CITY GUIDELINE

Number: 2008-7

Date Issued: June 16, 2008

Last City Guideline Received: 2008 - 6

Subject: Use of Capital Reserve Funds for Energy Saving Initiatives - City of Toronto Incentives

Effective Date: Immediately

Applicable to: Section 110 (former Section 103 and 106) Housing Providers

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Background:

The City of Toronto is committed to reducing greenhouse gas emissions and locally-generated smog. Social housing providers can play a huge part in helping the City meet its reduction targets. Housing providers can help reduce pollution and reduce their costs at the same time.

Utility costs, such as gas, water and hydro, account for up to 40% of housing providers' annual operating costs. Many energy reduction measures are low-cost and can easily be paid for from operating budgets. Examples of low-cost measures include replacing incandescent light bulbs with compact fluorescents and developing tenant/member education programs.

Large-scale energy reduction measures, such as replacing existing building systems, normally require a capital investment. The City will now allow housing providers who pay for major energy retrofits from their capital reserves to put the operational cost savings back into their capital reserve fund. This allows housing providers to pay for energy efficiency measures from energy cost savings.

The incentive is not additional subsidy. Housing providers will be able to put the City-approved amount back into their capital reserve on an annual basis net of other financial incentives. Housing providers will be able to deduct this amount from their surplus before any surplus sharing, as described in City Guideline 2007-5, is calculated.

The incentive is not available retroactively for any projects that are already completed or under way.

Action Required:

1. Housing providers who wish to use capital reserves for new energy initiatives must submit a proposal to their Social Housing Consultant that outlines:
    a. an overview of the planned project, including details of the measures to be taken
    b. a detailed forecast of the energy reduction potential,
    c. proof that the proposed energy reduction is obtainable
    d. the anticipated pay-back period for each proposed retrofit, and
    e. details of any other financial incentives that they applied for relating to the retrofit.

    The City may request additional information before determining whether it will support the plan.

2. Housing providers must receive written confirmation of the City's approval before starting work on the energy retrofit plan.

3. Housing providers with a City-approved energy retrofit plan may deposit the amount specified by the City into their capital reserve fund on an annual basis. Housing providers will deposit the amount annually until the capital cost of the retrofit is recovered.

    Housing providers must report an annual surplus in order to make use of the incentive. Housing providers with an annual surplus that is less than the amount of the approved incentive may only transfer the annual surplus. The residual amount is not carried forward to future years.

4. Housing providers approved for the incentive must not include the incentive in the calculation of net income.

5. Housing providers must calculate the additional funds they are allowed to keep and report it on their Annual Information Return (AIR):

    a. Former section 103 housing providers report on Line 1264
    b. Former section 106 housing providers report on Line 1328

Former Section 103 and 106 housing providers must report this additional allocation as a capital reserve fund contribution, and report it on line 655 of the AIR.

Helpful Hint:

Example:

Toronto the Good Housing Corporation develops a proposal to replace its existing domestic hot water system with a more energy efficient system. The new system will cost $100,000 and projected energy savings are $25,000 annually. The City approves that a maximum of $25,000 can be redirected to the housing provider's Capital Reserve fund for the four fiscal years following the completion of the project.

Example: Toronto the Good Housing Corp.	**103s**	**106s**	**Amount**
A) Surplus B) Max. Annual amount that can be redirected to the Capital Reserve Fund as an energy efficiency incentive C) Subtotal	Line 1260	Line 1326	$54,524 $25,000 $29,524
B) Amount kept by provider without restriction			$14,762
C) Surplus repayable	Line 1262	Line 1327	$14,762
D) Service Manager approved reduction [Lower of surplus repayable ($14,762) or $100 per unit (134 x $100 = $13,400)]	Line 1264	Line 1328	$13,400
Net surplus repayable	Line 1269	Line 1329	**$1,362**
Total service manager approved reduction ($25,000 + $13,400) Report this amount on line 592 (Page A4) of the Annual Information Return	Line 1264	Line 1328	**$38,400**

For more information or, if you have questions or concerns, please contact your Social Housing Consultant.

Kathleen Blinkhorn
Director
Social Housing