

AGENDA ITEM SUMMARY

September 17, 2019

City Council

STAFF

John Phelan, Energy Services Manager
Terra Sampson, Project Manager, Energy Services
Travis Storin, Accounting Director
Sean Carpenter, Climate Economy Advisor
John Duval, Legal

SUBJECT

Second Reading of Ordinance No. 110, 2019, Increasing the Current Loan Fund Available for the Epic Loan Program and Appropriating Funds for the Program from Reserves in the Light and Power Fund.

EXECUTIVE SUMMARY

This Ordinance, unanimously adopted on First Reading on September 3, 2019 increases from \$1.6 million to \$2,488,350 the revolving loan fund available in the Utilities' Light and Power Fund to provide loans to Utilities' customers under the Epic Loan Program (Program) and to appropriate these funds for the Program. This increase in the loan fund is the result of the City recently receiving for the Program a grant of \$200,000 from the Colorado Energy Office and a grant of \$688,350 from Bloomberg Philanthropies. The Program, formerly known as the On-Bill Utility Financing Program, provides low-cost financing to Utilities' customers for energy efficiency, water efficiency, and renewable energy improvements.

The Ordinance also provides that this loan fund will increase by three proposed future borrowings by the City's Electric Utility Enterprise from third-party lenders as these borrowings are approved by the Board of the Enterprise. These borrowings are: (i) up to a \$1 million loan from the Colorado Energy Office, (ii) up to a \$2.5 million loan from U. S. Bank (to be considered by the Board of the Enterprise on Second Reading at this September 17 meeting), and (iii) up to a \$1.5 million loan from either the Colorado Clean Energy Fund or a bank partnering with it (Enterprise Borrowings). If the Enterprise Borrowings are approved by the Enterprise Board, the revolving loan fund for the Program will be increased under the Ordinance to \$7,488,350.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on Second Reading.

ATTACHMENTS

1. First Reading Agenda Item Summary, September 3, 2019 (w/o attachments) (PDF)
2. Ordinance No. 110, 2019 (PDF)

AGENDA ITEM SUMMARY

September 3, 2019

City Council

STAFF

Terra Sampson, Project Manager, Energy Services
John Phelan, Energy Services Manager
Travis Storin, Accounting Director
Sean Carpenter, Climate Economy Advisor
John Duval, Legal

SUBJECT

First Reading of Ordinance No. 110, 2019, Increasing the Current Loan Fund Available for the Epic Loan Program and Appropriating Funds for the Program From Reserves in the Light and Power Fund.

EXECUTIVE SUMMARY

The purpose of this item is consideration of an Ordinance to increase from \$1.6 million to \$2,488,350 the revolving loan fund available in the Utilities' Light and Power Fund to provide loans to Utilities' customers under the Epic Loan Program (Program) and to appropriate these funds for the Program. This increase in the loan fund is the result of the City recently receiving for the Program a grant of \$200,000 from the Colorado Energy Office and a grant of \$688,350 from Bloomberg Philanthropies. The Program, formerly known as the On-Bill Utility Financing Program, provides low-cost financing to Utilities' customers for energy efficiency, water efficiency, and renewable energy improvements.

The Ordinance also provides that this loan fund will increase by three proposed future borrowings by the City's Electric Utility Enterprise from third-party lenders as these borrowings are approved by the Board of the Enterprise. These borrowings are: (i) up to a \$1 million loan from the Colorado Energy Office, (ii) up to a \$2.5 million loan from U. S. Bank (to be considered by the Board of the Enterprise at this September 3rd meeting), and (iii) up to a \$1.5 million loan from either the Colorado Clean Energy Fund or a bank partnering with it (Enterprise Borrowings). If the Enterprise Borrowings are approved by the Enterprise Board, the revolving loan fund for the Program will be increased under the Ordinance to \$7,488,350.

This item was discussed at the July 15, 2019, Council Finance Committee meeting with support to bring forward the included ordinance for full Council consideration.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BACKGROUND / DISCUSSION

Increasing & Appropriating Loan Fund for Program

Prior to 2016, the revolving loan fund for the Program was \$800,000. In 2016, City Council adopted Ordinance No. 035, 2016, to increase the loan fund to \$1.6 million. The City has recently been successful in obtaining grant money for the Program. It has been awarded a \$200,000 grant from the Colorado Energy Office and a \$688,350 grant from Bloomberg Philanthropies. With these additional funds, the loan fund for the Program can be increased by \$888,350 resulting in a new loan fund of \$2,488,350. The proposed Ordinance approves this new loan fund and appropriates the \$2,488,350 from the Light and Power Fund reserves for use in the Program.

The Ordinance also contemplates and authorizes the loan fund for the Program to be further increased if the City's Electric Utility Enterprise (Enterprise) borrows additional funds for the Program from third-party lenders. Utilities is proposing that the Board of the Enterprise (Board) consider the following borrowings for the Program: (i) up to a \$1 million loan from the Colorado Energy Office, (ii) up to a \$2.5 million loan from U. S. Bank (to be considered by the Board at this September 3 meeting), and (iii) up to a \$1.5 million loan from either the Colorado Clean Energy Fund or a bank partnering with it (Enterprise Borrowings). The Ordinance provides that as each of these Enterprise Borrowings is approved by the Board, the loan fund will increase by the principal amount to that loan. Therefore, if all three Enterprise Borrowings are approved by the Board, the Program's approved loan fund will increase up to a maximum of \$7,488,350.

Epic Homes

In October 2018, Fort Collins became a winner of the 2018 Bloomberg Mayors Challenge and the associated \$1M prize. The 2018 Bloomberg Mayors Challenge involved over 300 cities proposing ideas to address important issues in their community. Epic Homes was selected as a winner for its innovative approach to providing health and equity benefits to residents, specifically for low-to-moderate income renters, by improving the energy efficiency of rental homes. Residential property owners can take advantage of Epic Homes' easy streamlined steps to make their homes more comfortable, healthy and efficient. Partnering with Colorado State University, Fort Collins is also establishing a research study which links the health and wellbeing indicators of improved indoor environmental quality.

Epic Homes provides non-energy benefits in addition to efficiency, such as increased comfort, health and safety. In nearly every energy assessment, energy advisors identify a health and safety hazard in need of attention. This could vary from a failing water heater causing mold, to cracks letting undesirable air into the home from the garage or crawlspace, to combustion appliances expelling carbon monoxide. For example, one energy advisor has shared a story of walking into a home for an energy assessment and his personal safety monitor immediately going off from carbon monoxide levels because the furnace had gone out and the household was using their oven for heat. Loans are available for over 25 different types of efficiency measures, including replacing an old furnace with a new efficient furnace that has important safety features, such as sealed combustion with intake and exhaust to the outside.

Epic Loans

Fort Collins' innovative On-Bill Finance (OBF) program (previously also known as Home Efficiency Loan Program or Help and now called the Epic Loan Program), a component of the Epic Homes portfolio (Attachment 1), supports a number of community and City Council priorities, including ambitious goals around energy efficiency and renewables, reduced greenhouse gas emissions and increased equity and wellbeing of all residents. Meeting these objectives will require, among other activities, greater numbers of property owners to undertake comprehensive efficiency improvements in the coming years, particularly for older, less-efficient rental properties which make up a large percentage of the City's housing stock. An ongoing and attractive financing structure to support energy efficiency retrofits will be a critical element for success moving forward.

The original OBF operated successfully from 2013 through 2016 when the maximum outstanding loan balance funded through Light & Power reserves was reached. Epic Loans were revitalized in August 2018 during the Champions Phase of the Bloomberg Mayors Challenge using the \$100,000 award from the Champions Phase and a \$200,000 grant from the Colorado Energy Office. To date, Fort Collins Utilities has serviced 198 on-bill loans to support energy efficiency upgrades in residential homes and overcome financial barriers for making these important upgrades.

Staff has been working to develop third-party capital agreements to scale impact for owners and renters in Fort Collins. This has included presentations with the Council Finance Committee to discuss the Request for Proposal for third-party capital providers, discuss the capital strategy and review proposed capital agreement terms. Staff discussed further details related to the national green bank provider with Council Finance on August 19, 2019 and plans to bring more information about 15-year capital sources to the Electric Utility Enterprise Board on

October 1, 2019. The proposed 'capital stack' is provided in Table 1 below and the customer interest rates based on third-party capital terms are provided in Table 2.

Table 1. Epic Loan Capital Stack Summary

Capital Type	Provider	Term	Rate	Amount
Internal & Grant				
	Previously authorized Light & Power reserves	Ongoing	0%	\$1,600,000
	Bloomberg Philanthropies	Grant	0%	\$688,350
	Colorado Energy Office – Grant	Grant	0%	\$200,000
	Internal Subtotal			\$2,488,350
External Market				
	Colorado Energy Office – Loan	15 year	1.25% - 2.25%	Up to \$1,000,000
	National Commercial Bank (US Bank)	5 & 10 year	76% of Prime (3.99% Currently)	Up to \$2,500,000
	National Green Bank (Colorado Clean Energy Fund)	15 year	Prime + .25% (5.50% currently)	Up to \$1,500,000
	External Subtotal			\$5,000,000
Total				\$7,488,350

Table 2. Customer Interest Rate

Loan Term	Customer Rate (Effective Aug. 2019)
3 or 5 years	3.75%
7 or 10 years	4.25%
15 years	4.75%

Policy Considerations

The City Debt Policy states that “The City will normally not issue variable rate debt ... certain circumstances may warrant the issuance of variable rate debt, but the City will attempt to stabilize the debt service payments through the use of an appropriate stabilization arrangement.” The proposed 5- and 10-year facility with U.S. Bank, being considered by the Enterprise on September 3, 2019, conforms to this existing policy because staff has arranged for Term Loan conversion rights during the 2-year variable draw window which effectively stabilizes the debt service per policy.

Third-Party Capital

In all third-party loan agreements, the Enterprise will be the borrower, with the third-party funds being loaned to customers by Utilities. The Enterprise will be responsible for the repayment to the capital provider. In turn, Utilities' customers carry the obligation for repayment of loans to the City via their utility bill. Utilities has various code-specified tools for recourse of delinquent utility bills that makes the risk profile for the Epic Loan portfolio extremely low. In fact, there have been zero loan defaults since OBF began in 2013.

Additionally, the Ordinance is not anticipated to affect electric rates. Third-party capital providers will have a subordinate position on Electric Utility system revenues, after the more senior pledge held by revenue bondholders for the currently outstanding Connexion bonds. Finally, the City may pre-pay any of these borrowings in whole or in part at any time and without penalty.

CITY FINANCIAL IMPACTS

Staff projects the Epic Loan Program will be cashflow positive. Staff also projects the Ordinance under consideration by the Electric Utility Enterprise Board on September 3, 2019, will meet the project demand for the next 4 years or more, for loans with a payback of up to 10 years. The 15-year external capital sources are scheduled to be considered at the October 1 Electric Utility Enterprise Board meeting.

A variety of risks exist including variable interest rate exposure, customer demand risk, and customer default risk. Customer default risk is considered de minimis based on lack of defaults over the 6-year history of the program and the default protections the City already has in place. Customer demand risk is difficult to assess, but the line of credit model helps ensure that principal borrowed matches the Epic Loan volumes as closely as possible.

To manage interest rate risk, staff built in Term Loan conversion and pre-pay options into the loan agreements, incorporated a 1.0% spread between borrowed rates and customer rates, and performs regular reviews of customer rates. In the event of extreme market interest rate activity or the portfolio going "upside-down", the City can exercise its rate-lock option and freeze new Epic Loan customer offerings, effectively capping the exposure.

Core tenets of the loan program are to ensure no negative impact on Light & Power planned debt offerings, and to protect the Utilities credit rating and broadband coverage covenants.

BOARD / COMMISSION RECOMMENDATION

Third-party capital agreements and terms were discussed at the July 15, 2019, Council Finance Meeting (**Attachment 2**). Council Finance supported bringing forward the included Ordinance for Council consideration on September 3, 2019. Staff presented additional 15-year capital source details to Council Finance on August 19, 2019, and, plan to bring forward for Electric Utility Enterprise Board consideration on October 1, 2019.

ATTACHMENTS

1. Epic Homes Structure and Components Diagram (PDF)
2. Council Finance Meeting Minutes, July 15, 2019 (PDF)

ORDINANCE NO. 110, 2019
OF THE COUNCIL OF THE CITY OF FORT COLLINS
INCREASING THE CURRENT LOAN FUND
AVAILABLE FOR THE EPIC LOAN PROGRAM AND
APPROPRIATING FUNDS FOR THE PROGRAM FROM
RESERVES IN THE LIGHT AND POWER FUND

WHEREAS, in 2012, the On-Bill Utility Financing Program, now known as the “Epic Loan Program” or “Program,” was established by Ordinance No. 033, 2012, which amended Chapter 26 of the City Code to enable Fort Collins Utilities (“Utilities”) to offer financing and on-bill servicing of loans to Utilities’ customers for residential energy efficiency, water efficiency, and renewable energy upgrade projects (the “Program”); and

WHEREAS, the Program provides low-cost financing for energy efficiency, solar photovoltaic, and water conservation improvements in an effort to further Utilities’ efficiency and conservation efforts and the City’s other policy goals in Plan Fort Collins, the Climate Action Plan, Energy Policy and Water Conservation Plan; and

WHEREAS, the Program has been a valuable addition to Utilities' efficiency and renewable energy programs, which foster sustainability through reduced energy and water use, local contractor education and investment in the built environment, and improved home comfort, health, and safety; and

WHEREAS, in 2015, City Council adopted Ordinance No. 012, 2015, which expanded eligibility for participation in the Program to Utilities’ business customers, set the term for new loans at 20 years, and set a range of loan interest rates to be applied under procedures and standards adopted by the City’s Financial Officer under City Code Section 26-720; and

WHEREAS, in 2018, City Council adopted Ordinance No. 162, 2018, to further enhance the incentives and financing options available under the Program; and

WHEREAS, before 2016, City Council authorized the amount of \$800,000 to be used for loans under the Program and to be funded with the Utilities’ Light & Power and Water reserve funds; and

WHEREAS, in 2016, City Council adopted Ordinance No. 035, 2016, to increase the authorized amount available for loans under the Program from the \$800,000 to \$1.6 million, with this increased amount to also be funded with the Light & Power and Water reserve funds (the “Current Loan Program”); and

WHEREAS, since 2016, Utilities has acquired other sources of capital to fund loans under the Program, including a \$200,000 grant from the Colorado Energy Office and a \$688,350 grant from Bloomberg Philanthropies (jointly, the “Grants”); and

WHEREAS, the \$888,350 from the Grants has been received and is now available to be added to the Current Loan Program to increase the total authorized amount from \$1.6 to \$2,488,350 and appropriated for use in the Program; and

WHEREAS, Article V, Section 9 of the City Charter permits the City Council, upon recommendation of the City Manager, to make supplemental appropriations by ordinance at any time during the fiscal year, provided that the total amount of supplemental appropriations, in combination with all previous appropriations of that fiscal year, does not exceed the current estimate of actual and anticipated revenues to be received during the fiscal year; and

WHEREAS, the City Manager has recommended the appropriation described herein and determined that this appropriation is available from reserves in the Light and Power Fund and will not cause the total amount appropriated from the Light and Power Fund to exceed the current estimate of actual and anticipated revenues to be received in this Fund during this fiscal year; and

WHEREAS, Utilities is also proposing that the City's Electric Utility Enterprise (the "Enterprise") borrow from third-party lenders additional capital for the Program, which would be: (i) up to a \$1 million loan from the Colorado Energy Office (the "CEO Loan"), (ii) up to a \$2.5 million loan from U. S. Bank (the "US Bank Loan"), and (iii) up to a \$1.5 million loan from either the Colorado Clean Energy Fund or a bank partnering with it (the "Energy Fund Loan"); and

WHEREAS, the CEO Loan, the US Bank Loan and the Energy Fund Loan shall be referred to herein collectively as the "Enterprise Borrowings"; and

WHEREAS, with the Grants now received and if the City Council, acting as the board of the Enterprise (the "Board"), approves each of the Enterprise Borrowings, the total Program authorization can be increased from \$1.6 million to as much as \$7,488,350; and

WHEREAS, the Council Finance Committee has expressed at its July 15, 2019, and August 19, 2019, meetings support for increasing the current total authorization for the Program by the amount of the Grants and by the amount of each of the Enterprise Borrowings as they are approved by the Board; and

WHEREAS, the City Council has determined that it is desirable to increase the total amount authorized for loans under the Program by the amount of the Grants and by the amount of each of the Enterprise Borrowings as they are approved by the Board and to appropriate the updated total authorized loan amount to ensure that the Program has sufficient funds available in 2019 to achieve the Program's intended benefits and goals; and

WHEREAS, Article XII of the City Charter authorizes City Council to expend net operating revenues of the City's utilities for renewal, replacement, extraordinary repair, extension, improvement, enlargement, and betterment of such utilities, or other specific utility purposes determined by Council to be beneficial to the ratepayers of said utilities; and

WHEREAS, the City Council hereby determines that approving and appropriating the updated total amount authorized for loans under the Program and authorizing its increase as the

Enterprise Borrowings are approved by the Board serve the public purposes of fostering sustainability through reduced energy and water use, local contractor education and investment in the built environment, and improving home comfort, health, and safety, all of which are in the City's best interest, beneficial to the Utilities' ratepayers, and necessary for the public's health, safety, and welfare.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

Section 1. That the City Council hereby makes and adopts the determinations and findings contained in the recitals set forth above.

Section 2. That the City Council hereby approves increasing the Current Loan Program of \$1.6 million by \$888,350, the total amount of the Grants, for a total of \$2,488,350 available for use in the Program.

Section 3. That the total amount authorized by the Council for loans under the Program shall hereafter be increased by the maximum principal amount of each of the Enterprise Borrowings as they are each approved by the Board, but in a total amount not to exceed \$7,488,350.

Section 4. That there is hereby appropriated for expenditure in the Epic Loan Program from reserves in the Light and Power Fund the sum of TWO MILLION FOUR HUNDRED EIGHTY-EIGHT THOUSAND THREE HUNDRED FIFTY DOLLARS (\$2,488,350).

Section 5. That notwithstanding the foregoing, the Utilities' use of the funds from the proposed Enterprise Borrowings for the Program shall be subject to the usual appropriation by the City Council either as part of an annual appropriation or as a supplemental appropriation.

Section 6. That it is the City Council's intent that the funds in use for the Program will be available on a revolving basis for future loans under the Program, subject to future appropriation of those funds.

Introduced, considered favorably on first reading, and ordered published this 3rd day of September, A.D. 2019, and to be presented for final passage on the 17th day of September, A.D. 2019.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 17th day of September, A.D. 2019.

Mayor

ATTEST:

City Clerk