

# Low Emissions Community Plan Funding Options

## ISSUE

The current funding for the Low Emissions Community (LEC) Plan is heavily reliant on one-time funding from the Reserve for Capital Expenditures and government grants. This report is in follow up to City Council direction to report on more dedicated and sustainable funding options.

## BACKGROUND

At its regular meeting on November 19, 2018, when considering a report entitled “Recommendations Report for a Low Emissions Community,” City Council resolved, in part:

- “3. That the Administration report back through the Standing Policy Committee on Environment, Utilities and Corporate Services on some of the strategic prioritization and financing tools available to support the future implementation plan for the Low Emissions Community Plan.”

At its regular meeting on August 26, 2019 when considering a report entitled “Preliminary Low Emissions Community Plan Initiatives,” City Council resolved, in part:

- “2. That the Administration be directed to report back, either before or to the 2020-21 budget process, on dedicated and sustainable funding options to support initiatives identified in the LEC Plan, including but not limited to creation of a dedicated reserve and green revolving funds.”

## CURRENT STATUS

Implementation of the LEC Plan actions and achieving emissions reduction targets and other co-benefits would require sustained funding for proactive planning, management, and implementation for programs and initiatives. Substantial investment in initiatives such as renewable energy projects, electrifying transportation systems, and new service offerings for residents, as well as project management, program development, corporate coordination and data management is required.

The present funding methodology for emissions reduction and other environmental projects is unsustainable due to the following:

- Typically, the City of Saskatoon’s (City) climate change projects are funded on a case-by-case basis through discretionary funding means such as the Reserve for Capital Expenditures (RCE), which provides uncertainty around future funding.

- This funding method restricts phased planning and causes delays in project and program delivery.

Grant funding is heavily relied upon, which creates a risk to program delivery due to competition, labour intensive administration, and changing political priorities. Identifying matching funding for grant applications can cause challenges for financial planning.

### **DISCUSSION/ANALYSIS**

There are essentially two overarching funding strategies that could be employed in order to supply the LEC Plan with funding a pay-as-you-go funding strategy which would result in the creation of a reserve, or debt financing. The remainder of this report will provide an overview of each option and strategies that could be implemented under them.

#### Reserve Funding

Creation of an Environmental Sustainability Reserve is a relatively easy and effective way to ensure that potential funding for LEC and other Environmental initiatives are utilized in line with the intended purpose. While setting up the reserve itself is a relatively simple step, establishing the strategies to provide the reserve with funding has a multitude of options and impacts. An overview of these options and the advantages and disadvantages are provided below.

#### 1. Dedicated Property Tax Increase Contribution

An increase to the property tax dedicated to a reserve is one of the most effective and simplest options to ensure ongoing funding is available for future LEC and other Environmental initiatives. For example, a 0.25% dedicated property tax increase would be equivalent to approximately \$610,000 in 2020. Some of the advantages and disadvantages to this option are as follows:

##### Advantages

- Implementation of this option could occur relatively quickly.
- Once implemented, this option provides ongoing and sustainable funding.
- Provides certainty on funding levels and enables planning and design work to continue and resourcing to make grant submissions.

##### Disadvantage

- This option would result in a higher property tax increase in 2020 and 2021 than currently projected.

#### 2. Revolving Green Fund

A Revolving Green Fund involves utilizing the savings created by initiatives and reinvesting those savings back into a reserve. The City has five outstanding Green Loans and the Energy Performance Contract which have implemented projects that have resulted in cost savings or additional revenue. Currently,

100% of the savings as a result of these projects are being utilized to repay the original capital cost and once repaid typically go to offset future property tax increases. However, if a reserve was created, one of the following two options could be implemented in order to utilize a Revolving Green Fund strategy:

- a. Continue to dedicate 100% of the cost savings or additional revenue to the repayment of the borrowing, however, once repayment is complete, these savings would transition to an annual contribution to the reserve; or
- b. Adjust the current allocation to dedicate only a portion of the cost savings or additional revenue to debt repayment and allocate the remainder of the funds towards a reserve.

Some of the advantages and disadvantages of this funding strategy include:

### Advantages

- Reinvests savings and revenues gained from prior projects' successes to environmental sustainability initiatives.
- Once implemented, this option provides ongoing and sustainable funding.

### Disadvantages

- Utilizes savings and revenues that could otherwise be used to directly lower future property taxes.
- Will take several years to generate meaningful funds for a reserve as savings are first utilized to repay borrowings.

### 3. Future Carbon Tax Allocation

The City's preliminary 2020/2021 Business Plan and Budget includes an estimated \$1.5 million increase in expenditures related to the impact of Carbon Tax. While the Administration is anticipating that a significant portion of these funds will be returned via a municipal rebate, the estimated rebate amount, timing or eligible uses are not known at this time. However, once announced, the Carbon Tax rebate could potentially be dedicated to a reserve as a source of funding. This option has the following advantages and disadvantages:

### Advantages

- Provides an ongoing and sustainable source of funding.
- Could be easily and quickly implemented once program details are identified.
- No increases in property taxes are required.

### Disadvantage

- The amount, timing or eligible uses of a municipal carbon tax rebate are unknown.

### 4. Federal Gas Tax Contribution

As part of the 2019 Federal Budget, it was announced that municipalities would receive a one-time doubling of the annual Gas Tax contribution. For the City, this meant that an additional \$14.1 million would be received in 2019. Since this announcement, City Council has preliminarily directed the Administration to allocate \$10.0 million of the \$14.1 million towards the implementation of a city-wide organics program and associated bin purchases. However, the remaining, or part of, the \$4.1 million could be allocated to a reserve to provide “start-up” funding until a sustainable source can be established. The advantages and disadvantages to this approach include:

#### Advantages

- Implemented relatively quickly and easily.
- Provide significant amount of funding in the short-term to advance LEC initiatives.
- No increase in property taxes required.

#### Disadvantages

- Only a one-time payment and does not solve the issue of long-term planning needs to meet greenhouse gas reduction targets;
- Allocates the remaining Gas Tax funding that could be utilized for other initiatives.

### 5. Reserve for Capital Expenditures Allocation

The City allocates \$2.87 million on an annual basis to the RCE. This reserve has historically been utilized to fund capital projects that align with City Council’s Strategic Priorities and do not have a dedicated reserve. There are two ways in which City Council could utilize RCE:

- a. LEC initiatives can compete on an annual basis against other RCE eligible projects for funding; or
- b. A portion of the \$2.87 million annual contribution can be reallocated to the Environmental Sustainability Reserve.

The advantages and disadvantages of this option are as follows:

#### Advantages

- Provides the opportunity for funding on an annual basis.
- No increases in property taxes required.

#### Disadvantages

- Funding is not guaranteed as LEC projects may compete with all other projects in the corporation each year and are not prioritized.

- As LEC projects are unlikely to be successful in obtaining consistent RCE funding on an annual basis, this option may likely delay the LEC implementation.
- RCE funding would not be sufficient for larger scale LEC projects.

### Debt Funding

Funding the LEC Plan through debt is another option to significantly advance the initiatives in a short period of time. While utilizing debt to advance initiatives is relatively straight forward, there are many considerations that need to be taken into account, which include:

- how the borrowing will be repaid, through savings or other means;
- the sufficiency of the City's current borrowing limit of \$558.0 million to meet the entire corporation's needs, including the LEC Plan; and
- the impact on the City's AAA credit rating.

The following two options to utilize borrowing as a source of funding are:

#### 1. Continued Use of Green Loans

Council Policy No. C03-024, Borrowing for Capital Projects, allows for issuance of internal loans for projects that result in energy or water use reductions and demonstrate savings. To be eligible for a loan, an initiative must:

- be a capital project;
- utilize proven energy reduction techniques and technologies; and
- be repaid within 10 years from savings.

The City currently has five outstanding Green Loans under this program. The City has the option to continue to utilize and grow this program based on potential LEC initiatives.

#### Advantages

- Provides a reliable source of funding for projects that have a clear pay-back schedule.
- Implemented quickly and easily for eligible projects.

#### Disadvantages

- Many LEC projects require detailed business cases to be completed first to determine whether they would be suitable for a green loan.
- This funding source would only be eligible for projects that result in current cost reductions and could not be used for projects that have future cost avoidance.

### 2. Traditional Debt Financing

The City could provide traditional debt financing to certain initiatives under the LEC Plan. Through this funding strategy, the City could complete the design, implementation and/or construction of a variety of infrastructure initiatives under the LEC Plan. Advantages and disadvantages of this option are as follows:

#### Advantages

- Implemented quickly and easily for eligible projects.
- Provides a significant amount of start-up funding for the LEC Plan.

#### Disadvantages

- Future repayment of the debt will need to be determined prior to proceeding with this strategy, which could include increases in the property tax or utility rates in order to repay the debt.
- Significant increases in City debt could push the City beyond the currently approved debt limit of \$558.0 million.
- Significant increase in City debt could impact the City's current AAA credit rating.

Does not provide a general allocation to the LEC Plan and must be directly linked to projects.

### **FINANCIAL IMPLICATIONS**

The financial implications are outlined under each option presented. There are no legal, environmental or social implications identified.

### **NEXT STEPS**

There is no further action required.

### **REPORT APPROVAL**

Written by: Clae Hack, Interim Chief Financial Officer  
Reviewed by: Jeanna South, Director of Sustainability  
Angela Gardiner, General Manager, Utilities & Environment Department  
Approved by: Jeff Jorgenson, City Manager