

AGENDA ITEM SUMMARY

January 21, 2020

City Council

STAFF

John Phelan, Energy Services Manager
John Duval, Legal

SUBJECT

Items Relating to the 2020 Epic Homes Loan Program.

EXECUTIVE SUMMARY

- A. Second Reading of Ordinance No. 004, 2020, Making Supplemental Appropriations to be Expended as Loans to Utility Services Customers Under the Epic Loan Program.
- B. Second Reading of Ordinance No. 005, 2020, Making a Supplemental Appropriation for the Epic Loan Program from Unappropriated Prior Year Reserves in the Light & Power Fund to Make Debt Service Payments Under the U.S. Bank Line of Credit.

These Ordinances, unanimously adopted on First Reading on January 7, 2020, appropriate funds for the Epic Loan Program in 2020 for loan issuance to Fort Collins Utilities electric customers and anticipated debt service to third-party capital providers. The Epic Loan Program is part of the Epic Homes comprehensive portfolio for single-family home performance for both owner- and renter-occupied homes. These appropriations will cover existing capital sources, including Light & Power reserves and grant funds, and is necessary to formally authorize the disbursement of funds for customer loans. As additional third-party loan agreements are authorized by the Electric Utility Enterprise Board, the associated appropriations will be included. For future years, staff will include loan issuance and debt service as part of the biennial Budgeting for Outcomes process. The 2020 appropriation for loan issuance is \$3,270,083 and the appropriation for debt service is \$75,000.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinances on Second Reading.

ATTACHMENTS

- 1. First Reading Agenda Item Summary, January 7, 2020 (w/o attachments) (PDF)
- 2. Ordinance No. 004, 2020 (PDF)
- 3. Ordinance No. 005, 2020 (PDF)

AGENDA ITEM SUMMARY

City Council

January 7, 2020

STAFF

John Phelan, Energy Services Manager
John Duval, Legal

SUBJECT

Items relating to the 2020 Epic Homes Loan Program.

EXECUTIVE SUMMARY

- A. First Reading of Ordinance No. 004, 2020, Making Supplemental Appropriations to be Expended as Loans to Utility Services Customers Under the Epic Loan Program.
- B. First Reading of Ordinance No. 005, 2020, Making a Supplemental Appropriation for the Epic Loan Program from Unappropriated Prior Year Reserves in the Light & Power Fund to Make Debt Service Payments Under the U.S. Bank Line of Credit.

The purpose of this item is to appropriate funds for the Epic Loan Program in 2020 for loan issuance to Fort Collins Utilities electric customers and anticipated debt service to third-party capital providers. The Epic Loan Program is part of the Epic Homes comprehensive portfolio for single-family home performance for both owner- and renter-occupied homes. These appropriations will cover existing capital sources, including Light & Power reserves and grant funds, and is necessary to formally authorize the disbursement of funds for customer loans. As additional third-party loan agreements are authorized by the Electric Utility Enterprise Board, the associated appropriations will be included. For future years, staff will include loan issuance and debt service as part of the biennial Budgeting for Outcomes process. The 2020 appropriation for loan issuance is \$3,270,083 and the appropriation for debt service is \$75,000.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BACKGROUND / DISCUSSION

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 communities. The City's proposal, 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 well-being 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 back-drafting water heater, to air leakage pollutants entering the home from the garage

or crawlspace, to combustion appliances that need tuning or replacing because they are producing excess carbon monoxide. 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’ On-Bill Finance 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 for energy efficiency and renewables, reduced greenhouse gas emissions and increased equity and wellbeing for 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 significant percentage of the City’s housing stock.

The original On-Bill Finance program issued loans from 2013 through 2016 when the maximum outstanding loan balance funded through Light & Power reserves was reached (\$1.6 million). On-Bill Finance was revitalized as the Epic Loan Program in August 2018 during the Champions Phase of the Bloomberg Mayors Challenge. The City has been awarded grants from the Colorado Energy Office (\$200,000) and from Bloomberg Philanthropies (\$688,350) for the Epic Loan Program. The Electric Utility Enterprise has also entered into a \$2.5M line of credit loan agreement with U.S. Bank to provide up to 10-year capital for the Epic Loan Program. Staff also plans to bring for Council consideration third-party 15-year capital agreements to scale impact for owners and renters in Fort Collins.

An ongoing and attractive financing structure to support energy efficiency retrofits will be a critical element for success moving forward. To date, Fort Collins Utilities has serviced 210 on-bill loans to support energy efficiency upgrades in residential homes and overcome financial barriers for making these important upgrades. Detailed information regarding the Epic Homes program and loan terms can be found at fcgov.com/epichomes.

2020 Capital Appropriation for Loan Issuance and Anticipated Debt Service

These appropriations will cover existing capital sources, including Light & Power reserves and grant funds, and are necessary to formally authorize the disbursement of funds for customer loans. The Epic Loan Program has available \$3,270,083 from the existing capital sources for loan issuance to support energy efficiency upgrades in Fort Collins’ owner- and renter-occupied homes. The existing capital available is summarized in Table 1. Existing capital includes internal and grant sources (Light & Power reserves and the Bloomberg Philanthropies grant), and external market sources (U.S. Bank loan).

Table 1. Available Capital Sources for Loan Issuance in 2020 (as of December 2019)

Capital Type	Amount Available
Internal & Grant	\$770,083
External Market	\$2,500,000
Total	\$3,270,083

The Epic Loan Program blends various capital sources to meet customer demand and offer attractive interest rates for customers, including grants, Light and Power reserves, and third-party market capital. The third-party capital will have associated debt service, anticipated to be up to \$75,000 in 2020 for the U.S. Bank loan (see Table 2). The source of funding for the associated debt service will be from prior years reserves in the Light & Power Fund.

Table 2. Anticipated U.S. Bank Debt Service In 2020

	Interest Rate	Anticipated 2020 Borrowing	Anticipated 2020 Debt Service
U.S. Bank	76% of Prime (3.61% Currently)	Up to \$578,385	Up to \$75,000

As additional third-party loan agreements are authorized by the Electric Utility Enterprise Board, the associated appropriations will be included. For future years, staff will include loan issuance and debt service as part of the biennial Budgeting for Outcomes process.

The City Manager recommended the appropriations described in both ordinances and determined that the total amount of these appropriations, together with all previous appropriations from the Light & Power Fund for this fiscal year, will not cause the total amount appropriated in the Light & Power Fund to exceed the current estimate of actual and anticipated revenues to be received in the Light & Power Fund during this fiscal year.

CITY FINANCIAL IMPACTS

Staff projects the Epic Loan Program will be cashflow positive. Staff also projects the ordinances under consideration will meet the projected interest in loans for 2020 and anticipated debt service for loan terms up to 10 years. The ordinances are not anticipated to affect electric rates.

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 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 term out (rate-lock) option and freeze new Epic Loan customer offerings, effectively capping the exposure.

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

ATTACHMENTS

1. Epic Homes Program Structure (PDF)

ORDINANCE NO. 004, 2020
OF THE COUNCIL OF THE CITY OF FORT COLLINS
MAKING SUPPLEMENTAL APPROPRIATIONS TO BE EXPENDED AS LOANS TO
UTILITY SERVICES CUSTOMERS UNDER THE EPIC LOAN PROGRAM

WHEREAS, the City has established a program to assist certain customers of Fort Collins Utility Services (“Utility Services”) in financing home-energy-efficiency and renewable-energy improvements for single-family residential properties they own by making loans to these customers, whether their properties are owner- or renter-occupied (“Epic Loan Program”); and

WHEREAS, the Light & Power Fund currently has sufficient, unappropriated prior year reserves to make \$770,083 available for expenditure as loans to Utility Services customers under the Epic Loan Program; and

WHEREAS, another source of funds for such loans in the Epic Loan Program is available to Utility Services through a \$2.5 million line-of-credit recently obtained from U.S. Bank by the City’s Electric Utility Enterprise; 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 such supplemental appropriations, in combination with all previous appropriations for that fiscal year, do not exceed the current estimate of actual and anticipated revenues to be received during this fiscal year; and

WHEREAS, the City Manager has recommended the appropriations described herein and determined that the total amount of these appropriations, together with all previous appropriations from the Light & Power Fund for this fiscal year, will not cause the total amount appropriated in the Light & Power Fund to exceed the current estimate of actual and anticipated revenues to be received in the Light & Power Fund during this fiscal year; and

WHEREAS, Article V, Section 9 of the City Charter also permits the City Council to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years in the Light & Power Fund, notwithstanding that such reserves were not previously appropriated; and

WHEREAS, these appropriations benefit the public’s health, safety and welfare and serve the public purposes of improving the energy efficiency of older homes in Fort Collins, thereby benefiting Utility Services’ Electric Utility ratepayers, and bettering the health, safety and comfort of the inhabitants of the improved homes.

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 there is hereby appropriated from prior years reserves in the Light & Power Fund the sum of SEVEN HUNDRED SEVENTY THOUSAND AND EIGHTY-THREE DOLLARS (\$770,083) to be expended as loans to Utility Services customers under the Epic Loan Program.

Section 3. That there is hereby appropriated from unanticipated revenue in the Light & Power Fund the sum of TWO MILLION FIVE HUNDRED THOUSAND DOLLARS (\$2,500,000) to be expended as loans to Utility Services customers under the Epic Loan Program.

Introduced, considered favorably on first reading, and ordered published this 7th day of January, A.D. 2020, and to be presented for final passage on the 21st day of January, A.D. 2020.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 21st day of January, A.D. 2020

Mayor

ATTEST:

City Clerk

ORDINANCE NO. 005, 2020
OF THE COUNCIL OF THE CITY OF FORT COLLINS
MAKING A SUPPLEMENTAL APPROPRIATION FOR THE EPIC LOAN PROGRAM
FROM UNAPPROPRIATED PRIOR YEARS RESERVES IN THE LIGHT & POWER FUND
TO MAKE DEBT SERVICE PAYMENTS UNDER THE U.S. BANK LINE OF CREDIT

WHEREAS, the City has established a program to assist certain customers of Fort Collins Utility Services (“Utility Services”) in financing home-energy-efficiency and renewable-energy improvements for single-family residential properties they own by making loans to these customers, whether their properties are owner- or renter-occupied (“Epic Loan Program”); and

WHEREAS, as one source of funds for the Epic Loan Program, Utility Services has secured, through the City’s Electric Utility Enterprise (the “Enterprise”), a \$2.5 million line-of-credit from U.S. Bank (“U.S. Bank Letter of Credit”); and

WHEREAS, it is anticipated that up to \$578, 385 will be borrowed from the U.S. Bank Letter of Credit in 2020 by the Enterprise and then loaned to eligible Utility Services customers under the Epic Loan Program, thereby requiring a debt service payment in 2020 from the City to U.S. Bank in an amount of up to \$75,000; and

WHEREAS, this Ordinance authorizes the appropriation of this \$75,000 from unappropriated prior years reserves in the Light & Power Fund; 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 such supplemental appropriations, in combination with all previous appropriations for that fiscal year, do not exceed the current estimate of actual and anticipated revenues to be received during this fiscal year; and

WHEREAS, the City Manager has recommended the appropriation described herein and determined that the total amount of this appropriation, together with all previous appropriations from the Light & Power Fund for this fiscal year, will not cause the total amount appropriated in the Light & Power Fund to exceed the current estimate of actual and anticipated revenues to be received in the Light & Power Fund during this fiscal year; and

WHEREAS, Article V, Section 9 of the City Charter also permits the City Council to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years in the Light & Power Fund, notwithstanding that such reserves were not previously appropriated; and

WHEREAS, these appropriations benefit the public’s health, safety and welfare and serve the public purposes of improving the energy efficiency of older homes in Fort Collins, thereby benefiting Utility Services’ Electric Utility ratepayers, and bettering the health, safety and comfort of the inhabitants of the improved homes.

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 there is hereby appropriated from unappropriated prior years reserves in the Light & Power Fund the sum of SEVENTY-FIVE THOUSAND DOLLARS (\$75,000) for the payment of debt service under the U.S. Bank Letter of Credit.

Introduced, considered favorably on first reading, and ordered published this 7th day of January, A.D. 2020, and to be presented for final passage on the 21st day of January, A.D. 2020.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 21st day of January, A.D. 2020.

Mayor

ATTEST:

City Clerk