in sustainable development and that can be replicated in other communities. FCM develops case studies and other tools to support other municipal governments that are prepared to follow these examples.

On May 23, 2007, the GMF issued an RFP offering loans, or grant and loan contributions to support district energy projects whose primary fuel source is renewable or waste energy. A primary condition of the program is that projects must result in a net greenhouse gas emission reduction of at least 50%, as compared to business as usual. The City of Vancouver responded with a proposal seeking financing to support the development of the Southeast False Creek Neighbourhood Energy Utility based on its use of sewage heat recovery technology as a primary heat source.

DISCUSSION

On January 11, 2008, the City was informed that the Southeast False Creek NEU had been approved for a FCM GMF loan of up to \$5 million (Appendix A). The basic terms of the GMF loan are as follows.

- Loan term is ten years.
- Loan interest rate is the ten-year Government of Canada bond rate at the time of issuance, less 1.5%.
- Funds will be disbursed to the City one year after project completion, upon third-party verified confirmation that the NEU has reduced greenhouse gas emissions by more than 50% from the business-as-usual baseline, which is to be defined in the Loan Agreement.

The loan offer and details of the loan terms can be found in the term sheet Appendix A of this report. If Council supports the staff recommendation to allow the City to take advantage of the GMF loan, the Director of Finance will enter into direct negotiations with the FCM to confirm detailed loan conditions and terms, based on the initial term sheet shown in Appendix A.

If borrowed, these funds will be applied to the construction of the NEU infrastructure, including the Community Energy Centre in Southeast False Creek. Repayment requirements of this loan will become part of the ongoing operating costs of the NEU with recovery from user fees.

FINANCIAL IMPLICATIONS

The proposed FCM loan will be utilized as one source of financing for the NEU. This offer is attractive because the loan terms involve rates which are lower than the City could normally borrow in the market. At current rates, the interest rate on this loan would be approximately 2.4% per annum - approximately half of the City's normal borrowing costs - which would represent annual debt service savings of approximately \$110,000 to the NEU.

CONCLUSION

In this report, staff recommend that Council approve the creation of \$5 million of borrowing authority for the Southeast False Creek Neighbourhood Energy Utility, which would allow the City to enter into a loan agreement with the Federation of Canadian Municipalities Green Municipal Fund. This loan is offered at a preferential interest rate that would allow the NEU to save approximately \$110,000 per year in debt service costs, over the ten year term of the loan.

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Letter from FCM Confirming Approval of Green Municipal Fund Loan for the SEFC
Neighbourhood Energy Utility.

JAN 16 2008

SUSTAINABILITY GROUP

January 11, 2008

Mr. Chris Baber, P.Eng.
Project Manager, Neighbourhood Energy Utility
City of Vancouver
453 West 12th Avenue
Vancouver, British Columbia
V5Y 1V4

Project Title: Phase 1 Development of the Southeast False Creek
Neighbourhood Energy Utility
Application Number: GMF 9780

Dear Mr. Baber:

The National Board of Directors of the Federation of Canadian Municipalities (FCM) has completed its review of all proposals submitted under the Energy Request for Proposals (RFP) launched by the Green Municipal Fund (GMF) on May 23, 2007. Based on a review by our Peer Review Committee and a financial analysis of your submission, the Board has recommended offering funding for your project.

It is therefore our pleasure to confirm that your proposal has been approved for the following financing from the GMF:

- A. a loan in an amount equal to the lesser of \$5,000,000 or 18.93 % of eligible project costs;

Attached you will find a term sheet containing the principal terms and conditions upon which the financing will be extended by the GMF. This letter, together with the attached term sheet shall constitute FCM's Offer of Financing to you in support of the implementation of your Energy project.

Funding Conditions:

- 1) Before entering into contract negotiation, the City of Vancouver must provide additional information, to FCM's satisfaction, on the eligible project costs and sources of funding;
- 2) The City of Vancouver must provide additional information, to FCM's satisfaction, on the environmental co-benefits, social benefits and economic benefits of the project.

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This Offer of Financing is open for acceptance by you and must be received by FCM no later than 17:00 (EST) on the Acceptance Date: **March 14, 2008**. In the event you do not accept this Offer of Financing by this date, the Offer of Financing will be null and void and no longer valid or binding on FCM.

In order to accept this Offer of Financing, your response must be in writing and must be executed by a person having the appropriate signing authority. Please provide in your response the information required in the attached term sheet, as identified in the square brackets.

Upon FCM's receipt of your acceptance, you will be sent a draft Loan Agreement between your organization and FCM which will contain the terms and conditions upon which the loan will be extended by GMF. Please note that funding approval is predicated upon the execution of this agreement and the fulfillment of the terms and conditions by you.

The Project Officer assigned to assist you with this Offer of Financing is Jas Michalski. He can be reached at 613-907-6307 or by email at jmichalski@fcm.ca.

FCM is responsible for overseeing the public announcement of all GMF projects. As soon as your agreement is signed the GMF Community Liaison Manager will contact you and work with you to help you develop and prepare your project's public announcement. You will be sent a news release template, a scenario note template and any other documentation and/or guidelines required.

We would like to thank you for your interest in the Green Municipal Fund. Please accept our sincerest congratulations on the quality of your proposal and we look forward to working with you to develop your project to improve the quality of life in your community.

Sincerely,

A handwritten signature in black ink that reads "Jean Perras". The signature is written in a cursive, flowing style.

Jean Perras
Acting Chair
Green Municipal Fund Council

JP/JM:md
Enclosure

TERM SHEET _9780

For Loan to a Municipality

(Semi-annual interest and principal payments, with an option for monthly interest and annual principal payments)

Borrower:	The municipality of The City of Vancouver (The Borrower)
Project Description:	General project description, scope and elements financed by FCM.
Loan Amount:	The lesser of \$5,000,000 or 18.93% of eligible project costs.
Disbursements:	One disbursement one year after project completion, subject to third party verification of achieved GHG reductions. (The minimum amount of GHG reductions to be achieved is 50% from the baseline; baseline will be defined in the Loan Agreement. In the event that GHG emissions cannot be verified or GHG reductions are less than 50% from the baseline, the loan will not be disbursed.)
Last Availability Date:	[] based upon project execution plan.
Term of Loan:	Up to 10 years including a grace period of 1 year on the principal repayment.
First Repayment Date:	The earlier of [] date or 6 months after disbursement.
Prepayment:	The principal amount of the loan may be prepaid, in whole or in part, at any time on 30 days prior written notice and payment of a prepayment fee equal to 3% of the principal amount being prepaid.
Amortization:	20 equal semi-annual or 10 equal annual installments over 10 years.
Interest Rate:	Fixed rate based on Government of Canada rate for the same maturity or duration, quoted by the Bank of Canada at time of advance minus 1.5%. Interest is accrued and payable semiannually (monthly) in arrears. Post maturity interest will be the Interest Rate plus 2%.
Security:	The Loan will be a direct obligation of the Borrower and will not be subordinate to other obligations of the municipality.

<p>Option to decrease the Loan Amount:</p>	<p>One year after project completion and subject to the third party verification of achieved GHG reductions. The minimum amount of GHG reductions to be achieved is 50% from the baseline; baseline will be defined in the Loan Agreement.</p>
<p>Conditions Precedent to Advance:</p>	<ul style="list-style-type: none"> (i) The Borrower has provided third party verification of the environmental benefit outlined in the Loan Amount section. <u>(if applicable, evidence that the project is complete)</u>. (ii) The Borrower must provide additional information, to FCM's satisfactory, on the environmental co-benefits, social benefits and economic benefits of the project. (iii) The Borrower provides third party verification of the achieved GHG reductions one year after project completion. The minimum amount of GHG reductions to be achieved is 50% from the baseline; baseline will be defined in the Loan Agreement. In the event that GHG emissions cannot be verified or GHG reductions are less than 50% from the baseline, the loan will not be disbursed. (iv) Confirmation satisfactory to FCM that the balance of project funding is in place by municipal funds or other lenders, for costs not covered by FCM. (v) No material adverse changes will have occurred with the project since receipt by GMF of Borrower's proposal submitted in response to Energy RFP which closed on August 15, 2007 year. (vi) Signed Loan Agreement between the municipality and FCM. (vii) Confirmation satisfactory to FCM that the proposed borrowing and project are in accordance with applicable provincial legislation and the municipality's ability to borrow.
<p>Affirmative Covenants:</p>	<ul style="list-style-type: none"> ➤ The municipality continues to be in compliance with provincial debt servicing legislation. ➤ The Borrower shall have established/ appointed a project manager for the project to monitor and implement the project. ➤ The municipality and the project manager shall

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	<p>comply with applicable environmental legislation.</p> <ul style="list-style-type: none"> ➤ Immediately advise FCM of any developments that might materially adversely affect the success of the project. ➤ Maintain at all times a ratio of Debt Service to Total Revenues of not more than 25 per cent. Definition of the ratio will be specified in the Loan Agreement. ➤ The Borrower is required to report on the progress performance of the project and provide calculation of key financial ratios defined as financial covenants; <ul style="list-style-type: none"> - by 60 days after the end of completed audit for the borrower's fiscal year provide FCM with a copy of its audited financial statements for the past financial year; calculation of financial ratios for the half year period of the financial year and certified by the relevant person from finance and budget department; - By 31 January of each year, provide FCM calculations of projected ratios as at the end of the borrower's fiscal year.
Negative Covenants:	<ul style="list-style-type: none"> ➤ The Borrower shall not: <ul style="list-style-type: none"> (i) use the proceeds of the Loan for expenditures that are not Eligible costs; (ii) Incur debt whereby the above mentioned ratio is impaired based on an annual reporting.
Event of Default:	<ul style="list-style-type: none"> ➤ Any breach of the Loan covenants would be deemed an event of default and would be subject to immediate remedy. ➤ Non payment of principal or interest as due.
Default Remedies:	<ul style="list-style-type: none"> ➤ Demand full repayment of the Loan Amount and Interest.

This Term Sheet is a **summary** of the principal terms and conditions proposed for the financing described herein, **all of which are subject to change and final approval** by the Federation of Canadian Municipalities (FCM) and to the execution of **appropriate legal documentation. This document does not constitute a legally binding agreement under any applicable law.**